FDDI AIST Business Aptitude

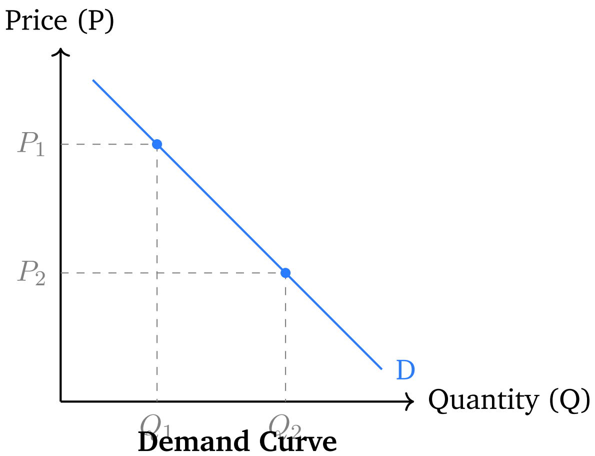
Sample Paper – 1

Duration: 30 Minutes | **Maximum Marks: 50**

Instructions

- This paper contains **25** Multiple Choice Questions (Single Correct Answer), modelled on the Business Aptitude portion of **FDDI AIST** (BBA programme).
- Each correct answer carries **+2 marks**. There is **no negative marking** for incorrect or unattempted answers.
- Only **one** option is correct per question.
- Syllabus: Business organisations, economics, marketing, management, banking & finance, corporate GK.
- Use of mobile phones, calculators, or electronic gadgets is strictly prohibited. Rough sheets will be provided.

Q1. Which of the following statements **correctly** describes the Law of Demand?



Demand Curve

(A) As the price of a good rises, its quantity demanded falls, all other factors remaining constant (ceteris paribus).

(B) As the income of consumers rises, the quantity demanded of a normal good falls.

(C) The demand curve slopes upward from left to right, showing a positive price–quantity relationship.

(D) Demand for a good increases when the price of its substitute decreases.

Q2. A luxury handbag brand finds that even after raising its price by 20%, its total sales revenue increases. Which of the following best explains this outcome?

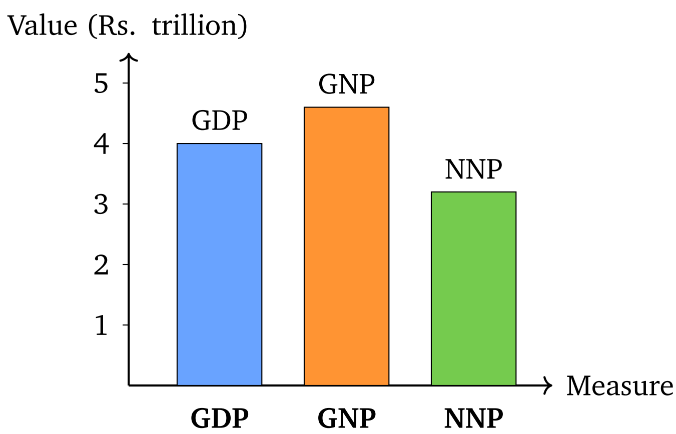
(A) Demand for the brand is perfectly elastic, so consumers buy the same quantity regardless of price.

(B) Demand is unit elastic, so total revenue remains unchanged when price changes.

(C) Demand for the brand is price inelastic (PED < 1), so the rise in price outweighs the fall in quantity demanded, increasing total revenue.

(D) Demand is perfectly inelastic; consumers buy more at the higher price.

Q3. Which of the following formulas **correctly** relates Gross National Product (GNP) to Gross Domestic Product (GDP)?



(A) GNP $=$ GDP $-$ Net Factor Income from Abroad

(B) GNP $=$ GDP $+$ Net Factor Income from Abroad

(C) GNP $=$ GDP $+$ Depreciation

(D) GNP $=$ GDP $\times$ Price Level Index

Q4. When the cost of crude oil rises sharply, transportation and manufacturing costs increase across many industries, pushing up the general price level. What type of inflation does this represent?

(A) Demand-pull inflation, caused by excessive consumer spending

(B) Structural inflation, caused by supply-side bottlenecks in specific sectors

(C) Hyperinflation, caused by an uncontrolled increase in money supply

(D) Cost-push inflation, caused by rising production input costs such as raw materials and energy

Q5. Which of the following statements about the **World Trade Organisation (WTO)** is **correct**?

(A) The WTO was established in 1995, replacing GATT, and is headquartered in Geneva, Switzerland.

(B) The WTO was established in 1948 as a successor to the Bretton Woods institutions.

(C) The WTO is headquartered in New York and was set up in 2001 after the Doha Round.

(D) The WTO focuses solely on agricultural trade and does not cover services or intellectual property.

Q6. A shoe company decides on the brand name, packaging design, warranty period, and after-sales service for its new collection. Which element of the **Marketing Mix** do these decisions primarily belong to?

(A) Price, because warranty and service are associated with cost to the consumer

(B) Product, because decisions about branding, packaging, and after-sales service form part of the product element

(C) Promotion, because packaging and branding are used to communicate with consumers

(D) Place, because these decisions determine how the product reaches the customer

Q7. In marketing communication, the **AIDA** model is widely used to describe the stages a consumer passes through before making a purchase. What does the acronym **AIDA** stand for?

(A) Awareness, Influence, Decision, Action

(B) Attraction, Interest, Demand, Awareness

(C) Attention, Interest, Desire, Action

(D) Analysis, Identification, Design, Adoption

Q8. A premium lifestyle brand segments its market by targeting consumers who value adventure, sustainability, and personal freedom — irrespective of their age or income. Which type of market segmentation is being used?

(A) Geographic segmentation, based on the region where consumers live

(B) Demographic segmentation, based on age, gender, and income

(C) Behavioural segmentation, based on purchase occasion and brand loyalty

(D) Psychographic segmentation, based on lifestyle, values, and personality

Q9. Consumers are willing to pay a premium price for a particular brand of sneakers compared to an identical unbranded pair. The additional commercial value a brand name adds — derived from consumer perception and loyalty — is best described as:

(A) Brand extension, referring to using an existing brand name on a new product category

(B) Brand equity, the commercial value derived from consumer perception of a brand name above the generic product

(C) Brand positioning, the place a brand occupies in the consumer's mind relative to competitors

(D) Brand licensing, the permission granted to others to use a brand name for a fee

Q10. A footwear manufacturer sells its products exclusively through its own company-owned outlets and website, with no intermediaries involved. Which type of distribution channel does this represent?

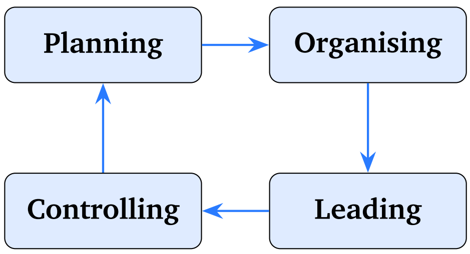
(A) Zero-level channel (direct channel), where the manufacturer sells directly to the final consumer with no intermediaries

(B) One-level channel, involving one intermediary such as a retailer between manufacturer and consumer

(C) Two-level channel, using both a wholesaler and a retailer before reaching the consumer

(D) Three-level channel, the longest distribution channel involving agents, wholesalers, and retailers

Q11. Which of the following correctly lists the **four core functions of management**?



(A) Planning, Directing, Staffing, Budgeting

(B) Organising, Recruiting, Motivating, Evaluating

(C) Planning, Organising, Leading, Controlling (POLC)

(D) Coordinating, Communicating, Delegating, Reporting

Q12. A company looking to hire fresh talent visits leading management institutes to recruit candidates for its marketing department. Which of the following **best** describes this as a source of recruitment?

(A) Internal recruitment, because the company is promoting existing employees

(B) External recruitment, specifically campus placements, which is an external source of recruitment

(C) Informal recruitment, because it involves personal recommendations by college faculty

(D) Contractual recruitment, because candidates are hired on project-based terms

Q13. In which leadership style does the leader make all decisions independently, issue instructions to subordinates without seeking their input, and maintain strict control over all activities?

(A) Democratic leadership, where decisions are made through group consensus

(B) Laissez-faire leadership, where employees are given complete freedom to make their own decisions

(C) Transformational leadership, where the leader motivates employees with a shared vision

(D) Autocratic (authoritarian) leadership, characterised by centralised decision-making with no subordinate participation

Q14. Which type of organisational structure is considered the **oldest and simplest**, with authority flowing in a straight, unbroken line from the top of the hierarchy to the bottom, and each employee reporting to exactly one superior?

(A) Line organisation, the simplest authority structure with a direct and unbroken chain of command from top to bottom

(B) Line and staff organisation, which adds specialist advisory staff to the basic line structure

(C) Committee organisation, where decisions are made collectively by a group of managers

(D) Matrix organisation, where employees report to both a functional manager and a project manager simultaneously

Q15. In the context of corporate governance, to whom is the **Board of Directors** of a company **primarily** accountable, owing a fiduciary duty to act in their best interests?

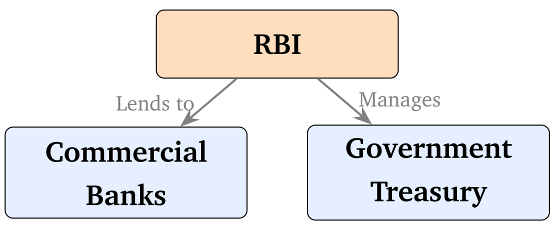
(A) The Central Government, because the company is registered under the Companies Act

(B) The company's creditors and lenders, because they provide the capital for operations

(C) Shareholders (owners), who elect the Board and expect it to maximise the value of their investment

(D) The employees, because labour welfare is the primary obligation of the Board

Q16. Which of the following functions **uniquely** identifies the Reserve Bank of India (RBI) as India's central bank, distinguishing it from other financial institutions?



(A) Accepting deposits from the general public and granting home loans to individuals

(B) Acting as the banker's bank and lender of last resort to commercial banks in times of financial stress

(C) Underwriting shares and debentures issued by listed companies on stock exchanges

(D) Providing insurance coverage to depositors of scheduled commercial banks

Q17. Which of the following statements about the **Bombay Stock Exchange (BSE)** is **correct**?

(A) The BSE was established in 1992 by SEBI as a new stock exchange to compete with the NSE.

(B) The BSE is headquartered in Delhi and is the largest stock exchange in India by market capitalisation.

(C) The BSE was set up in 1947 after Independence and is regulated by the Finance Ministry directly.

(D) The BSE, established in 1875, is the oldest stock exchange in Asia and is located in Mumbai.

Q18. Which of the following formulas correctly calculates the **Current Ratio** of a business, used to assess its short-term liquidity?

(A) Current Ratio $= \frac{\text{Current Assets}}{\text{Current Liabilities}}$; a ratio of 2:1 is generally considered ideal.

(B) Current Ratio $= \frac{\text{Net Profit}}{\text{Sales}} \times 100$; measures profitability as a percentage of revenue.

(C) Current Ratio $= \frac{\text{Total Assets}}{\text{Total Liabilities}}$; measures overall solvency of the firm.

(D) Current Ratio $= \frac{\text{Current Liabilities}}{\text{Current Assets}}$; a higher ratio indicates better liquidity.

Q19. Which of the following is an example of a **direct tax**, where the legal liability to pay the tax and the ultimate burden of the tax fall on the **same person**?

(A) Goods and Services Tax (GST), levied on the supply of goods and services

(B) Customs Duty, levied on goods imported into or exported from India

(C) Income Tax, levied directly on the earnings of individuals and businesses, which cannot be shifted to another person

(D) Value Added Tax (VAT), collected at each stage of the production chain

Q20. Ravi runs a small leather goods shop as a sole proprietor. When his business suffers heavy losses and cannot repay creditors from business assets alone, his personal savings and property are also at risk. Which feature of sole proprietorship does this illustrate?

(A) Lack of continuity, because the business dissolves on the owner's death or retirement

(B) Unlimited liability, meaning the owner's personal assets can be used to settle outstanding business debts

(C) Limited capital, because a sole proprietor cannot raise funds from more than one source

(D) Sole control, meaning the owner alone makes all business decisions without any interference

Q21. Ananya and her two friends have formed a partnership firm to manufacture eco-friendly footwear. Under which legislation is their partnership firm governed in India?

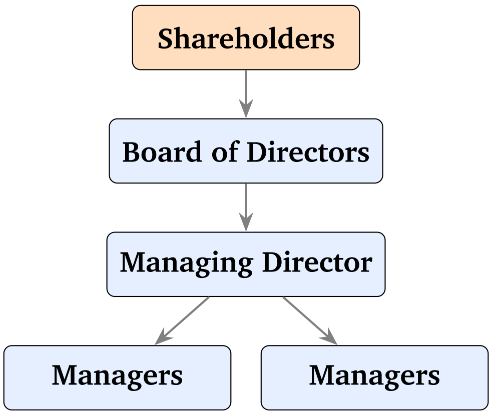
(A) The Companies Act, 2013, which governs all forms of business entities in India

(B) The Limited Liability Partnership Act, 2008, which applies to all forms of partnership

(C) The Contract Act, 1872, which covers all commercial agreements including partnerships

(D) The Indian Partnership Act, 1932, which specifically governs partnership firms in India

Q22. Which of the following features most clearly **distinguishes** a Joint Stock Company from a Partnership firm?



(A) Shares are freely transferable on the stock exchange, giving members the flexibility to exit without dissolving the company.

(B) The company is governed by a partnership deed that outlines the rights of each member.

(C) All members have unlimited liability and are jointly responsible for the debts of the firm.

(D) The number of members is limited to a maximum of 50 and the company lacks perpetual succession.

Q23. What is the **primary function** of the Securities and Exchange Board of India (SEBI)?

(A) To manage the foreign exchange reserves of India and regulate currency transactions

(B) To protect the interests of investors in securities and regulate the development of the securities market in India

(C) To provide insurance coverage to depositors of all scheduled commercial banks in India

(D) To determine monetary policy and set interest rates for the Indian economy

Q24. The **Make in India** initiative, aimed at transforming India into a global manufacturing hub and attracting foreign direct investment, was launched by Prime Minister Narendra Modi in which year?

(A) 2012, as part of the UPA government's industrial policy

(B) 2016, coinciding with the Digital India and Startup India campaigns

(C) 2014, on September 25, shortly after the formation of the NDA government

(D) 2019, as part of the Aatmanirbhar Bharat economic stimulus package

Q25. On November 8, 2016, the Government of India announced a landmark demonetization drive. Which currency note denominations were **demonetized** (ceased to be legal tender) on that date?

(A) Rs. 100 and Rs. 500 notes, replaced with new Rs. 200 and Rs. 500 notes

(B) Rs. 1000 and Rs. 2000 notes, to curb black money and high-value transactions

(C) Rs. 50 and Rs. 100 notes, as part of a currency modernisation programme

(D) Rs. 500 and Rs. 1000 notes, which were discontinued and replaced with new denominations

Detailed Solutions

Q1.

Solution

Concept — Law of Demand: The Law of Demand states that, ceteris paribus (all other things being equal), as the price of a good increases, the quantity demanded decreases, and vice versa. This produces the characteristic downward-sloping demand curve.

Step 1 — Inverse Relationship: Price and quantity demanded move in opposite directions. When price rises from P_1 to P_2 (downward), quantity falls from Q_1 to Q_2, as shown in the diagram in Q1.

Step 2 — Ceteris Paribus Condition: The Law holds only when all other determinants of demand (income, prices of related goods, tastes, expectations) are held constant.

Why other options are wrong:

- **Option A: Correct** — accurately states the inverse price-quantity relationship with ceteris paribus.
- Option B: Describes the income effect on normal goods, not the Law of Demand.
- Option C: An upward-sloping demand curve contradicts the Law of Demand (only Giffen goods may exhibit this, and even then it is an exception).
- Option D: Describes a cross-price effect (substitute goods), not the Law of Demand.

Final Answer: As price rises, quantity demanded falls (ceteris paribus) $\Rightarrow \boxed{\text{A}}$

Answer: (A) Go Back to Q1

Q2.

Solution

Concept — Price Elasticity of Demand and Total Revenue: Price Elasticity of Demand (PED) measures the responsiveness of quantity demanded to a change in price. When PED < 1 (inelastic demand), a price increase leads to an increase in total revenue because the proportional fall in quantity is smaller than the proportional rise in price.

Step 1 — Total Revenue Formula: Total Revenue (TR) $=$ Price $\times$ Quantity Demanded. When PED < 1, a 20% price rise causes less than a 20% fall in quantity, so TR rises.

Step 2 — Application to Luxury Brands: Luxury handbags often have inelastic demand because loyal consumers place high value on the brand image and are less sensitive to price changes.

Why other options are wrong:

- Option A: Perfectly elastic demand means consumers stop buying entirely at a higher price — TR would fall to zero.
- Option B: Unit elastic demand means TR stays constant when price changes — TR would not increase.
- **Option C: Correct** — inelastic demand (PED < 1) means TR rises when price increases.
- Option D: Perfectly inelastic demand means consumers buy the same quantity; the statement that they buy *more* is incorrect.

Final Answer: Inelastic demand (PED < 1) causes TR to rise when price increases $\Rightarrow \boxed{\text{C}}$

Answer: (C) **Go Back to Q2**

Q3.

Solution

Concept — GDP vs. GNP: GDP (Gross Domestic Product) measures the total value of goods and services produced *within* a country's borders regardless of citizenship. GNP (Gross National Product) measures output by a country's *nationals* (residents) regardless of location. The difference is Net Factor Income from Abroad (NFIA).

Step 1 — Formula Derivation: GNP $=$ GDP $+$ NFIA, where NFIA $=$ Factor income earned by residents abroad $-$ Factor income earned by foreigners domestically.

Step 2 — Numerical Illustration: If GDP $=$ Rs. 100 trillion and Indian residents earn Rs. 5 trillion abroad while foreigners earn Rs. 2 trillion in India, then NFIA $=$ Rs. 3 trillion, and GNP $=$ Rs. 103 trillion.

Why other options are wrong:

- Option A: GNP $=$ GDP $-$ NFIA is wrong; subtracting NFIA gives a value below GDP, which is incorrect for a country with positive net factor income.
- **Option B: Correct** — GNP $=$ GDP $+$ Net Factor Income from Abroad.

- Option C: Adding depreciation gives NNP (Net National Product), not GNP.
- Option D: Multiplying by a price index is not part of the GDP–GNP relationship.

Final Answer: GNP = GDP + Net Factor Income from Abroad $\Rightarrow \boxed{\text{B}}$

Answer: (B) Go Back to Q3

Q4.

Solution

Concept — Cost-Push Inflation: Cost-push inflation occurs when the overall price level rises due to increases in the cost of production inputs such as wages, raw materials, and energy. Higher costs reduce the aggregate supply, causing prices to rise even without an increase in consumer demand.

Step 1 — Mechanism: Rising crude oil prices $\rightarrow$ higher transportation and manufacturing costs $\rightarrow$ firms raise product prices to maintain margins $\rightarrow$ general price level rises.

Step 2 — Distinction from Demand-Pull: Demand-pull inflation is driven by excess demand in the economy, whereas cost-push is driven from the supply (production cost) side.

Why other options are wrong:

- Option A: Demand-pull inflation results from excessive consumer spending, not rising input costs.
- Option B: Structural inflation refers to supply-side inefficiencies in specific sectors, not a general input-cost shock.
- Option C: Hyperinflation is an extreme form of inflation linked to uncontrolled money supply; it is not caused directly by an oil price rise.
- **Option D: Correct** — rising input costs (crude oil $\rightarrow$ transport & production) cause cost-push inflation.

Final Answer: Rising production input costs cause cost-push inflation $\Rightarrow \boxed{\text{D}}$

Answer: (D) Go Back to Q4

Q5.

Solution

Concept — World Trade Organisation (WTO): The WTO is the principal international body that oversees and regulates global trade. It replaced the General Agreement on Tariffs and Trade (GATT) and provides a framework for negotiating trade agreements and resolving trade disputes.

Step 1 — Key Facts: The WTO was established on January 1, 1995, as the successor to GATT (which began in 1947). Its headquarters is in Geneva, Switzerland.

Step 2 — Scope: Unlike GATT (which focused primarily on goods), the WTO covers goods, services (through GATS), and intellectual property (through TRIPS).

Why other options are wrong:

- **Option A: Correct** — WTO established 1995, replaced GATT, headquartered in Geneva.
- Option B: The Bretton Woods institutions (IMF and World Bank) were established in 1944–1945; the WTO's predecessor GATT was created in 1947, not 1948.
- Option C: The WTO is headquartered in Geneva (not New York), and the Doha Round began in 2001 but did not lead to the creation of the WTO.
- Option D: The WTO covers services and intellectual property in addition to agricultural trade.

Final Answer: WTO established 1995, replaced GATT, headquartered in Geneva $\Rightarrow \boxed{\text{A}}$

Answer: (A) Go Back to Q5

Q6.

Solution

Concept — 4Ps of Marketing (Product): The Marketing Mix comprises four elements: Product, Price, Place, and Promotion. The *Product* element encompasses all decisions related to the tangible and intangible aspects of what is being offered, including design, features, quality, branding, packaging, warranties, and after-sales service.

Step 1 — Product Decisions: Branding (name, logo), packaging design, warranty periods, and after-sales support are all part of the product offering that adds value beyond the core physical item.

Step 2 — Distinguishing from Other Ps: Price covers the amount charged; Place covers distribution channels; Promotion covers advertising and communication. None of these include branding or packaging decisions.

Why other options are wrong:

- Option A: Price decisions relate to list price, discounts, and payment terms, not warranty or service.
- **Option B: Correct** — branding, packaging, and after-sales service are all components of the Product element.
- Option C: Promotion covers advertising, public relations, and sales promotions; packaging is part of Product.
- Option D: Place covers distribution channels and logistics, not product-related decisions.

Final Answer: Branding, packaging, and after-sales service are part of the *Product* element $\Rightarrow \boxed{\text{B}}$

Answer: (B) Go Back to Q6

Q7.

Solution

Concept — AIDA Model in Marketing Communication: The AIDA model is a classical framework describing the cognitive and emotional stages a consumer passes through when responding to an advertisement or marketing message. It is widely used in advertising copywriting and campaign design.

Step 1 — Full Form: AIDA stands for **A**ttention → **I**nterest → **D**esire → **A**ction.

Step 2 — Stage Explanation:

- *Attention*: Grab the consumer's attention with a compelling headline or visual.
- *Interest*: Build interest by highlighting relevant features and benefits.
- *Desire*: Create an emotional desire or want for the product.
- *Action*: Prompt the consumer to take a purchase action (buy now, sign up, visit store).

Why other options are wrong:

- Option A: "Awareness, Influence, Decision, Action" is not the correct expansion; "Influence" and "Decision" are not part of AIDA.

- Option B: "Attraction, Interest, Demand, Awareness" is incorrect; "Attraction" and "Demand" are not the correct terms.
- **Option C: Correct** — Attention, Interest, Desire, Action is the standard AIDA model.
- Option D: "Analysis, Identification, Design, Adoption" belongs to product development frameworks, not marketing communication models.

Final Answer: AIDA = Attention, Interest, Desire, Action $\Rightarrow \boxed{\text{C}}$

Answer: (C) Go Back to Q7

Q8.

Solution

Concept — Market Segmentation (Psychographic): Market segmentation is the process of dividing a broad market into distinct subsets of consumers with common needs. Psychographic segmentation groups consumers based on *lifestyle*, personality traits, values, attitudes, interests, and opinions (AIO) — factors that are psychological rather than demographic or geographic.

Step 1 — Identifying the Basis: The brand in the question targets consumers who value "adventure, sustainability, and personal freedom" — these are values and lifestyle choices, not age, income, or location.

Step 2 — Psychographic vs. Other Types: Geographic (location), Demographic (age/gender/income), Behavioural (usage rate/loyalty/occasion), and Psychographic (lifestyle/values/personality) are the four main types.

Why other options are wrong:

- Option A: Geographic segmentation divides based on region, city, or climate — not lifestyle values.
- Option B: Demographic segmentation divides by measurable characteristics (age, income) — not values.
- Option C: Behavioural segmentation divides by purchase occasion, benefits sought, or loyalty stage — not lifestyle.
- **Option D: Correct** — segmenting by lifestyle, values, and personality is psychographic segmentation.

Final Answer: Segmenting by lifestyle and values is psychographic segmentation $\Rightarrow \boxed{\text{D}}$

Answer: (D) Go Back to Q8

Q9.

Solution

Concept — Brand Equity: Brand equity is the additional value that a brand name adds to a product beyond its functional attributes. It arises from consumer perceptions, associations, loyalty, and trust built over time. A high brand equity allows a company to charge premium prices and enjoy customer loyalty.

Step 1 — Measurement: Brand equity can be assessed by the price premium consumers are willing to pay for a branded product versus a generic equivalent. The premium for branded sneakers over an identical unbranded pair represents brand equity.

Step 2 — Key Components: Brand equity comprises brand awareness, brand associations, perceived quality, and brand loyalty. All of these contribute to the commercial value of the brand name.

Why other options are wrong:

- Option A: Brand extension refers to using an existing brand name on a new product category (e.g., Nike apparel), not the additional value of the brand itself.
- **Option B: Correct** — brand equity is the commercial value derived from consumer perception of a brand name above the generic product.
- Option C: Brand positioning refers to the place a brand occupies in the consumer's mind relative to competitors — it describes strategy, not the monetary value of the brand.
- Option D: Brand licensing is a contractual agreement allowing others to use a brand name for a royalty fee — a different concept.

Final Answer: Additional commercial value from consumer brand perception is brand equity $\Rightarrow \boxed{\text{B}}$

Answer: (B) Go Back to Q9

Q10.

Solution

Concept — Distribution Channels (Zero-Level): A distribution channel (or marketing channel) describes the path a product takes from manufacturer to final consumer. A *zero-level channel* (also called a *direct channel*) has *no intermediaries* between the manufacturer and the consumer.

Step 1 — Zero-Level Channel: Manufacturer → Consumer (directly). Examples: manufacturer-owned outlets, e-commerce websites run by the brand, door-to-door sales, and mail order.

Step 2 — Distinguishing Channel Levels:

- One-level: Manufacturer → Retailer → Consumer
- Two-level: Manufacturer → Wholesaler → Retailer → Consumer
- Three-level: Manufacturer → Agent → Wholesaler → Retailer → Consumer

Why other options are wrong:

- **Option A: Correct** — company-owned outlets and website with no intermediary = zero-level (direct) channel.
- Option B: One-level channel involves one intermediary (retailer); the scenario has none.
- Option C: Two-level channel involves two intermediaries; the scenario has none.
- Option D: Three-level channel is the most complex; the scenario is the simplest (direct).

Final Answer: Selling directly to consumers with no intermediaries is a zero-level channel ⇒ $\boxed{\text{A}}$

Answer: (A) Go Back to Q10

Q11.

Solution

Concept — Functions of Management (POLC): Management is the process of planning, organising, leading, and controlling organisational resources to achieve stated objectives. Henri Fayol originally identified five functions; modern management theory has consolidated these into the POLC framework.

Step 1 — POLC Breakdown:

- *Planning*: Setting objectives and determining the best course of action.
- *Organising*: Arranging resources and tasks to achieve the plan.
- *Leading*: Directing, motivating, and influencing employees.
- *Controlling*: Monitoring performance and taking corrective action.

Step 2 — Cyclical Nature: As shown in the diagram in Q11, the four functions form a continuous cycle, with controlling feeding back into planning.

Why other options are wrong:

- Option A: "Staffing" and "Budgeting" are not among the four core POLC functions (staffing is sometimes listed separately; budgeting is a sub-activity of planning).
- Option B: "Recruiting" and "Motivating" are activities within staffing and leading, not standalone management functions.
- **Option C: Correct** — Planning, Organising, Leading, Controlling (POLC) are the four universally accepted functions of management.
- Option D: "Coordinating" and "Communicating" are activities within the four functions, not separate functions themselves.

Final Answer: The four functions of management are Planning, Organising, Leading, Controlling (POLC) $\Rightarrow \boxed{\text{C}}$

Answer: (C) Go Back to Q11

Q12.

Solution

Concept — External Sources of Recruitment: Recruitment is the process of attracting and selecting candidates for employment. *External recruitment* involves sourcing candidates from outside the organisation, whereas *internal recruitment* promotes or transfers existing employees.

Step 1 — Campus Placements: When companies visit colleges and universities to recruit fresh graduates, this is called campus recruitment or campus placement. It is a classic external source of recruitment.

Step 2 — Other External Sources: Newspaper advertisements, employment agencies, online job portals (Naukri, LinkedIn), walk-in interviews, and employee referrals (for external candidates) are all external sources.

Why other options are wrong:

- Option A: Internal recruitment involves sourcing from within the existing workforce (promotions, transfers); visiting external colleges is clearly external.
- **Option B: Correct** — campus placements involve recruiting fresh talent from colleges, which is an external source of recruitment.
- Option C: Informal recruitment based on personal recommendations is a form of employee referral, still an external source; the label "informal" is misleading and does not accurately describe campus placement.
- Option D: Campus placements lead to permanent or probationary employment, not typically contractual/project-based arrangements.

Final Answer: Campus placements are an external source of recruitment $\Rightarrow \boxed{\text{B}}$

Answer: (B) Go Back to Q12

Q13.

Solution

Concept — Autocratic Leadership: Leadership style refers to the pattern of behaviour a leader exhibits when directing and motivating subordinates. An autocratic (or authoritarian) leader centralises all decision-making authority, issues orders without consulting the team, and demands strict compliance.

Step 1 — Characteristics of Autocratic Leadership: The leader alone sets goals, makes all decisions, and controls all activities. Communication flows downward (leader $\rightarrow$ subordinates), with no upward input. This style can be efficient in crisis situations but often reduces employee morale and creativity.

Step 2 — Contrast with Other Styles:

- Democratic: Decisions made through participation and group consensus.
- Laissez-faire: Leader provides minimal direction; employees have maximum autonomy.
- Transformational: Leader inspires employees with vision and motivates change.

Why other options are wrong:

- Option A: Democratic leadership involves group input and shared decision-making — the opposite of autocratic.
- Option B: Laissez-faire leadership gives subordinates complete freedom — the opposite of centralised control.

- Option C: Transformational leadership focuses on inspiring and motivating employees through vision, not on centralized command.
- **Option D: Correct** — autocratic leadership is characterised by centralised decision-making with no subordinate input.

Final Answer: Centralised decision-making with no subordinate input is autocratic leadership $\Rightarrow \boxed{\text{D}}$

Answer: (D) **Go Back to Q13**

Q14.

Solution

Concept — Line Organisation: Line organisation is the simplest and oldest form of organisational structure. Authority flows directly from the top (e.g., CEO) to the bottom (e.g., workers) in a straight, unbroken line. Each employee has only one superior (unity of command), making it easy to understand and operate.

Step 1 — Features of Line Organisation:

- Direct line of authority from top to bottom.
- Unity of command: each person reports to only one boss.
- Clear accountability and discipline.
- Suitable for small organisations with simple operations.

Step 2 — Limitations: Because each manager must be an expert in all functions, line organisation can become overloaded in complex organisations, leading to the development of line-and-staff structures.

Why other options are wrong:

- **Option A: Correct** — line organisation has the simplest authority structure with a direct chain of command.
- Option B: Line and staff organisation adds specialist advisors (staff) to the basic line structure, making it more complex.
- Option C: Committee organisation involves collective decision-making, which is inherently more complex than a direct line.
- Option D: Matrix organisation is one of the most complex structures, with employees reporting to two managers simultaneously.

Final Answer: The simplest organisational structure with a direct chain of command is line organisation $\Rightarrow \boxed{\text{A}}$

Answer: (A) **Go Back to Q14**

Q15.

Solution

Concept — Corporate Governance and Board Accountability: Corporate governance refers to the system of rules, practices, and processes by which a company is directed and controlled. The Board of Directors is elected by the shareholders to oversee management and is bound by a fiduciary duty to act in the best interests of shareholders.

Step 1 — Fiduciary Duty: A fiduciary duty is the highest standard of care. Directors must act in good faith, avoid conflicts of interest, and prioritise shareholder welfare above personal gain. Shareholders are the legal owners of the company.

Step 2 — Accountability Chain: Shareholders elect the Board → Board appoints the Managing Director → MD manages day-to-day operations. At the Annual General Meeting (AGM), Directors report to and seek approval from shareholders.

Why other options are wrong:

- Option A: While companies are registered under the Companies Act and must comply with government regulations, primary accountability is to shareholders, not the government.
- Option B: Creditors have legal claims on the company's assets, but the Board's primary fiduciary obligation is to shareholders, not creditors.
- **Option C: Correct** — the Board of Directors is primarily accountable to shareholders who elect them and own the company.
- Option D: Employee welfare is an important stakeholder concern, but the Board's legal fiduciary duty runs to shareholders, not employees.

Final Answer: The Board of Directors is primarily accountable to shareholders $\Rightarrow$ $\boxed{C}$

Answer: (C) Go Back to Q15

Q16.

Solution

Concept — Reserve Bank of India (RBI) as Central Bank: The Reserve Bank of India (RBI) was established on April 1, 1935, under the RBI Act, 1934, and was nationalised in 1949. As India's central bank, it performs several unique functions that distinguish it from commercial banks.

Step 1 — Lender of Last Resort: When commercial banks face a liquidity crisis and cannot borrow from other sources, the RBI provides emergency funds. This function is unique to central banks and is called "lender of last resort." The RBI charges the bank rate (or repo rate) for such lending.

Step 2 — Banker's Bank: The RBI maintains accounts of all scheduled commercial banks, provides clearing services, and holds their mandatory reserves (CRR). This role as the "banker to banks" is the defining feature of a central bank.

Why other options are wrong:

- Option A: Accepting deposits from the general public and granting home loans are functions of commercial banks, not the RBI.
- **Option B: Correct** — acting as banker's bank and lender of last resort uniquely identifies the RBI as India's central bank.
- Option C: Underwriting shares and debentures is a function of investment banks and merchant banks, not the RBI.
- Option D: Deposit insurance is provided by the Deposit Insurance and Credit Guarantee Corporation (DICGC), a subsidiary of the RBI, not the RBI directly.

Final Answer: Banker's bank and lender of last resort uniquely identifies the RBI as central bank $\Rightarrow \boxed{\text{B}}$

Answer: (B) Go Back to Q16

Q17.

Solution

Concept — Bombay Stock Exchange (BSE): The BSE (Bombay Stock Exchange) is India's first and oldest stock exchange, playing a pivotal role in the development of India's capital market.

Step 1 — Key Facts about BSE:

- Established: 1875, as "The Native Share and Stock Brokers' Association."
- Location: Dalal Street, Mumbai (formerly Bombay), Maharashtra.
- Significance: Oldest stock exchange in Asia, with over 5,000 listed companies.
- Benchmark Index: SENSEX (Sensitive Index), comprising 30 large-cap companies.

Step 2 — BSE vs. NSE: The National Stock Exchange (NSE) was established in 1992 and is newer. The NSE's benchmark index is NIFTY 50. Both are regulated by SEBI.

Why other options are wrong:

- Option A: The NSE (not BSE) was established in 1992. The BSE was founded in 1875 and not by SEBI.
- Option B: The BSE is headquartered in Mumbai, not Delhi. While BSE is large, NSE typically leads in equity trading volume.
- Option C: The BSE was founded in 1875 (not 1947) and is regulated by SEBI (not directly by the Finance Ministry).
- **Option D: Correct** — BSE was established in 1875, is the oldest stock exchange in Asia, and is located in Mumbai.

Final Answer: BSE established 1875, oldest stock exchange in Asia, located in Mumbai $\Rightarrow \boxed{\text{D}}$

Answer: (D) Go Back to Q17

Q18.

Solution

Concept — Current Ratio: The current ratio is a liquidity ratio that measures a company's ability to pay its short-term obligations (due within one year) using its short-term assets. It is one of the most widely used financial ratios in ratio analysis.

Step 1 — Formula:

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

Current Assets include cash, bank balances, debtors, stock, and short-term investments. Current Liabilities include creditors, short-term loans, and outstanding expenses.

Step 2 — Ideal Ratio: A current ratio of 2:1 is generally considered ideal — for every Rs. 2 of current assets, there is Rs. 1 of current liability. This provides a safety margin for the business.

Why other options are wrong:

- **Option A: Correct** — Current Ratio $= \frac{\text{Current Assets}}{\text{Current Liabilities}}$; 2:1 is the ideal.
- Option B: $\frac{\text{Net Profit}}{\text{Sales}} \times 100$ is the Net Profit Margin, a profitability ratio, not a liquidity ratio.
- Option C: $\frac{\text{Total Assets}}{\text{Total Liabilities}}$ is a solvency ratio (Debt to Asset ratio variant), not the current ratio.

- Option D: Inverting the formula $\left(\frac{\text{Current Liabilities}}{\text{Current Assets}}\right)$ gives the reciprocal; a higher value would indicate *worse* liquidity, not better.

Final Answer: Current Ratio $= \frac{\text{Current Assets}}{\text{Current Liabilities}}$; ideal 2:1 $\Rightarrow \boxed{\text{A}}$

Answer: (A) Go Back to Q18

Q19.

Solution

Concept — Direct Tax vs. Indirect Tax: A *direct tax* is one where the impact (legal liability) and incidence (economic burden) fall on the same person. The taxpayer cannot shift the burden to someone else. An *indirect tax* is one where the legal liability and the ultimate economic burden fall on different persons (the seller collects it but passes the cost to the buyer).

Step 1 — Income Tax as a Direct Tax: Income Tax is levied directly on the income or profits of individuals, firms, and companies. The person who earns the income is both legally liable and economically burdened — there is no mechanism to pass it on to another person.

Step 2 — Indirect Taxes: GST, Customs Duty, and VAT are indirect taxes. The seller (importer/manufacturer) is legally liable, but the economic burden is passed on to the final consumer through higher prices.

Why other options are wrong:

- Option A: GST is an indirect tax; businesses collect it from consumers and remit it to the government. The burden is shifted to the consumer.
- Option B: Customs Duty is an indirect tax; importers pay it but recover the cost by charging higher prices to buyers.
- **Option C: Correct** — Income Tax is a direct tax; the burden cannot be shifted from the taxpayer.
- Option D: VAT (now largely subsumed under GST in India) is an indirect tax; it is collected at each stage of production but ultimately borne by the final consumer.

Final Answer: Income Tax is a direct tax because its burden cannot be shifted $\Rightarrow \boxed{\text{C}}$

Answer: (C) Go Back to Q19

Q20.

Solution

Concept — Unlimited Liability in Sole Proprietorship: A sole proprietorship is a business owned and managed by a single individual. One of its most significant features is *unlimited liability*, meaning there is no legal separation between the owner's personal assets and the business's assets. If the business cannot meet its debts, creditors can claim the owner's personal assets (savings, property, etc.).

Step 1 — Unlimited Liability Explained: In Ravi's case, when business assets are insufficient to repay creditors, his personal savings, home, and other assets are also at risk. This is the defining feature of unlimited liability.

Step 2 — Contrast with Limited Liability: In a private limited company or LLP, the owner's liability is limited to the amount invested. Personal assets cannot be touched by creditors — this is why incorporation is often preferred by growing businesses.

Why other options are wrong:

- Option A: Lack of continuity (business dissolves on owner's death) is a different feature of sole proprietorship, not what the scenario illustrates.
- **Option B: Correct** — the owner's personal assets being at risk for business debts is the feature of unlimited liability.
- Option C: Limited capital (difficulty in raising funds) is another feature of sole proprietorship, but not what is illustrated here.
- Option D: Sole control (owner makes all decisions alone) is a feature related to decision-making authority, not financial liability.

Final Answer: Owner's personal assets at risk for business debts = unlimited liability $\Rightarrow \boxed{\text{B}}$

Answer: (B) Go Back to Q20

Q21.

Solution

Concept — Indian Partnership Act, 1932: A partnership is a form of business organisation where two or more persons agree to carry on a business together and share its profits. In India, partnership firms are specifically governed by the Indian Partnership Act, 1932, which defines partnership, regulates the rights and duties of partners, and provides for dissolution of the firm.

Step 1 — Key Provisions of the Act: The Act defines a partnership as "the relation between persons who have agreed to share the profits of a business carried on by all or any of them acting for all." It covers partnership deeds, registration of firms, and partner liability.

Step 2 — LLP vs. General Partnership: A Limited Liability Partnership (LLP) is governed by the LLP Act, 2008, and is different from a general partnership. Ananya's firm is a general partnership, so the Indian Partnership Act, 1932 applies.

Why other options are wrong:

- Option A: The Companies Act, 2013 governs companies (private, public, OPC) — not partnership firms.
- Option B: The LLP Act, 2008 governs limited liability partnerships specifically — not traditional general partnership firms.
- Option C: The Contract Act, 1872 governs general contracts; while a partnership is contractual, the specific legislation for partnership firms is the Indian Partnership Act, 1932.
- **Option D: Correct** — general partnership firms in India are governed by the Indian Partnership Act, 1932.

Final Answer: Partnership firms in India are governed by the Indian Partnership Act, 1932 $\Rightarrow \boxed{\text{D}}$

Answer: (D) Go Back to Q21

Q22.

Solution

Concept — Joint Stock Company: Freely Transferable Shares: A joint stock company (JSC) is a form of business organisation where the capital is divided into shares held by members (shareholders). One of its most distinctive features, separating it from a partnership, is the *free transferability of shares* — members can buy and sell shares on the stock exchange without the company's approval or dissolution.

Step 1 — Free Transferability: In a JSC, shares listed on a stock exchange can be bought and sold freely by any investor. This gives the company *perpetual succession* — ownership changes (buying/selling shares) do not affect the company's existence.

Step 2 — Contrast with Partnership: In a general partnership, a partner cannot transfer their interest to a third party without the consent of all other partners.

The firm may dissolve if a partner leaves, making it fundamentally different from a JSC.

Why other options are wrong:

- **Option A: Correct** — freely transferable shares is a key distinguishing feature of a joint stock company over a partnership.
- Option B: Partnership deeds govern partnerships, not joint stock companies (which are governed by a Memorandum and Articles of Association).
- Option C: Unlimited liability applies to sole proprietorships and general partnerships — joint stock company shareholders have *limited* liability.
- Option D: A private limited company can have up to 200 members; public companies have no maximum member limit. The statement describes a general partnership (max 50), not a JSC.

Final Answer: Freely transferable shares distinguishes a joint stock company from a partnership $\Rightarrow \boxed{\text{A}}$

Answer: (A) Go Back to Q22

Q23.

Solution

Concept — SEBI (Securities and Exchange Board of India): SEBI was established by the Government of India in 1988 and was given statutory powers through the SEBI Act, 1992. It is the principal regulatory body for the securities and capital markets in India.

Step 1 — Primary Function of SEBI: According to the SEBI Act, 1992, SEBI's objectives are:

- To protect the interests of investors in securities.
- To promote the development of the securities market.
- To regulate the securities market and prevent fraudulent and unfair trade practices.

Step 2 — Key Powers: SEBI regulates stock exchanges, mutual funds, brokers, merchant bankers, and foreign institutional investors. It can investigate market manipulations and impose penalties.

Why other options are wrong:

- Option A: Foreign exchange reserves and currency transactions are managed by the Reserve Bank of India (RBI), not SEBI.

- **Option B: Correct** — SEBI's primary function is to protect investors and regulate the development of the securities market.
- Option C: Deposit insurance is provided by the DICGC (a subsidiary of RBI), not SEBI.
- Option D: Monetary policy and interest rate setting are functions of the Reserve Bank of India (RBI), not SEBI.

Final Answer: SEBI's primary function is to protect investors and regulate the securities market $\Rightarrow \boxed{\text{B}}$

Answer: (B) Go Back to Q23

Q24.

Solution

Concept — Make in India Initiative: Make in India is a flagship economic initiative launched by the Government of India to encourage both multinational and domestic companies to manufacture their products in India. Its goals are to boost manufacturing, create jobs, enhance the skills of the workforce, and attract foreign direct investment (FDI).

Step 1 — Launch Details: Prime Minister Narendra Modi launched Make in India on **September 25, 2014**, at Vigyan Bhawan, New Delhi. The initiative was one of the first major economic programmes of the NDA government after it assumed office in May 2014.

Step 2 — Significance: Make in India targets 25 key sectors including textiles, footwear, leather, electronics, automobiles, and defence. The iconic lion logo made of cogs symbolises manufacturing strength.

Why other options are wrong:

- Option A: 2012 was during the UPA government; Make in India is an NDA initiative launched in 2014.
- Option B: 2016 is when Digital India was formally expanded, and Startup India was launched in January 2016; Make in India predates these.
- **Option C: Correct** — Make in India was launched on September 25, 2014.
- Option D: Aatmanirbhar Bharat was announced in May 2020 (during the COVID-19 pandemic); it is a different initiative from Make in India.

Final Answer: Make in India was launched on September 25, 2014 $\Rightarrow \boxed{\text{C}}$

Answer: (C) Go Back to Q24

Q25.

Solution

Concept — Demonetization 2016: Demonetization is the act of stripping a currency unit of its legal tender status. On **November 8, 2016**, Prime Minister Narendra Modi announced in a surprise address to the nation that the existing Rs. 500 and Rs. 1000 currency notes would cease to be legal tender from midnight of that day.

Step 1 — Denominations Demonetized: The Rs. 500 and Rs. 1000 notes were demonetized. These two denominations together constituted approximately 86% of the currency in circulation by value at the time. New Rs. 500 and Rs. 2000 notes were introduced as replacements.

Step 2 — Stated Objectives: The government's stated objectives were to curb black money, counterfeit currency, terrorist financing, and corruption, and to push the Indian economy towards a less-cash or digital economy.

Why other options are wrong:

- Option A: Rs. 100 and Rs. 500 notes were not demonetized together; Rs. 100 notes continued as legal tender. The replacement denominations introduced were Rs. 500 and Rs. 2000, not Rs. 200.
- Option B: The Rs. 2000 note was *introduced* as a new denomination after demonetization; it was not among those demonetized in 2016.
- Option C: Rs. 50 and Rs. 100 notes were never demonetized; they remained legal tender throughout.
- **Option D: Correct** — Rs. 500 and Rs. 1000 notes were demonetized on November 8, 2016.

Final Answer: Rs. 500 and Rs. 1000 notes were demonetized on November 8, 2016 $\Rightarrow \boxed{\text{D}}$

Answer: (D) Go Back to Q25

Answer Key

Q	Ans	Q	Ans	Q	Ans	Q	Ans	Q	Ans
1	A	2	C	3	B	4	D	5	A
6	B	7	C	8	D	9	B	10	A
11	C	12	B	13	D	14	A	15	C
16	B	17	D	18	A	19	C	20	B
21	D	22	A	23	B	24	C	25	D