FDDI AIST Business Aptitude

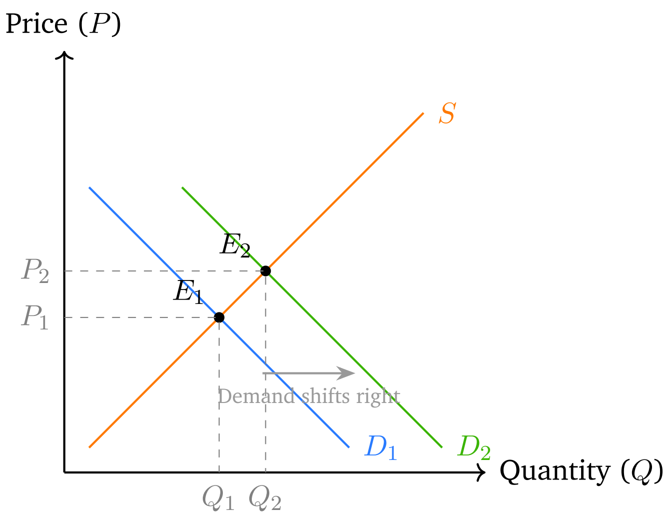
Sample Paper – 2

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. A market is initially in equilibrium at price P_1 and quantity Q_1 (point E_1), where supply curve S and original demand curve D_1 intersect. Consumer incomes then rise, shifting the demand curve to the right from D_1 to D_2. The supply curve S remains unchanged. What happens to the new equilibrium point E_2?



(A) Equilibrium price falls to P_2 and equilibrium quantity falls to Q_2, because the rightward demand shift pushes the equilibrium down the supply curve.

(B) Equilibrium price rises to P_2 and equilibrium quantity rises to Q_2, because the increase in demand with an unchanged supply leads to a higher price and greater quantity at E_2.

(C) Equilibrium price remains unchanged at P_1 while only equilibrium quantity rises to Q_2, because supply automatically adjusts to hold the price constant.

(D) Equilibrium price rises but equilibrium quantity falls, because producers reduce output in response to the rise in consumer income.

Q2. A consumer's monthly income rises from Rs. 20,000 to Rs. 22,000 (an increase of 10%). In response, the quantity of a particular good demanded by the consumer rises from 100 units to 115 units per month (an increase of 15%). What is the **Income Elasticity of Demand (YED)** for this good, and how is the good classified?

(A) YED $= 0.67$; the good is an inferior good since the quantity demanded rises more slowly than income.

(B) YED $= 1.0$; the good is a unit elastic good since the percentage change in demand equals the percentage change in income.

(C) YED $= 1.5$; the good is a necessity since YED between 0 and 1 defines necessities.

(D) YED $= 1.5$; the good is a **luxury (superior) good** since a YED > 1 indicates that demand rises proportionally faster than income.

Q3. Which of the following **correctly** states the formula relating **Net National Product (NNP)**, **Gross National Product (GNP)**, and **Depreciation** (Capital Consumption Allowance)?

(A) NNP $=$ GNP $-$ Depreciation; NNP measures the net value of national output after accounting for the wearing out (depreciation) of the existing capital stock during the year.

(B) NNP = GNP + Depreciation; depreciation is added back to arrive at a higher measure of national output.

(C) NNP = GDP − Net Factor Income from Abroad; NNP is derived directly from GDP without any reference to depreciation.

(D) NNP = GDP × (1 − Depreciation Rate); it adjusts GDP by a uniform rate of capital consumption.

Q4. During a post-war economic boom, the government distributes large stimulus cheques directly to citizens, causing consumer spending to surge sharply. Aggregate demand rises well beyond the economy's productive capacity and the general price level increases. What type of inflation does this scenario represent?

(A) Cost-push inflation, caused by rising production input costs such as crude oil prices or wage increases

(B) Structural inflation, arising from supply-side inefficiencies and bottlenecks in specific sectors of the economy

(C) Demand-pull inflation, caused by excess aggregate demand — consumer and government spending far exceeding the economy's productive capacity — which "pulls" prices upward

(D) Hyperinflation, caused solely by the central bank printing an uncontrolled quantity of money

Q5. Which of the following statements about the **International Monetary Fund (IMF)** is **correct**?

(A) The IMF was established in 1995 to replace the World Bank, and is headquartered in New York.

(B) The IMF was founded at the **Bretton Woods Conference in 1944**, is headquartered in **Washington D.C.**, and provides short-term balance-of-payments support to member countries facing external payment crises.

(C) The IMF is headquartered in Geneva, Switzerland, and was established in 1947 to manage global trade in goods and services.

(D) The IMF primarily provides long-term project loans for infrastructure development in developing countries.

Q6. A technology company launches its flagship smartphone at Rs. 1,20,000 — far above most competitors — targeting early adopters willing to pay a premium. After six months it reduces the price to Rs. 80,000, and a year later to Rs. 55,000, progressively reaching more price-sensitive customers. Which **pricing strategy** is the company using and why?

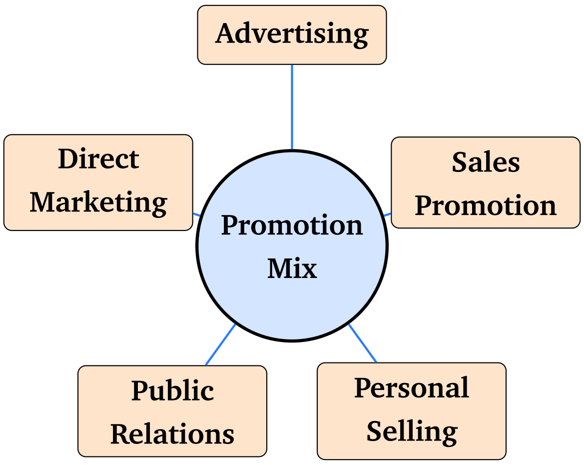
(A) Penetration pricing, where the product is launched at a very low introductory price to rapidly gain a large market share and deter competitors

(B) Cost-plus pricing, where a standard percentage markup is added to the full cost of production to determine the selling price

(C) Competitive pricing, where the price is set in line with or below the prices of rival products already in the market

(D) Price skimming, where the company charges a high initial price to extract maximum revenue from consumers willing to pay a premium, then systematically lowers the price to reach successive, more price-sensitive customer segments

Q7. The **Promotion Mix** (also called the **Communication Mix**) is one of the four elements of the Marketing Mix (4Ps). It consists of five distinct tools that marketers use to communicate with their target audience. Which of the following correctly identifies **ALL FIVE** elements of the Promotion Mix?



(A) Advertising, Sales Promotion, Personal Selling, Public Relations, and Direct Marketing

(B) Advertising, Pricing, Packaging, Personal Selling, and Distribution

(C) Publicity, Product Development, Branding, Sales Promotion, and Social Media

(D) Advertising, Market Research, Personal Selling, Wholesaling, and Public Relations

Q8. A baby-food brand launches three distinct product lines: one for infants aged **0–6 months** (liquid formula), one for **6–12 months** (semi-solid purées), and one for toddlers aged **1–3 years** (solid finger foods). The primary criterion for dividing the market is the **age of the child**. Which type of market segmentation is the brand using?

(A) Psychographic segmentation, because parents' lifestyle values and beliefs about nutrition influence the purchase decision

(B) Behavioural segmentation, because the purchase frequency and brand loyalty of parents differ across age groups

(C) Demographic segmentation, because the market is divided primarily on the basis of the child's **age group**, which is a measurable and objective demographic variable

(D) Geographic segmentation, because different regions have different dietary preferences for infants

Q9. A well-known premium tea brand, famous for its high-quality loose-leaf teas, launches a new product — **tea-flavoured biscuits** — under the **same established brand name**. The company expects consumers' trust and loyalty towards the tea brand to transfer to the new biscuit product. What is this marketing strategy called?

(A) Brand licensing, where a company grants another firm the legal right to use its brand name in exchange for a royalty fee

(B) Brand extension, where an established brand name is applied to a product in a **new and different product category** to leverage existing brand equity and consumer goodwill

(C) Brand equity, referring to the additional commercial value that accrues to a product solely because of the recognised brand name

(D) Multi-branding, where a company creates and markets multiple separate brand names within the same product category

Q10. A dairy cooperative produces fresh milk and sells it exclusively through **local retail dairy shops**. Consumers purchase the milk directly from these retail shops. The distribution path is: **Manufacturer** $\rightarrow$ **Retailer** $\rightarrow$ **Consumer**. Which channel level does this represent?

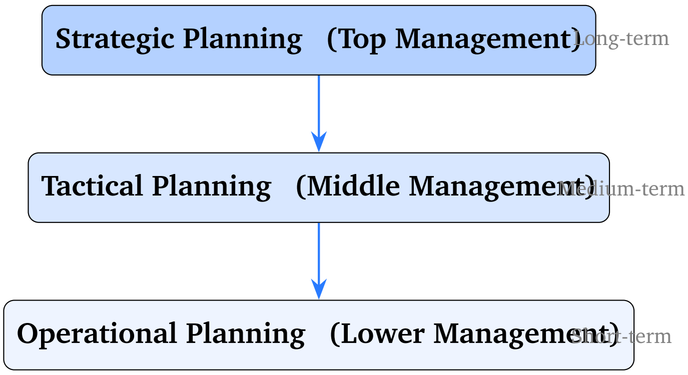
(A) Zero-level channel (direct channel), where the manufacturer sells directly to the final consumer with no intermediary at all

(B) Two-level channel, involving both a wholesaler and a retailer between the manufacturer and the consumer

(C) Three-level channel, the longest distribution channel involving an agent, a wholesaler, and a retailer before reaching the consumer

(D) One-level channel, involving exactly **one intermediary** (the retailer) between the manufacturer and the final consumer

Q11. Which of the following **correctly** describes the role and position of the **Planning** function within the management process?



(A) Planning is the **primary and first** function of management — it involves setting objectives, formulating strategies, and determining courses of action, and must precede all other management functions (organising, leading, and controlling).

(B) Planning is the last function of management, performed only after organising, leading, and controlling, to evaluate whether the stated goals were ultimately achieved.

(C) Planning is a sub-function of controlling, used exclusively to compare actual performance against predetermined standards and take corrective action.

(D) Planning is the second function of management, carried out only after the organisational structure has been established by top management.

Q12. A company receives hundreds of applications for a management trainee post and filters candidates through a structured series of steps before issuing an offer letter. Which of the following lists the stages in the **employee selection process** in the **correct sequence**?

(A) Interview → Application Screening → Aptitude Test → Medical Examination → Appointment Letter

(B) Medical Examination → Application Screening → Aptitude Test → Interview → Appointment Letter

(C) Application Screening → Written/Aptitude Test → Interview → Medical Examination → Appointment Letter

(D) Appointment Letter → Application Screening → Written Test → Interview → Medical Examination

Q13. A marketing team leader calls a meeting whenever a key strategic decision is to be made, explains the situation fully to the group, invites suggestions from all members, and finalises the decision based on group consensus. Team morale is high, though decisions sometimes take longer than expected. Which **leadership style** is being practised?

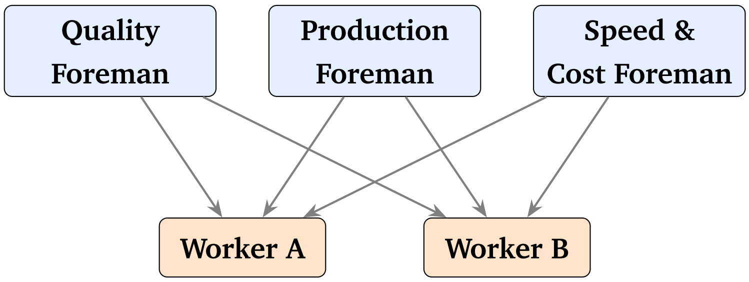
(A) Autocratic (authoritarian) leadership, where the leader makes all decisions independently and issues instructions to subordinates without seeking their input

(B) Democratic (participative) leadership, where decisions are reached through **group discussion and consensus**, encouraging active employee participation and boosting morale, even though the process may be slower

(C) Laissez-faire leadership, where the leader gives minimal guidance and delegates complete freedom to employees to make all decisions on their own

(D) Transactional leadership, where the leader motivates employees primarily through a system of rewards and penalties based on performance outcomes

Q14. F.W. Taylor proposed a form of organisational structure in which each worker on the shop floor receives instructions from **multiple functional specialists** — one for work sequence planning, one for quality inspection, one for production speed, and one for machine maintenance — rather than from a single supervisor. Which organisational structure does this describe?



Each worker receives instructions from all functional specialists

(A) Line organisation, where each worker reports to exactly one superior in a direct, unbroken chain of command

(B) Line and staff organisation, where specialist staff advisors support line managers but do not directly issue orders to workers

(C) Matrix organisation, where employees simultaneously report to a project manager and a functional department head

(D) Functional organisation (Taylor's Functional Foremanship), where workers receive instructions from **multiple functional specialists**, each responsible for a distinct aspect of the management function

Q15. Under the **Companies Act, 2013**, listed companies are required to have a minimum number of **independent directors** on their Board of Directors. Which of the following **best** describes the role and eligibility criteria of an independent director in the context of corporate governance?

(A) An independent director must have **no material relationship with the company or its promoters**, ensuring objective and impartial judgment in Board decisions and safeguarding the interests of minority shareholders and other stakeholders.

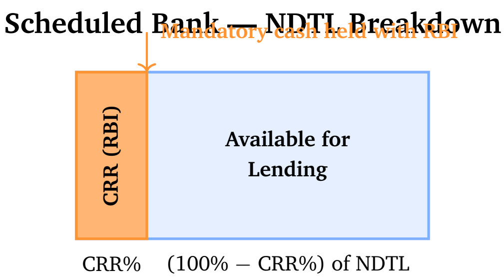
(B) An independent director is nominated by the Central Government to represent public interest and holds veto power over any Board resolution.

(C) An independent director is a full-time executive heading one of the company's key departments (such as finance, HR, or operations) who manages day-to-day affairs.

(D) An independent director is appointed exclusively to represent institutional investors and is exempt from all provisions of the Companies

Act, 2013.

Q16. The Reserve Bank of India (RBI) mandates that every scheduled commercial bank keep a certain percentage of its **Net Demand and Time Liabilities (NDTL)** as cash deposited with the RBI. When the RBI **raises** this percentage, banks have less money available to lend, thereby reducing their credit creation capacity. Which monetary policy tool is being described?



(A) Statutory Liquidity Ratio (SLR), the percentage of NDTL that banks must hold in the form of liquid assets such as gold and approved government securities

(B) Repo Rate, the interest rate at which the RBI lends short-term funds to commercial banks against the pledge of eligible government securities

(C) Cash Reserve Ratio (CRR), the percentage of a bank's Net Demand and Time Liabilities that must be held as **cash with the RBI**; an increase in CRR reduces funds available for lending and lowers banks' credit creation capacity

(D) Bank Rate, the rate at which the RBI extends long-term credit facilities to commercial banks and state financial institutions

Q17. Which of the following statements about the **National Stock Exchange (NSE)** of India is **correct**?

(A) The NSE was established in 1875 and is the oldest stock exchange in India; its benchmark index is SENSEX.

(B) The NSE was established in **1992** by a consortium of financial institutions including IDBI, ICICI, and others; it is headquartered in **Mumbai** and its benchmark index is **NIFTY 50**.

(C) The NSE is headquartered in New Delhi and was set up in 2001 following the Harshad Mehta securities scam to reform market practices.

(D) The NSE is regulated by the Reserve Bank of India (RBI) and primarily deals in government securities and treasury bills.

Q18. Which of the following **correctly** states the formula for the **Gross Profit Ratio**, a profitability ratio used to assess how efficiently a firm converts net sales revenue into gross profit?

(A) Gross Profit Ratio $= \frac{\text{Net Profit}}{\text{Net Sales}} \times 100$; measures the proportion of earnings remaining after all operating and non-operating expenses are deducted.

(B) Gross Profit Ratio $= \frac{\text{Operating Profit}}{\text{Net Sales}} \times 100$; measures earnings before interest and taxes as a percentage of net sales.

(C) Gross Profit Ratio $= \frac{\text{Gross Profit}}{\text{Total Assets}} \times 100$; measures how productively total assets generate gross profit.

(D) Gross Profit Ratio $= \frac{\text{Gross Profit}}{\text{Net Sales}} \times 100$; where Gross Profit $=$ Net Sales $-$ Cost of Goods Sold; it shows the percentage of each rupee of net sales retained as gross profit **before** deducting operating and other expenses.

Q19. **Goods and Services Tax (GST)**, introduced in India on **July 1, 2017**, replaced multiple earlier taxes including VAT, service tax, and central excise duty. Which of the following **correctly** describes the nature of GST?

(A) GST is an **indirect tax**: the legal liability to pay falls on the registered supplier (seller/manufacturer), but the economic burden is ultimately **passed on to the final consumer** through the price charged for goods and services.

(B) GST is a direct tax levied on the annual income of individuals based on the value of goods and services they consume during the year.

(C) GST is a capital gains tax levied on profits arising from the sale of fixed assets and long-term financial investments.

(D) GST is a wealth tax levied annually on individuals and businesses whose net worth exceeds a government-specified threshold.

Q20. Ramesh and Suresh are equal partners in a leather goods trading firm. **Ramesh**, acting alone and without informing Suresh, enters into a purchase contract with a supplier for leather bags — a transaction that falls **within the normal scope** of the firm's business. The contract is legally binding on **both** Ramesh and Suresh (i.e., the entire firm). Which legal **principle of partnership** makes this possible?

(A) Unlimited liability, which makes each partner fully responsible for all debts and financial obligations of the firm, including Ramesh's personal contracts

(B) Doctrine of holding out (estoppel), which applies only when a non-partner is represented as a partner to an outside third party

(C) Mutual agency, where each partner acts simultaneously as an **agent** of the firm (able to bind the firm in transactions within normal business scope) and as a **principal** (bound by co-partners' acts within the same scope)

(D) Joint and several liability, which makes all partners jointly responsible for each other's personal debts incurred outside the scope of the firm

Q21. Priya and three colleagues have formed a **Limited Liability Partnership (LLP)** under the LLP Act, 2008, to run a professional accounting consultancy. One partner is found to have been **negligent** in handling a major client's accounts, resulting in a substantial financial loss to the client. Which of the following **correctly** describes the liability of the other three partners?

(A) All four partners bear unlimited liability equally; the personal assets of every partner are exposed to the client's full claim.

(B) Each partner's liability is **limited to their agreed contribution**; the other three partners are **not personally liable** for loss caused by the negligent partner's individual wrongful act.

(C) The LLP as a separate legal entity bears no liability at all; only the negligent partner bears full personal unlimited liability for the entire loss.

(D) All partners are jointly and severally liable with unlimited liability, in the same manner as partners in a traditional general partnership firm.

Q22. A company's founding constitutional document defines the **objects clause** — the specific purposes for which the company is incorporated — and governs the company's relationship with the outside world. Any act performed by the company that falls **outside** the scope of this document is considered void and unenforceable. What is this founding document called, and which legal doctrine renders such acts void?

(A) Articles of Association (AOA); the doctrine of lifting the corporate veil

(B) Articles of Association (AOA); the doctrine of constructive notice

(C) Memorandum of Association (MOA); the doctrine of indoor management (Turquand Rule), which protects outsiders who act in good faith

(D) Memorandum of Association (MOA); the **ultra vires doctrine**, which declares any act outside the objects clause of the MOA as void and unenforceable; the MOA is the company's charter governing its relationship with the external world

Q23. Which of the following **correctly** describes the **Insurance Regulatory and Development Authority of India (IRDAI)** and its **primary function**?

(A) IRDAI was established under the **IRDAI Act, 1999**; its primary function is to **protect policyholders' interests**, regulate the insurance industry, and promote its orderly growth and development in India.

(B) IRDAI was established in 1992 under the SEBI Act, 1992; its primary function is to regulate the life insurance segment of the Indian capital market.

(C) IRDAI is a division of the Reserve Bank of India (RBI) responsible for approving credit facilities extended by banks to insurance companies.

(D) IRDAI's primary function is to fix standard premium rates for all insurance products and to act as a national reinsurer of last resort.

Q24. The **Digital India** initiative was launched with the vision of transforming India into a digitally empowered society and knowledge economy. Which of the following **correctly** describes this initiative?

(A) Digital India was launched on September 25, 2014, simultaneously with Make in India, and focuses exclusively on expanding internet bandwidth infrastructure in rural areas.

(B) Digital India was launched on January 1, 2016, with the primary goal of distributing free smartphones to all citizens below the poverty line.

(C) Digital India was launched on **July 1, 2015**, by Prime Minister Narendra Modi, and rests on three key pillars: **digital infrastructure** as a core utility to every citizen, **governance and services on demand**, and **digital empowerment of citizens**.

(D) Digital India was launched in 2019 as part of the Aatmanirbhar Bharat initiative, focusing exclusively on promoting Indian-manufactured electronic devices.

Q25. According to International Monetary Fund (IMF) data for **2023–24**, which of the following **correctly** states India's position among the world's largest economies by **nominal GDP** and identifies the country India recently surpassed to reach that rank?

(A) India is the **3rd** largest economy by nominal GDP, having recently surpassed Japan.

(B) India is the **5th** largest economy by nominal GDP, having recently surpassed the **United Kingdom**.

(C) India is the **7th** largest economy by nominal GDP, having recently surpassed France.

(D) India is the **10th** largest economy by nominal GDP, having recently surpassed Canada.

Detailed Solutions

Q1.

Solution

Concept — Supply–Demand Equilibrium: When demand increases (shifts right) while supply remains unchanged, the equilibrium price and quantity both rise. The new demand curve D_2 intersects the same supply curve S at a higher price and higher quantity, giving a new equilibrium E_2 above and to the right of E_1.

Step 1 — Effect of a Rightward Demand Shift: A rise in consumer income increases willingness to pay at every price level, shifting the demand curve from D_1 to D_2. At the original price P_1, quantity demanded now exceeds quantity supplied, creating upward pressure on price.

Step 2 — New Equilibrium: The market re-equilibrates as price rises from P_1 to P_2, which simultaneously discourages some demand and encourages more supply, until quantity supplied equals quantity demanded again at $Q_2 > Q_1$. Both equilibrium price and quantity rise.

Why other options are wrong:

- Option A: A rightward demand shift raises — not lowers — the equilibrium price and quantity. A price fall would occur only if demand fell (shifted left).
- **Option B: Correct** — with an unchanged upward-sloping supply curve, increased demand raises both equilibrium price ($P_2 > P_1$) and equilibrium quantity ($Q_2 > Q_1$).
- Option C: An upward-sloping supply curve means quantity supplied does change with price; there is no automatic mechanism that holds price constant when demand rises.
- Option D: Producers do not reduce output in response to higher consumer income; if anything, the higher equilibrium price incentivises producers to supply more, not less.

Final Answer: Rightward demand shift raises both equilibrium price and quantity $\Rightarrow \boxed{\text{B}}$

Answer: (B) Go Back to Q1

Q2.

Solution

Concept — Income Elasticity of Demand (YED): YED measures the responsiveness of quantity demanded to a change in consumer income. It is calculated as:

$$\text{YED} = \frac{\%\text{ change in Quantity Demanded}}{\%\text{ change in Income}}$$

Step 1 — Calculation:

$$\text{YED} = \frac{15\%}{10\%} = 1.5$$

A YED of 1.5 means that for every 1% rise in income, quantity demanded rises by 1.5%.

Step 2 — Classification of the Good:

- YED < 0: Inferior good (demand falls as income rises).
- $0 <$ YED < 1: Normal necessity (demand rises, but less than proportionately with income).
- YED > 1: Luxury (superior) good (demand rises more than proportionately with income).

Since YED $= 1.5 > 1$, the good is a **luxury (superior) good**.

Why other options are wrong:

- Option A: YED $= 0.67$ is incorrect ($15/10 = 1.5$, not $10/15 = 0.67$). Inferior goods have negative YED.
- Option B: YED $= 1.0$ would require equal percentage changes in both demand and income; here $15\% \neq 10\%$.
- Option C: YED $= 1.5$ is correct, but the classification is wrong. Necessities have YED between 0 and 1, not above 1.
- **Option D: Correct** — YED $= 1.5 > 1$, correctly identifying the good as a luxury (superior) good.

Final Answer: YED $= 1.5$; the good is a luxury (superior) good $\Rightarrow \boxed{\text{D}}$

Answer: (D) Go Back to Q2

Q3.

Solution

Concept — NNP and Depreciation: Gross National Product (GNP) measures the total value of goods and services produced by a country's residents (including output abroad), *before* deducting wear and tear on capital. Net National Product (NNP) refines this by subtracting Depreciation (Capital Consumption Allowance) — the loss in value of the capital stock due to wear, tear, and obsolescence during the year.

Step 1 — Formula:

$$\text{NNP} = \text{GNP} - \text{Depreciation}$$

This gives the *net* addition to the nation's output after maintaining the existing capital stock intact.

Step 2 — Numerical Illustration: If GNP = Rs. 200 trillion and Depreciation = Rs. 20 trillion, then NNP = Rs. 180 trillion. NNP represents the true net income available for consumption and net investment.

Why other options are wrong:

- **Option A: Correct** — NNP = GNP − Depreciation; this is the standard national income accounting identity.
- Option B: Adding depreciation to GNP would give a figure higher than GNP, which contradicts the definition of *net* product.
- Option C: NNP = GDP − Net Factor Income from Abroad would give a different concept; the correct formula uses GNP, not GDP, and subtracts depreciation.
- Option D: Multiplying by $(1 - \text{rate})$ is not part of any standard national income accounting identity.

Final Answer: NNP = GNP − Depreciation $\Rightarrow \boxed{\text{A}}$

Answer: (A) Go Back to Q3

Q4.

Solution

Concept — Demand-Pull Inflation: Demand-pull inflation occurs when the overall level of aggregate demand in an economy rises faster than the economy's productive capacity (aggregate supply). The excess demand "pulls" prices upward across the economy. Classic triggers include large government fiscal stimuli, post-war booms, or rapid credit expansion.

Step 1 — Mechanism: Government stimulus cheques $\rightarrow$ households have more disposable income $\rightarrow$ consumer spending rises sharply $\rightarrow$ aggregate demand (AD) shifts right $\rightarrow$ AD exceeds aggregate supply (AS) $\rightarrow$ general price level rises.

Step 2 — Distinction from Cost-Push Inflation: Cost-push inflation is driven from the supply side — rising input costs (wages, raw materials, energy) reduce aggregate supply, raising prices even without excess demand. Demand-pull inflation is driven from the demand side.

Why other options are wrong:

- Option A: Cost-push inflation results from rising production costs (oil, wages), not from excess consumer spending stimulated by government cheques.
- Option B: Structural inflation refers to supply-side rigidities in particular sectors, not a broad demand surge across the entire economy.
- **Option C: Correct** — excess aggregate demand caused by large-scale fiscal stimulus is the textbook definition of demand-pull inflation.
- Option D: Hyperinflation involves an extremely rapid and uncontrollable price rise, typically linked to reckless money printing; a stimulus-driven demand surge is demand-pull, not hyperinflation.

Final Answer: Excess consumer spending pushing aggregate demand beyond productive capacity is demand-pull inflation $\Rightarrow \boxed{C}$

Answer: (C) Go Back to Q4

Q5.

Solution

Concept — International Monetary Fund (IMF): The IMF is an international financial institution established to promote global monetary cooperation, ensure financial stability, facilitate international trade, promote high employment, and provide financial resources to member countries in balance-of-payments difficulty.

Step 1 — Key Facts:

- *Founded:* At the Bretton Woods Conference, July 1944, in Bretton Woods, New Hampshire, USA.
- *Operational since:* 1945; began financial operations in 1947.
- *Headquarters:* Washington D.C., USA.
- *Core purpose:* Provides short-term balance-of-payments (BoP) support to member countries facing external payment crises, subject to policy conditionality.

Step 2 — IMF vs. World Bank: The IMF focuses on macroeconomic stability and short-term BoP lending; the World Bank provides long-term development and infrastructure financing. Both were created at Bretton Woods in 1944.

Why other options are wrong:

- Option A: The IMF was not established in 1995 (that was the WTO). Its headquarters is in Washington D.C., not New York.
- **Option B: Correct** — IMF was founded at Bretton Woods in 1944, headquartered in Washington D.C., and provides short-term BoP support.
- Option C: Geneva is the headquarters of the WTO and GATT, not the IMF. The IMF does not manage trade in goods and services.
- Option D: Long-term project and development loans are provided by the World Bank (IBRD/IDA), not the IMF.

Final Answer: IMF founded at Bretton Woods 1944, headquartered in Washington D.C., provides BoP support $\Rightarrow \boxed{\text{B}}$

Answer: (B) Go Back to Q5

Q6.

Solution

Concept — Price Skimming Strategy: Price skimming is a new-product pricing strategy in which a company sets an initially high price to "skim" maximum revenue from the consumer segment most willing to pay a premium (early adopters, brand loyalists). The price is then progressively reduced in stages to attract successive, more price-sensitive customer segments.

Step 1 — Identifying the Strategy: The company starts at Rs. 1,20,000, reduces to Rs. 80,000, then Rs. 55,000 — a deliberate, staged price reduction over time. This perfectly describes price skimming: high price to capture value from premium buyers first, then lower prices to expand the market.

Step 2 — Why Firms Use Price Skimming: It maximises revenue per unit in the early phase, helps recover high R&D and launch costs quickly, and reinforces a premium brand image. It is common in technology, electronics, and luxury goods markets.

Why other options are wrong:

- Option A: Penetration pricing is the opposite strategy — a very low launch price to build market share quickly. The scenario uses a very high launch price.
- Option B: Cost-plus pricing sets prices based on production cost plus a fixed markup, with no staged reductions based on market segments.
- Option C: Competitive pricing matches rival prices; the scenario sets a price far above most competitors at launch.
- **Option D: Correct** — staged price reductions from a high launch price to reach successive customer segments is the defining characteristic of price skimming.

Final Answer: High initial price reduced in stages to reach successive segments is price skimming $\Rightarrow \boxed{\text{D}}$

$\boxed{\text{Answer: (D)}}$ Go Back to Q6

Q7.

Solution

Concept — Elements of the Promotion Mix: The Promotion Mix (Communication Mix) is the specific blend of promotional tools that a company uses to communicate value to customers and persuade them to purchase. According to Philip Kotler and the standard marketing framework, the five core elements of the Promotion Mix are:

Step 1 — The Five Elements:

- *Advertising*: Paid, non-personal promotion of ideas, goods, or services (TV, print, digital ads).
- *Sales Promotion*: Short-term incentives to stimulate purchase (coupons, contests, discounts).
- *Personal Selling*: Direct, face-to-face communication between a sales representative and a prospect.
- *Public Relations*: Building goodwill and managing the company's public image (press releases, events, sponsorships).
- *Direct Marketing*: Targeted communication directly to individual consumers (email, direct mail, telemarketing).

Step 2 — The Diagram in Q7 shows these five elements radiating from a central "Promotion Mix" hub, illustrating that all five work together as an integrated communications system.

Why other options are wrong:

- **Option A: Correct** — Advertising, Sales Promotion, Personal Selling, Public Relations, and Direct Marketing are the five recognised elements of the Promotion Mix.
- Option B: "Pricing," "Packaging," and "Distribution" are elements of the Marketing Mix (4Ps), not of the Promotion Mix.
- Option C: "Product Development" and "Branding" are product strategy decisions, not promotional tools. "Social Media" is a channel within digital advertising, not a standalone element.
- Option D: "Market Research" is an analytical function, and "Wholesaling" is a distribution activity; neither is a promotional tool.

Final Answer: Advertising, Sales Promotion, Personal Selling, Public Relations, and Direct Marketing $\Rightarrow \boxed{\text{A}}$

Answer: (A) Go Back to Q7

Q8.

Solution

Concept — Demographic Segmentation: Market segmentation is the process of dividing a heterogeneous market into smaller, more homogeneous groups with similar needs. *Demographic segmentation* divides the market based on measurable population characteristics: age, gender, income, education, family size, occupation, and life-cycle stage. Age is one of the most commonly used demographic variables.

Step 1 — Identifying the Basis: The baby-food brand's three product lines are differentiated *solely* by the age of the child (0–6 months, 6–12 months, 1–3 years). Age is an objective, measurable demographic variable.

Step 2 — Comparing Segmentation Types:

- *Demographic*: Based on age, gender, income, etc.
- *Psychographic*: Based on lifestyle, values, personality, interests.
- *Behavioural*: Based on purchase occasion, usage rate, brand loyalty, benefits sought.
- *Geographic*: Based on country, region, city, or climate.

Why other options are wrong:

- Option A: Psychographic segmentation targets consumers based on lifestyle values and personality — the scenario uses age, not lifestyle.
- Option B: Behavioural segmentation divides by purchase behaviour, usage rate, or loyalty — not by the child's age category.
- **Option C: Correct** — dividing the market by the child's age group is a classic application of demographic segmentation.
- Option D: Geographic segmentation is based on location (country, city, region), not on the age of the consumer.

Final Answer: Segmenting by the child's age group is demographic segmentation $\Rightarrow \boxed{\text{C}}$

Answer: (C) Go Back to Q8

Q9.

Solution

Concept — Brand Extension: Brand extension is a marketing strategy in which a company uses an *existing, well-established brand name* to launch a product in a *new and different product category*. The rationale is that positive consumer associations and trust built around the existing brand will transfer to the new product, reducing the risk and cost of launching a completely new brand.

Step 1 — Identifying the Strategy: The tea brand is entering a new category (biscuits) using the same brand name. This is a textbook brand extension: existing brand equity in tea is leveraged to introduce tea-flavoured biscuits. The brand did not license its name to another firm nor create a new brand.

Step 2 — Distinguishing from Related Concepts:

- *Brand extension*: Same brand, new product category (tea brand $\rightarrow$ biscuits).
- *Line extension*: Same brand, same category but new variant (new tea flavour).
- *Brand licensing*: Granting another company the right to use your brand name for a fee.
- *Brand equity*: The added value that a brand name confers on a product.

Why other options are wrong:

- Option A: Brand licensing involves a contractual arrangement allowing a third party to use the brand name for royalties; here the same company is launching the biscuits.
- **Option B: Correct** — using an established brand name to enter a new product category is brand extension.
- Option C: Brand equity is the financial and consumer value associated with the brand name itself; it is a concept, not a launch strategy.
- Option D: Multi-branding involves a company introducing multiple different brand names within the *same* product category; the scenario uses one brand across different categories.

Final Answer: Using an established brand name to enter a new product category is brand extension $\Rightarrow \boxed{B}$

Answer: (B) Go Back to Q9

Q10.

Solution

Concept — Distribution Channel Levels: A distribution channel describes the path a product takes from the manufacturer to the final consumer. The *level* of a channel is defined by the number of intermediaries (middlemen) between the manufacturer and the consumer.

Step 1 — Counting Intermediaries: In the scenario, the distribution path is:

$$\text{Manufacturer (Dairy Cooperative)} \rightarrow \text{Retailer (Dairy Shop)} \rightarrow \text{Consumer}$$

There is exactly **one intermediary** (the retail dairy shop) between manufacturer and consumer.

Step 2 — Channel Level Classification:

- Zero-level (direct): Manufacturer → Consumer (no intermediary).
- **One-level**: Manufacturer → Retailer → Consumer (one intermediary).
- Two-level: Manufacturer → Wholesaler → Retailer → Consumer.
- Three-level: Manufacturer → Agent → Wholesaler → Retailer → Consumer.

Why other options are wrong:

- Option A: Zero-level (direct) channel has no intermediary at all; here the retail shop is an intermediary.
- Option B: Two-level channel requires both a wholesaler and a retailer; only a retailer is present in this scenario.
- Option C: Three-level channel is the longest and involves three intermediaries; this scenario has only one.
- **Option D: Correct** — exactly one intermediary (the retailer) between manufacturer and consumer defines a one-level channel.

Final Answer: One intermediary (retailer) between manufacturer and consumer is a one-level channel $\Rightarrow \boxed{\text{D}}$

Answer: (D) Go Back to Q10

Q11.

Solution

Concept — Planning as the Primary Function of Management: Management is commonly defined as the process of *planning*, organising, leading, and controlling (POLC). Planning is universally regarded as the **first and foremost** function because all other functions depend on the plans and objectives it establishes. Without a plan, there is nothing to organise resources around, no direction to lead people towards, and no standard against which to control performance.

Step 1 — Why Planning Comes First: Planning involves:

- Setting objectives: What is to be achieved?
- Formulating strategies: How will it be achieved?
- Determining courses of action: What resources, timelines, and methods will be used?

These decisions must be made *before* an organisation can be structured, people directed, or performance evaluated.

Step 2 — Three Tiers of Planning (shown in the Q11 diagram):

- *Strategic Planning*: Long-term (3–5 years+), set by top management; defines organisational mission and major goals.
- *Tactical Planning*: Medium-term (1–3 years), set by middle management; translates strategy into departmental action plans.
- *Operational Planning*: Short-term (daily to one year), set by lower management; specifies day-to-day activities and procedures.

Why other options are wrong:

- **Option A: Correct** — planning is the primary and first management function, preceding organising, leading, and controlling.
- Option B: Planning is the *first* function, not the last. Performing it after all other functions would be illogical.
- Option C: Planning is an independent primary function; it is not a sub-function of controlling, though the two are closely linked through the feedback cycle.
- Option D: Organising cannot occur without prior planning; it is planning, not organising, that comes first.

Final Answer: Planning is the primary and first function of management $\Rightarrow \boxed{\text{A}}$

Answer: (A) Go Back to Q11

Q12.

Solution

Concept — Employee Selection Process: Selection is the process of identifying and choosing the most suitable candidate from a pool of applicants. It follows a systematic, step-by-step procedure designed to progressively filter candidates until only the most suitable individual is chosen.

Step 1 — Correct Sequence of Selection Steps:

1. *Application Screening*: Reviewing applications/CVs to shortlist candidates who meet minimum criteria.
2. *Written/Aptitude Test*: Objective assessment of candidates' knowledge, reasoning, and job-relevant skills.
3. *Interview*: Face-to-face assessment of personality, communication, fit, and deeper competency.
4. *Medical Examination*: Physical fitness check to ensure the candidate meets health requirements for the role.
5. *Appointment Letter*: Formal offer of employment issued to the selected candidate.

Step 2 — Logic of the Sequence: Application screening eliminates unsuitable candidates efficiently before expensive steps (interview, medical) are undertaken. Medical examination typically comes near the end to avoid cost for candidates unlikely to be hired.

Why other options are wrong:

- Option A: Starting with the interview before screening applications is inefficient and not standard practice.
- Option B: Beginning with medical examination before even reviewing applications makes no practical or logical sense.
- **Option C: Correct** — Application Screening $\rightarrow$ Aptitude Test $\rightarrow$ Interview $\rightarrow$ Medical Examination $\rightarrow$ Appointment Letter is the standard selection sequence.
- Option D: Issuing an appointment letter first is nonsensical; it is always the final step after all tests and interviews.

Final Answer: Correct sequence: Application Screening $\rightarrow$ Aptitude Test $\rightarrow$ Interview $\rightarrow$ Medical $\rightarrow$ Appointment Letter $\Rightarrow \boxed{\text{C}}$

Answer: (C) Go Back to Q12

Q13.

Solution

Concept — Democratic (Participative) Leadership: Leadership style refers to the approach a leader adopts when guiding and motivating a team. Democratic or participative leadership is characterised by shared decision-making, active consultation of team members, and decisions reached through group discussion and consensus.

Step 1 — Key Features of Democratic Leadership:

- The leader consults team members before making decisions.
- Group discussion and consensus are central to the decision-making process.
- Employees feel valued and empowered, leading to *higher morale and creativity*.
- The main drawback is that reaching consensus can be time-consuming, especially in large groups.

Step 2 — Contrast with Other Styles:

- *Autocratic*: Leader decides alone, issues top-down instructions; no group input.
- *Laissez-faire*: Leader provides minimal direction; employees have complete freedom.
- *Transactional*: Leader motivates through rewards/penalties linked to performance targets.

Why other options are wrong:

- Option A: Autocratic leadership is characterised by solo decision-making with zero subordinate consultation — the opposite of the scenario.
- **Option B: Correct** — meetings, group discussion, and consensus-based decisions with high morale but slower outcomes is democratic (participative) leadership.
- Option C: Laissez-faire leadership gives employees *complete autonomy* to make all decisions; in the scenario the leader still facilitates and chairs the decision process.
- Option D: Transactional leadership focuses on exchanges (rewards for performance), not on participative decision-making through group meetings.

Final Answer: Decisions through group discussion and consensus with high morale is democratic leadership $\Rightarrow \boxed{\text{B}}$

Answer: (B) Go Back to Q13

Q14.

Solution

Concept — Functional Organisation (Taylor's Functional Foremanship): F.W. Taylor, the father of Scientific Management, proposed Functional Foremanship as an alternative to the traditional single-supervisor (line) arrangement. Taylor argued that no single foreman could be equally expert in all aspects of production. He suggested dividing the foreman's role among several functional specialists, each responsible for a specific aspect of work, with every worker receiving instructions from all relevant specialists.

Step 1 — Structure: In the Q14 diagram:

- *Quality Foreman*: Responsible for quality standards and inspection.
- *Production Foreman*: Responsible for planning the production sequence.
- *Speed & Cost Foreman*: Responsible for production speed and cost efficiency.

Both Worker A and Worker B receive instructions from *all three* functional specialists — a clear violation of the "unity of command" principle of line organisation.

Step 2 — Taylor's Eight Specialists (historically): Taylor originally proposed eight functional foremen (four in the planning room, four on the shop floor), covering: Route Clerk, Instruction Card Clerk, Time and Cost Clerk, Disciplinarian, Gang Boss, Speed Boss, Repair Boss, and Inspector.

Why other options are wrong:

- Option A: Line organisation has a single, direct chain of command and unity of command (one boss per worker) — the opposite of functional organisation.
- Option B: Line and staff organisation adds specialist *advisors* to support line managers; the specialists advise but do not directly command workers.
- Option C: Matrix organisation is used in project-based environments; employees report to a project manager and a functional department head, but this is not Taylor's concept.
- **Option D: Correct** — functional organisation (Taylor's Functional Foremanship) is where multiple functional specialists each give direct instructions to workers.

Final Answer: Workers receiving instructions from multiple functional specialists is functional organisation (Taylor's Functional Foremanship) $\Rightarrow \boxed{D}$

Answer: (D) Go Back to Q14

Q15.

Solution

Concept — Independent Directors under Companies Act, 2013: Independent directors are non-executive directors who do not have any material or pecuniary relationship with the company, its promoters, directors, or subsidiaries. They are mandated under the Companies Act, 2013 (Section 149) and SEBI's Listing Obligations and Disclosure Requirements (LODR) Regulations to ensure objectivity and protect stakeholder interests, particularly minority shareholders.

Step 1 — Key Eligibility Criteria: An independent director must:

- Not be a promoter or related to a promoter of the company.
- Not have any material pecuniary relationship with the company or its associates.
- Not have been an employee of the company in the previous three financial years.
- Be a person of integrity with relevant expertise and experience.

Step 2 — Role in Corporate Governance: Independent directors bring *objective judgment* to Board deliberations, particularly on related-party transactions, executive remuneration, audit and financial reporting, and risk management. Their independence helps protect minority shareholders from potential abuse by controlling promoters.

Why other options are wrong:

- **Option A: Correct** — independent directors must have no material relationship with the company or its promoters; their primary role is to ensure objective judgment and protect minority shareholder interests.
- Option B: Independent directors are appointed by the shareholders (at the AGM), not by the Central Government; they do not hold veto power over Board resolutions.
- Option C: Independent directors are *non-executive* by definition; they do not manage any department or handle day-to-day operations.
- Option D: Independent directors are bound by all provisions of the Companies Act, 2013, including duties of care and fiduciary obligations; they are not exempt from company law.

Final Answer: Independent directors must have no material relationship with the company or promoters, ensuring objective judgment $\Rightarrow \boxed{\text{A}}$

Answer: (A) Go Back to Q15

Q16.

Solution

Concept — Cash Reserve Ratio (CRR): CRR is a key monetary policy instrument of the Reserve Bank of India (RBI). It is the minimum percentage of a scheduled commercial bank's Net Demand and Time Liabilities (NDTL) that the bank must hold as cash deposits with the RBI. These funds do not earn interest for the bank and cannot be used for lending.

Step 1 — Effect on Credit Creation: As shown in the Q16 diagram, the total deposits (NDTL) of a bank are split into (i) the CRR portion held compulsorily with the RBI and (ii) the remainder available for lending. If the RBI raises the CRR:

$$\text{Funds for lending} = \text{NDTL} - (\text{CRR\% of NDTL})$$

A higher CRR $\Rightarrow$ smaller proportion available for lending $\Rightarrow$ reduced credit creation by banks $\Rightarrow$ contractionary monetary effect.

Step 2 — CRR as a Tool of Monetary Policy: The RBI uses CRR to control liquidity in the banking system. Raising CRR tightens liquidity (combats inflation); lowering CRR eases liquidity (stimulates growth).

Why other options are wrong:

- Option A: The Statutory Liquidity Ratio (SLR) also involves NDTL, but requires banks to hold liquid assets (gold, govt. securities) rather than cash with the RBI; the scenario specifically describes cash with the RBI.
- Option B: Repo Rate is an interest rate instrument for short-term borrowing by banks from the RBI against collateral; it does not directly relate to a mandatory cash holding percentage.
- **Option C: Correct** — CRR is the percentage of NDTL held as cash with the RBI; raising it reduces banks' lending capacity.
- Option D: Bank Rate is the rate at which the RBI extends long-term credit to commercial banks; it is an interest rate tool, not a reserve ratio.

Final Answer: Mandatory cash held with RBI as a percentage of NDTL, reducing credit creation when raised, is CRR $\Rightarrow \boxed{\text{C}}$

Answer: (C) Go Back to Q16

Q17.

Solution

Concept — National Stock Exchange (NSE) of India: The NSE is India's leading modern stock exchange, established to provide a transparent, screen-based electronic trading platform following the securities market reforms of the early 1990s.

Step 1 — Key Facts about NSE:

- *Established:* 1992, incorporated as a company; commenced equity trading in November 1994.
- *Founded by:* A consortium of financial institutions and banks including IDBI, ICICI, IFCI, LIC, GIC, SBI, and others.
- *Headquarters:* Exchange Plaza, Bandra Kurla Complex (BKC), Mumbai.
- *Benchmark Index:* NIFTY 50 (comprising the top 50 large-cap companies across key sectors).
- *Regulated by:* SEBI (Securities and Exchange Board of India).

Step 2 — NSE vs. BSE: The BSE (Bombay Stock Exchange), established in 1875, is older and has more listed companies, but the NSE typically leads in terms of equity trading volume. BSE's benchmark is SENSEX (30 companies); NSE's is NIFTY 50.

Why other options are wrong:

- Option A: 1875 is the founding year of the BSE, not the NSE; SENSEX is the BSE's benchmark, not the NSE's.
- **Option B: Correct** — NSE established 1992 by a consortium including IDBI and ICICI; headquartered in Mumbai; benchmark index is NIFTY 50.
- Option C: The NSE is headquartered in Mumbai (not Delhi) and was established in 1992 (not 2001); it was set up as a market reform initiative, not directly as a response to the Harshad Mehta scam.
- Option D: NSE is regulated by SEBI (not the RBI); it deals primarily in equities, equity derivatives, currency derivatives, and debt instruments — not exclusively government securities.

Final Answer: NSE established 1992 by financial institutions consortium, headquartered in Mumbai, benchmark NIFTY 50 $\Rightarrow \boxed{\text{B}}$

Answer: (B) Go Back to Q17

Q18.

Solution

Concept — Gross Profit Ratio: The Gross Profit Ratio (GPR) is a profitability ratio that measures the proportion of net sales revenue retained as gross profit after deducting the direct cost of goods sold (COGS). It indicates how efficiently the firm manages its production costs relative to its selling prices.

Step 1 — Formula:

$$\text{Gross Profit Ratio} = \frac{\text{Gross Profit}}{\text{Net Sales}} \times 100$$

where:

$$\text{Gross Profit} = \text{Net Sales} - \text{Cost of Goods Sold (COGS)}$$

Net Sales = Total Sales − Sales Returns and Allowances.

Step 2 — Interpretation: A GPR of, say, 40% means that for every Rs. 100 of net sales, Rs. 40 is available as gross profit to cover operating expenses (selling, administrative), interest, taxes, and net profit. A higher GPR generally indicates better cost efficiency in production.

Why other options are wrong:

- Option A: $\frac{\text{Net Profit}}{\text{Net Sales}} \times 100$ is the *Net Profit Ratio*, which measures profit after all expenses including operating costs, interest, and taxes — not gross profit.
- Option B: $\frac{\text{Operating Profit}}{\text{Net Sales}} \times 100$ is the *Operating Profit Ratio*, measuring EBIT (earnings before interest and taxes) as a percentage of sales.
- Option C: $\frac{\text{Gross Profit}}{\text{Total Assets}} \times 100$ is not a standard named ratio in Indian accounting practice; GPR always uses Net Sales as the denominator.
- **Option D: Correct** — Gross Profit Ratio $= \frac{\text{Gross Profit}}{\text{Net Sales}} \times 100$, where Gross Profit = Net Sales − COGS.

Final Answer: Gross Profit Ratio = (Gross Profit/Net Sales) × 100 ⇒ $\boxed{\text{D}}$

Answer: (D) Go Back to Q18

Q19.

Solution

Concept — GST as an Indirect Tax: A tax is classified as *indirect* when the person legally liable to pay the tax (the seller/supplier) can shift the economic burden to another party (the buyer/consumer) through the pricing of goods and services. This is in contrast to a *direct tax* (such as income tax), where the legal liability and economic burden fall on the same person and cannot be shifted.

Step 1 — GST Mechanism: Under GST:

- A registered supplier (manufacturer, wholesaler, or retailer) collects GST from the buyer at the point of sale.
- The supplier remits the collected tax to the government after claiming input tax credits.
- The economic burden is ultimately borne by the *final consumer* who pays the GST-inclusive price but cannot claim input tax credit.

Step 2 — Historical Context: GST, introduced on July 1, 2017, subsumed over a dozen central and state indirect taxes including VAT, central excise duty, service tax, octroi, and entry tax, creating a unified indirect tax structure across India.

Why other options are wrong:

- **Option A: Correct** — GST is an indirect tax; legal liability falls on the supplier but the economic burden is passed to the final consumer via pricing.
- Option B: GST is not levied on personal income; it is levied on the supply of goods and services, making it an indirect tax, not a direct one.
- Option C: Capital gains tax is levied on profits from sale of capital assets (shares, property); GST applies to consumption transactions, not capital gains.
- Option D: Wealth tax was abolished in India in 2015; GST is entirely unrelated to wealth or net worth.

Final Answer: GST is an indirect tax because the economic burden is shifted from supplier to the final consumer $\Rightarrow \boxed{A}$

Answer: (A) Go Back to Q19

Q20.

Solution

Concept — Mutual Agency in Partnership: The Indian Partnership Act, 1932 (Section 18) defines a partner as an agent of the firm for the purposes of the business. Mutual agency means that every partner is simultaneously an *agent* (who can bind the firm and all other partners in contracts within the normal scope of business) and a *principal* (who is bound by the lawful acts of co-partners within the same scope).

Step 1 — Application to the Scenario: Ramesh entered into a purchase contract within the *normal scope* of the leather goods trading business without consulting Suresh. Because of mutual agency:

- Ramesh acted as the firm's agent.
- The contract binds the firm (both Ramesh and Suresh) because it falls within ordinary business activities.
- The supplier is entitled to hold both partners liable.

Step 2 — Scope Limitation: Mutual agency applies only to acts within the *ordinary course* of business. If a partner acts outside the scope of normal business (e.g., pledging firm assets for a personal loan), mutual agency does not apply unless ratified by other partners.

Why other options are wrong:

- Option A: Unlimited liability relates to the extent of partners' financial exposure for firm debts, not to the mechanism by which one partner's act binds the firm.
- Option B: The doctrine of holding out (estoppel) applies when a non-partner is falsely represented as a partner to outsiders; Ramesh is a genuine partner acting within scope.
- **Option C: Correct** — mutual agency is the principle that each partner is simultaneously agent and principal, enabling one partner to bind the entire firm in normal business transactions.
- Option D: Joint and several liability relates to how creditors can recover debts from partners; it does not explain why one partner's *contract* binds co-partners.

Final Answer: Each partner as agent of the firm binding co-partners within normal business scope is mutual agency $\Rightarrow \boxed{C}$

Answer: (C) Go Back to Q20

Q21.

Solution

Concept — Limited Liability in an LLP: A Limited Liability Partnership (LLP) is a hybrid business structure governed by the LLP Act, 2008. It combines the flexibility of a partnership with the limited liability protection of a company. The defining feature is that each partner's liability is limited to their agreed contribution to the LLP, and one partner's negligence or wrongdoing does not automatically expose the other partners' personal assets.

Step 1 — LLP Liability Protection (Section 28, LLP Act, 2008): An LLP partner is not personally liable, directly or indirectly, for an obligation solely because another partner commits a wrongful act or omission in the course of business. Only the negligent partner and the LLP itself (to the extent of its assets) are liable for the loss caused by that individual's negligence.

Step 2 — Contrast with General Partnership: In a general partnership (under the Indian Partnership Act, 1932), all partners have *unlimited* and *joint and several* liability. One partner's act can expose all partners' personal assets. This is the key disadvantage that the LLP structure was designed to overcome for professional partnerships.

Why other options are wrong:

- Option A: Unlimited personal liability for all partners applies to a general partnership, not an LLP.
- **Option B: Correct** — in an LLP, each partner's liability is limited to their agreed contribution; other partners are not personally liable for an individual partner's negligent acts.
- Option C: The LLP is indeed a separate legal entity and its assets are at risk, but the statement that "only the negligent partner bears full unlimited personal liability" is also incorrect; that partner's personal liability is also limited to their contribution under normal LLP rules.
- Option D: Joint and several unlimited liability characterises a general partnership, not an LLP; the entire purpose of the LLP Act, 2008 was to limit partners' liability.

Final Answer: In an LLP, each partner's liability is limited to their contribution; other partners are not personally liable for a negligent partner's acts $\Rightarrow \boxed{\text{B}}$

Answer: (B) Go Back to Q21

Q22.

Solution

Concept — Memorandum of Association (MOA) and Ultra Vires Doctrine: The Memorandum of Association (MOA) is the fundamental constitutional document of a company. Under the Companies Act, 2013, the MOA defines: (i) the name clause, (ii) the registered office clause, (iii) the *objects clause* (the purposes for which the company is formed), (iv) the liability clause, and (v) the capital clause. The objects clause is of paramount importance because it delineates the scope of permissible activities.

Step 1 — Ultra Vires Doctrine: Any act performed by a company outside the scope of its MOA's objects clause is called an *ultra vires* act (Latin: "beyond the powers"). Such acts are void ab initio (void from the beginning) and cannot be ratified even by unanimous shareholder approval. The doctrine protects shareholders and creditors by ensuring the company does not divert resources to activities outside its stated purpose.

Step 2 — MOA as the Company's Charter: The MOA governs the company's *external* relationship — it tells the outside world what the company exists to do. The Articles of Association (AOA), by contrast, govern the company's *internal* management and procedures.

Why other options are wrong:

- Option A: The AOA governs internal management rules, not the company's objects or its external relationship. Lifting the corporate veil is a separate doctrine relating to shareholder/director personal liability.
- Option B: The doctrine of constructive notice holds that outsiders are deemed to have read the public documents (MOA, AOA) of the company; it does not render acts outside the MOA void.
- Option C: The doctrine of indoor management (Turquand Rule) protects outsiders dealing in good faith from internal procedural irregularities; it does not address acts outside the MOA.
- **Option D: Correct** — the MOA (specifically its objects clause) is the company's charter; acts outside it are void under the ultra vires doctrine.

Final Answer: The MOA's objects clause is the company's charter; acts outside it are void under the ultra vires doctrine $\Rightarrow \boxed{\text{D}}$

Answer: (D) Go Back to Q22

Q23.

Solution

Concept — IRDAI (Insurance Regulatory and Development Authority of India): IRDAI is the apex statutory body that regulates and oversees the insurance industry in India. It was established by an Act of Parliament — the IRDAI Act, 1999 — and became fully operational as an autonomous regulatory body in 2000.

Step 1 — Primary Functions of IRDAI (Section 14, IRDAI Act, 1999):

- Protect the interests of policyholders in matters relating to assignment, nomination, insurable interest, settlement of claims, and surrenders.
- Issue certificates of registration to insurance companies and renew, modify, withdraw, suspend, or cancel such registrations.
- Regulate investment of funds by insurance companies.
- Promote and regulate professional organisations connected with insurance.
- Specify the form and manner in which books of accounts shall be maintained.

Step 2 — IRDAI's Dual Mandate: Unlike some regulatory bodies that focus only on supervision, IRDAI has an explicit *development* mandate: it is required not just to regulate, but also to actively *promote* the growth and spread of insurance across India.

Why other options are wrong:

- **Option A: Correct** — IRDAI was established under the IRDAI Act, 1999; its primary function is to protect policyholders and regulate/promote the insurance industry.
- Option B: IRDAI is established under its own Act (IRDAI Act, 1999), not under the SEBI Act, 1992. SEBI regulates the capital markets, not insurance.
- Option C: IRDAI is an independent statutory authority under the Ministry of Finance; it is not a division of the RBI.
- Option D: IRDAI does not set standard premium rates for all products (though it sets guidelines); premium pricing is largely determined by actuarial assessments and company-specific factors. IRDAI is not a national insurer of last resort.

Final Answer: IRDAI established under IRDAI Act, 1999; primary function is to protect policyholders and regulate/promote insurance industry $\Rightarrow \boxed{A}$

Answer: (A) Go Back to Q23

Q24.

Solution

Concept — Digital India Initiative: Digital India is a flagship programme of the Government of India launched with the vision of transforming India into a digitally empowered society and knowledge economy. It was conceived under the Ministry of Electronics and Information Technology (MeitY).

Step 1 — Launch Details: Digital India was formally launched by Prime Minister Narendra Modi on **July 1, 2015**, at Indira Gandhi Indoor Stadium, New Delhi. It was initially announced in 2014 as a concept but the full-scale launch took place on July 1, 2015.

Step 2 — Three Key Pillars of Digital India:

1. *Digital Infrastructure as a Core Utility to Every Citizen*: High-speed internet for all, mobile connectivity, public Wi-Fi in cities/villages, cloud computing facilities.
2. *Governance and Services on Demand*: Seamless, integrated delivery of government services digitally in real-time; digitisation of government processes and documentation.
3. *Digital Empowerment of Citizens*: Universal digital literacy, accessible digital resources in Indian languages, portability of entitlements through the cloud.

Why other options are wrong:

- Option A: Digital India was launched on July 1, 2015, not September 25, 2014 (which was Make in India's launch date). Digital India is not limited to bandwidth infrastructure.
- Option B: Digital India was not launched on January 1, 2016, and its scope is far broader than distributing free smartphones.
- **Option C: Correct** — Digital India was launched on July 1, 2015 and rests on three pillars: digital infrastructure, governance on demand, and digital empowerment of citizens.
- Option D: Digital India was launched in 2015 (not 2019) and covers all aspects of digital governance and literacy, not just electronics manufacturing.

Final Answer: Digital India launched July 1, 2015; three pillars: digital infrastructure, governance on demand, digital empowerment $\Rightarrow \boxed{C}$

Answer: (C) Go Back to Q24

Q25.

Solution

Concept — India's GDP Ranking (2023–24): India's GDP ranking by nominal value (in current US dollars) is reported periodically by the International Monetary Fund (IMF) in its World Economic Outlook (WEO) database. India's rapid economic growth has enabled it to climb the global rankings significantly over the past decade.

Step 1 — India's Current Rank: According to IMF data for 2023–24, India is the **5th largest economy in the world** by nominal GDP (in current USD), with a GDP of approximately $3.7 trillion. India surpassed the **United Kingdom** (which had held the 5th position for several years) to claim this rank. The top five are: (1) USA, (2) China, (3) Germany, (4) Japan, (5) India.

Step 2 — Context: India briefly surpassed the UK in 2022 and has consolidated its 5th position as of 2023–24. India is also the **3rd largest economy in the world by Purchasing Power Parity (PPP)**, behind the USA and China, reflecting its large domestic consumption base.

Why other options are wrong:

- Option A: India is not yet the 3rd largest by nominal GDP; Japan (4th) and Germany (3rd) are still ahead.
- **Option B: Correct** — India is the 5th largest economy by nominal GDP (2023–24) and recently surpassed the United Kingdom.
- Option C: France is currently ranked 7th or 8th; India surpassed France several years before 2023–24 and is now ranked 5th, not 7th.
- Option D: Canada is ranked approximately 9th–10th; India surpassed Canada many years ago and its current rank (5th) is significantly higher.

Final Answer: India is the 5th largest economy by nominal GDP (2023–24), having surpassed the United Kingdom ⇒ $\boxed{\text{B}}$

Answer: (B) Go Back to Q25

Answer Key

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