FDDI AIST Business Aptitude

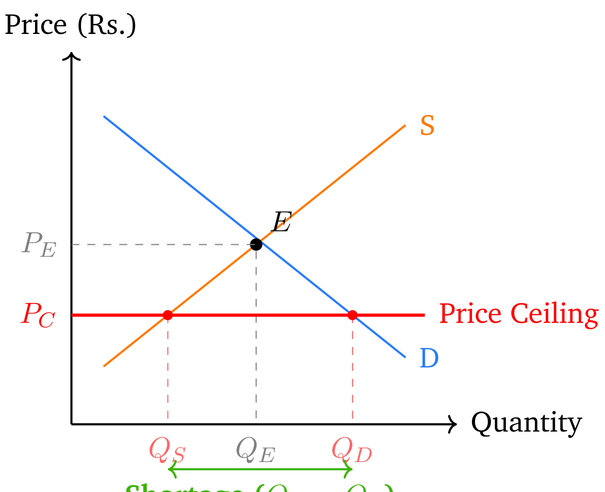
Sample Paper – 3

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. The government fixes a **maximum price** for a life-saving medicine at Rs. 50 per unit, which is **below** the market equilibrium price of Rs. 80. Which of the following **correctly** describes the likely outcome of this price ceiling?



Price Ceiling Diagram

(A) The price ceiling creates a surplus, as quantity supplied exceeds quantity demanded at Rs. 50.

(B) The price ceiling has no effect because it is set above the equilibrium price of Rs. 80.

(C) The price ceiling creates a **shortage**, because at Rs. 50 the quantity demanded (Q_D) exceeds the quantity supplied (Q_S).

(D) The price ceiling raises the equilibrium price from Rs. 50 to Rs. 80 by shifting the demand curve rightward.

Q2. When the price of coffee rises by 10%, the quantity demanded of tea increases by 15%. What is the **cross elasticity of demand** for tea with respect to coffee, and what does it signify about the relationship between the two goods?

(A) Cross elasticity $= +1.5$ (positive), indicating that coffee and tea are **substitutes** — when the price of coffee rises, consumers switch to tea.

(B) Cross elasticity $= -1.5$ (negative), indicating that coffee and tea are **complements** — when the price of coffee rises, demand for tea falls.

(C) Cross elasticity $= 0$, indicating that coffee and tea are **independent goods** — price changes in one do not affect demand for the other.

(D) Cross elasticity $= +0.67$ (positive), indicating that coffee and tea are substitutes, as a 15% rise in coffee price causes only a 10% rise in tea demand.

Q3. The government collects Rs. 200 crore as indirect taxes and provides Rs. 80 crore as subsidies to producers. If the **GDP at Factor Cost** is Rs. 1,500 crore, what is the **GDP at Market Price**?

(A) Rs. 1,300 crore, because GDP at Market Price = GDP at Factor Cost − Indirect Taxes + Subsidies.

(B) Rs. 1,380 crore, because GDP at Market Price = GDP at Factor Cost − Net Indirect Taxes (i.e., $1500 - 120$).

(C) Rs. 1,500 crore, because subsidies and indirect taxes cancel each other out, leaving GDP unchanged.

(D) Rs. 1,620 crore, because GDP at Market Price = GDP at Factor Cost + (Indirect Taxes − Subsidies) $= 1500 + (200 - 80)$.

Q4. An economy is experiencing **rising prices** (high inflation), **low GDP growth**, and **high unemployment** simultaneously. Traditional economic policy suggests that inflation and unemployment move in opposite directions (Phillips Curve). This unusual combination of stagnation and inflation is best described as:

(A) Hyperinflation, caused by an out-of-control increase in money supply leading to a complete collapse of purchasing power.

(B) Stagflation, the simultaneous occurrence of high inflation and economic stagnation (low growth combined with high unemployment), first observed in the UK in the 1970s.

(C) Deflation, a sustained fall in the general price level leading to reduced consumer spending and economic contraction.

(D) Disinflation, a slowdown in the rate of inflation while prices are still rising, associated with tight monetary policy.

Q5. Which of the following statements about the **International Bank for Reconstruction and Development (IBRD)**, commonly known as the World Bank, is **correct**?

(A) The IBRD was established in 1995 to replace the IMF and provides short-term balance-of-payments support to developing nations.

(B) The IBRD is headquartered in Geneva, Switzerland, and was set up under the auspices of the United Nations in 1948.

(C) The IBRD was founded at the **Bretton Woods Conference** in 1944, is headquartered in **Washington D.C.**, and provides **long-term development loans** primarily to middle-income countries.

(D) The IBRD focuses exclusively on emergency humanitarian aid and does not provide loans for infrastructure or development projects.

Q6. A luxury watch brand decides to sell its products **exclusively** through its own company-owned boutiques located in premium malls and airports, deliberately avoiding multi-brand outlets and e-commerce platforms. Which element of the **Marketing Mix** does this decision primarily belong to?

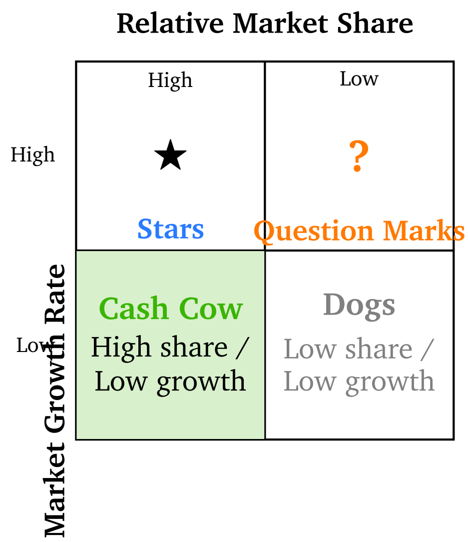
(A) Place (Distribution), because decisions about which channels, outlets, and intermediaries are used to make the product available to target customers form part of the Place element.

(B) Price, because selling only in premium locations is a strategy to justify a higher price and signal exclusivity.

(C) Promotion, because choosing boutique outlets creates a premium brand image and communicates status to consumers.

(D) Product, because the outlet experience (ambience, service) forms an extended part of the luxury product offering.

Q7. In the **BCG Growth-Share Matrix**, a product or business unit has a **high relative market share** in an **industry with low growth rate**. It generates more cash than it needs for its own operations and is used to fund other products in the portfolio. This product is classified as a:



(A) Star, which has high market share in a high-growth industry and requires heavy investment to maintain its position.

(B) Question Mark (Problem Child), which has low market share in a high-growth industry and may become a Star or a Dog depending on investment.

(C) Dog, which has low market share in a low-growth industry and is typically divested or wound up.

(D) Cash Cow, which has high market share in a low-growth industry, generates surplus cash, and is used to fund Stars and Question Marks.

Q8. A coffee brand launches a **loyalty card programme** that rewards consumers who purchase coffee every day. The brand specifically designs its marketing to target **heavy users** who buy coffee multiple times a day. Which type of market segmentation is the brand primarily using?

(A) Geographic segmentation, because the brand targets consumers in urban areas who are more likely to visit coffee shops daily.

(B) Behavioural segmentation, based on **usage rate** (heavy users vs. light users), which groups consumers by their purchase frequency and loyalty patterns.

(C) Demographic segmentation, because frequent coffee drinkers tend to be young professionals between the ages of 22 and 35.

(D) Psychographic segmentation, because choosing coffee as a daily ritual reflects a particular lifestyle and values.

Q9. Volvo, the Swedish automobile manufacturer, has deliberately built its entire brand identity and communication strategy around the concept of **"safety."** Over decades, this has created a distinct perception in consumers' minds that Volvo is the safest car brand. Which marketing concept does this best illustrate?

(A) Brand extension, because Volvo has extended its safety credentials into new product lines such as SUVs, trucks, and electric vehicles.

(B) Brand equity, because Volvo's reputation for safety commands a premium price and generates loyalty, reflecting the financial value of the brand name.

(C) Brand positioning, because Volvo has deliberately created a **unique, valued place** in the target consumer's mind ("safest car") relative to all competitors.

(D) Brand licensing, because Volvo licenses its safety technology and brand name to other manufacturers in the automotive supply chain.

Q10. A footwear manufacturer sells large quantities of shoes to an intermediary, who then **breaks the bulk** and sells smaller lots to various retailers across the country. The intermediary also provides warehousing, credit, and market information services. This intermediary is best described as a:

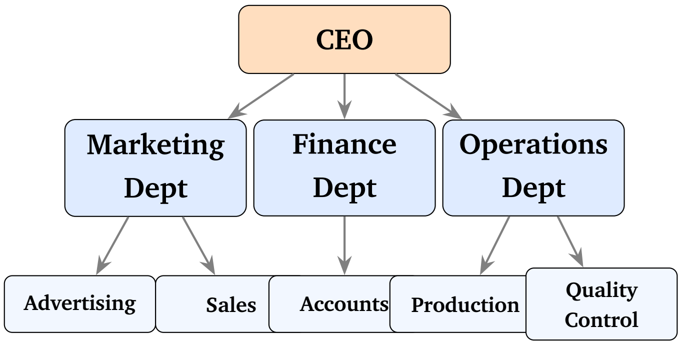
(A) Wholesaler, who purchases large quantities from manufacturers, performs bulk-breaking, warehousing, and credit functions, and sells to retailers as the first intermediary in a two-level channel.

(B) Retailer, who sells goods directly to the final consumer in small quantities for personal use.

(C) Agent, who acts on behalf of the manufacturer without taking ownership or title to the goods, earning a commission on sales.

(D) Distributor, who exclusively handles a single manufacturer's products within a defined territory and does not deal with multiple competing brands.

Q11. A newly appointed General Manager divides the company's work into specific tasks, groups related tasks into departments, assigns authority to department heads, and establishes coordination mechanisms. Which **function of management** is the General Manager performing?



Organising: Hierarchy Chart

(A) Planning, because dividing work into tasks requires first setting long-term goals and strategic objectives for the company.

(B) Leading, because assigning authority to department heads involves motivating and directing people towards a common purpose.

(C) Controlling, because establishing coordination mechanisms helps management monitor performance and take corrective action.

(D) Organising, which involves dividing work into tasks, grouping them into departments, assigning authority, and coordinating activities to achieve objectives.

Q12. A company's HR manager redesigns a data analyst's job by granting them authority to **independently plan their own analysis schedule**, **decide on analytical methods**, and **present directly to senior management** — adding greater responsibility and decision-making power. This approach to job redesign is called:

(A) Job enlargement, because the analyst's job has been expanded horizontally by adding more tasks at the same level of responsibility.

(B) Job enrichment, which adds **vertical responsibility** — greater authority, autonomy, and decision-making power — to increase intrinsic motivation, as recommended by Herzberg's Motivator-Hygiene theory.

(C) Job rotation, because the analyst is being moved across different roles within the organisation to broaden skills and reduce monotony.

(D) Job simplification, because breaking complex tasks into simpler sub-tasks improves efficiency and reduces the cognitive burden on the employee.

Q13. A research director at a pharmaceutical company trusts her team of experienced scientists completely and provides **minimal direction**. The scientists set their own research goals, allocate their own time, and make independent decisions on methodologies. The director intervenes only when specifically asked for support. Which leadership style does this describe?

(A) Autocratic leadership, where the leader centralises all decisions and issues instructions without consulting team members.

(B) Democratic (participative) leadership, where the leader consults the team and incorporates their suggestions before making decisions.

(C) Laissez-faire (free-rein) leadership, where the leader provides **minimal direction** and grants employees **maximum freedom and autonomy** to set their own goals and make their own decisions.

(D) Transactional leadership, where the leader motivates employees through a system of rewards for performance and penalties for failure.

Q14. An IT company assigns its software developers to work on a specific client project. Each developer reports to **both** the functional head (Head of Engineering) **and** the project manager simultaneously. Which type of organisational structure does this describe?

(A) Matrix organisation, where employees have **dual reporting relationships** — to both a functional manager and a project manager — enabling flexible use of specialists across multiple projects.

(B) Line organisation, the simplest structure in which each employee has only one superior and authority flows in a single unbroken line from top to bottom.

(C) Line and staff organisation, which adds specialist advisory staff to support line managers but maintains a single chain of command for operational employees.

(D) Committee organisation, where authority is vested in a group of managers who make decisions collectively rather than through a single superior.

Q15. A large footwear company is deciding whether to close a factory to cut costs. The decision will affect employees (job losses), the local community (loss of livelihood), suppliers (loss of orders), customers (reduced product range), and investors (improved profitability). Under the modern **stakeholder theory** of corporate governance, which of the following groups does the company need to consider?

(A) Only shareholders (investors), because corporate governance principles require the Board to maximise shareholder returns above all other considerations.

(B) Only employees and customers, because they are the groups most directly affected by day-to-day business decisions.

(C) Only the government and regulators, because compliance with legal requirements is the primary obligation of corporate governance.

(D) **All** stakeholders — employees, customers, suppliers, community, government, creditors, AND shareholders — because stakeholder theory holds that companies must balance the interests of every party affected by their decisions, with shareholders being one important subset.

Q16. The Reserve Bank of India decides to **increase the Bank Rate** from 6.25% to 6.75%. Which of the following statements **correctly** describes the Bank Rate and the likely effect of this increase?

(A) The Bank Rate is the rate at which banks offer short-term overnight loans to each other in the inter-bank money market; raising it reduces inter-bank borrowing costs.

(B) The Bank Rate is the rate at which the RBI lends to commercial banks for **long-term** borrowings (against approved securities); an increase signals **tightening monetary policy**, making credit costlier and helping control inflation.

(C) The Bank Rate is the minimum rate below which commercial banks cannot offer loans to their best (prime) customers; raising it forces banks to increase lending rates immediately.

(D) The Bank Rate is the rate of return the RBI offers on government securities sold to commercial banks; an increase attracts more banks to invest in g-secs, reducing liquidity.

Q17. A company goes into liquidation and its remaining assets are being distributed. Which of the following correctly describes the **order of priority** for preference shareholders compared to equity shareholders in receiving dividends and repayment of capital?

1. Secured Creditors (Highest Priority)

2. Unsecured Creditors / Debenture Holders

3. Preference Shareholders ⇐ (Prior to Equity)

4. Equity Shareholders (Residual Claim)

Capital Structure: Priority on Liquidation

(A) Preference shareholders and equity shareholders have **equal priority** in receiving dividends and repayment of capital on liquidation.

(B) Equity shareholders have **priority** over preference shareholders in receiving dividends, because equity shares carry voting rights and risk.

(C) Preference shareholders have **priority** over equity shareholders in (i) payment of dividends at a fixed rate, and (ii) repayment of capital on liquidation; however, they typically carry **no voting rights**.

(D) Preference shareholders have priority over equity shareholders only for dividends, but equity shareholders are repaid first on liquidation because they bear the highest risk.

Q18. A firm has Current Assets of Rs. 8,00,000, Inventories of Rs. 2,50,000, Prepaid Expenses of Rs. 50,000, and Current Liabilities of Rs. 4,00,000. Which formula gives the **Quick Ratio (Acid-Test Ratio)**, and what is its value?

(A) Quick Ratio $= \dfrac{\text{Current Assets} - \text{Inventories} - \text{Prepaid Expenses}}{\text{Current Liabilities}} = \dfrac{8{,}00{,}000 - 2{,}50{,}000 - 50{,}000}{4{,}00{,}000} = \dfrac{5{,}00{,}000}{4{,}00{,}000} = 1.25$

(B) Quick Ratio $= \dfrac{\text{Current Assets}}{\text{Current Liabilities}} = \dfrac{8{,}00{,}000}{4{,}00{,}000} = 2.0$ (same as the Current Ratio).

(C) Quick Ratio $= \dfrac{\text{Net Profit}}{\text{Current Liabilities}} \times 100$ — a measure of a firm's operating profitability relative to its short-term obligations.

(D) Quick Ratio $= \dfrac{\text{Current Assets} - \text{Current Liabilities}}{\text{Current Assets}} = \dfrac{4{,}00{,}000}{8{,}00{,}000} = 0.5$, indicating the proportion of net working capital to total current assets.

Q19. A multinational footwear company earns a net profit of Rs. 500 crore in India. The government levies a tax directly on this profit at a rate of 22%. Which of the following statements about this tax is **correct**?

(A) This is an indirect tax, because the company collects it from consumers through higher product prices and then remits it to the government.

(B) This is a custom duty, because it applies to the company's international trade and cross-border transactions.

(C) This is a Goods and Services Tax (GST), because it is levied at multiple stages of production and the company can claim input tax credits.

(D) This is **Corporate Income Tax** — a **direct tax** — because the legal liability to pay and the economic burden of the tax both fall on the **same entity** (the company); the burden cannot be shifted to consumers.

Q20. Mr. Kapoor invests Rs. 20 lakh in a partnership firm and is entitled to 25% of the profits. However, he **does not participate** in the day-to-day management or operations of the firm in any way. The other partners handle all business activities. Mr. Kapoor is best described as a:

(A) Active partner (working partner), who contributes both capital and active management services to the firm's daily operations.

(B) Dormant (sleeping) partner, who **contributes capital and shares in profits/losses** but **takes no active part** in the management of the firm; still bears unlimited liability.

(C) Minor partner, who is under 18 years of age and is admitted only to the benefits of the partnership, not to full partner liability.

(D) Nominal partner, who lends their name and reputation to the firm without contributing capital or sharing in profits/losses.

Q21. Priya, Rajan, and Sunita are forming a partnership firm to run a leather accessories retail chain. Their lawyer advises them to create a comprehensive **Partnership Deed**. Which of the following items **must** be included in a Partnership Deed?

(A) The firm's annual turnover target, the brand ambassador details, and a list of all retail outlets to be opened within the first five years.

(B) The firm's registration certificate number, GSTIN, and PAN details — since a partnership deed must contain all tax identification numbers.

(C) The names and addresses of all partners, nature of business, capital contribution by each partner, **profit-sharing ratio**, rights and duties of partners, and rules for dissolution of the firm.

(D) The firm's shareholding structure, voting rights for each partner, and provisions for listing the firm on a recognised stock exchange within three years.

Q22. When incorporating a company, two key documents must be filed with the Registrar of Companies. One of them governs the **internal management** of the company — including rules for board meetings, voting rights of shareholders, procedures for transfer of shares, and payment of dividends. This document is known as the:

(A) Articles of Association (AOA), which is the company's **internal rulebook** governing meetings, voting rights, share transfers, and internal management procedures.

(B) Memorandum of Association (MOA), which defines the company's relationship with the outside world by specifying its name, registered office, objects, liability, and authorised share capital.

(C) Prospectus, which is a public document issued by a company to invite the public to subscribe for its shares or debentures at the time of a public issue.

(D) Certificate of Incorporation, which is the birth certificate of the company issued by the Registrar of Companies confirming the company's legal existence.

Q23. Which of the following statements about **NABARD (National Bank for Agriculture and Rural Development)** is **correct**?

(A) NABARD was established in 1935 as part of the Reserve Bank of India to manage monetary policy for the agricultural sector.

(B) NABARD is headquartered in New Delhi and provides direct loans to individual farmers for crop production and equipment purchase.

(C) NABARD was established under the Banking Regulation Act, 1949, and regulates all urban cooperative banks and microfinance institutions in India.

(D) NABARD was **established in 1982**, is **headquartered in Mumbai**, provides **refinancing** to Regional Rural Banks and cooperative banks for agricultural credit, and supports rural infrastructure development.

Q24. The **Startup India** initiative, aimed at building a strong startup ecosystem and promoting entrepreneurship in India, was launched with a 19-point Action Plan offering tax holidays, fast-tracked IPR filing, and a dedicated Fund of Funds. When was Startup India launched, and what is the size of the Fund of Funds announced at its launch?

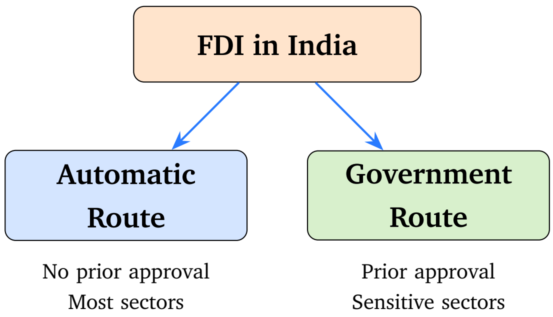
(A) Launched on September 25, 2014, with a Fund of Funds of Rs. 50,000 crore, coinciding with the Make in India initiative.

(B) Launched on **January 16, 2016**, with a **Fund of Funds of Rs. 10,000 crore**, alongside a 3-year income tax holiday for eligible startups and fast-tracking of intellectual property rights.

(C) Launched on August 15, 2017, as part of the Aatmanirbhar Bharat initiative, with a Fund of Funds of Rs. 5,000 crore.

(D) Launched on January 1, 2020, as part of India's response to the global economic slowdown, with a Fund of Funds of Rs. 25,000 crore.

Q25. A foreign company wishes to invest in India's retail sector. The company's legal team advises them that most FDI proposals do not require prior government approval, but certain sensitive sectors do. This reflects India's two-route FDI framework. The two routes for Foreign Direct Investment (FDI) in India are:



(A) The Stock Exchange Route (through BSE/NSE) and the Banking Route (through authorised commercial banks), as all FDI must be channelled through regulated financial institutions.

(B) The Direct Route (lump-sum equity infusion) and the Indirect Route (through portfolio investment in listed companies on recognised stock exchanges).

(C) The **Automatic Route** (no prior government approval required; available for most sectors) and the **Government Route** (prior approval from the relevant ministry required for sensitive or restricted sectors).

(D) The RBI Route (approved by the Reserve Bank of India) and the SEBI Route (approved by the Securities and Exchange Board of India), with SEBI handling all manufacturing sector approvals.

Detailed Solutions

Q1.

Solution

Concept — Price Ceiling (Government Price Control): A price ceiling is a government-imposed maximum price set *below* the free-market equilibrium price for a good or service. It is used to keep essential goods affordable (e.g., rent control, medicine price caps). When the ceiling is below equilibrium, it disrupts the market's natural clearing mechanism.

Step 1 — Effect at Price Ceiling $P_C < P_E$: At the artificially low price of Rs. 50 (below the equilibrium of Rs. 80):

- Quantity demanded (Q_D) *increases* (consumers want more at a lower price).
- Quantity supplied (Q_S) *decreases* (producers are less willing to supply at a lower price).
- Result: $Q_D > Q_S \Rightarrow$ **Shortage** (excess demand).

Step 2 — Contrast with Price Floor: A price floor (minimum price set *above* equilibrium) creates a surplus ($Q_S > Q_D$). A price ceiling below equilibrium creates a shortage — the opposite.

Why other options are wrong:

- Option A: A price ceiling creates a *shortage* (excess demand), not a surplus. A surplus would result from a price floor.
- Option B: A price ceiling set *above* equilibrium is ineffective; the scenario places it *below* equilibrium (Rs. 50 < Rs. 80), so it is binding and does have an effect.
- **Option C: Correct** — price ceiling below equilibrium $\Rightarrow Q_D > Q_S \Rightarrow$ shortage.
- Option D: A price ceiling does not shift the demand curve; it constrains the price, leading to a quantity imbalance.

Final Answer: Price ceiling below equilibrium creates a shortage ($Q_D > Q_S$) $\Rightarrow$ $\boxed{\text{C}}$

Answer: (C) Go Back to Q1

Q2.

Solution

Concept — Cross Elasticity of Demand: Cross elasticity of demand (XED) measures the responsiveness of the quantity demanded of one good to a change in the price of another good. Formula: $XED_{AB} = \frac{\%\Delta Q_d^A}{\%\Delta P^B}$.

Step 1 — Calculation:

$$XED_{\text{tea w.r.t. coffee}} = \frac{\%\Delta Q_d^{\text{tea}}}{\%\Delta P^{\text{coffee}}} = \frac{+15\%}{+10\%} = +1.5$$

Step 2 — Interpretation:

- *Positive XED* (> 0): Goods are **substitutes** — a rise in the price of one causes increased demand for the other (consumers switch away from the now-dearer good).
- *Negative XED* (< 0): Goods are **complements** — a rise in the price of one reduces demand for both.
- *Zero XED*: Goods are **independent** — unrelated in consumption.

Why other options are wrong:

- **Option A: Correct** — XED $= +1.5$ (positive), confirming coffee and tea are substitutes.
- Option B: A negative XED would indicate complements (e.g., petrol and cars); the calculation yields $+1.5$, not -1.5.
- Option C: Zero XED would mean the two goods are completely unrelated; the data shows a clear 15% response.
- Option D: The formula uses % change in Q_d^{tea} in the numerator and % change in P^{coffee} in the denominator — $15/10 = 1.5$, not $10/15 = 0.67$.

Final Answer: Cross elasticity $= +1.5 \Rightarrow$ coffee and tea are substitutes $\Rightarrow \boxed{\text{A}}$

Answer: (A) Go Back to Q2

Q3.

Solution

Concept — GDP at Factor Cost vs. GDP at Market Price: GDP at Market Price includes the effect of government taxation and subsidies on the prices of goods and services, whereas GDP at Factor Cost measures the value added at factor (production) cost, excluding indirect taxes and subsidies.

Step 1 — Key Relationship:

$$\text{GDP at Market Price} = \text{GDP at Factor Cost} + \text{Net Indirect Taxes}$$

where Net Indirect Taxes $=$ Indirect Taxes $-$ Subsidies.

Step 2 — Calculation:

$$\text{Net Indirect Taxes} = 200 - 80 = \text{Rs. } 120 \text{ crore}$$
$$\text{GDP at Market Price} = 1{,}500 + 120 = \text{Rs. } 1{,}620 \text{ crore}$$

Why other options are wrong:

- Option A: The formula "GDP at MP $=$ FC $-$ Taxes $+$ Subsidies" is incorrect; taxes are added and subsidies are subtracted (as they reduce market prices below factor costs).
- Option B: Rs. 1,380 crore incorrectly subtracts net indirect taxes instead of adding them $(1500 - 120 = 1380)$.
- Option C: Indirect taxes and subsidies do not cancel each other unless they are equal (Rs. 200 $\neq$ Rs. 80).
- **Option D: Correct** — Rs. 1,620 crore $= 1{,}500 + (200 - 80)$.

Final Answer: GDP at Market Price $= 1{,}500 + 120 =$ Rs. 1,620 crore $\Rightarrow \boxed{\text{D}}$

Answer: (D) Go Back to Q3

Q4.

Solution

Concept — Stagflation: Stagflation is a macroeconomic condition in which an economy simultaneously experiences high inflation, low or negative economic growth (stagnation), and high unemployment. It challenges traditional economic theory because the Phillips Curve suggests an inverse trade-off between inflation and unemployment.

Step 1 — Historical Context: Stagflation was first observed in the United Kingdom in the early 1970s and became widespread globally following the 1973 OPEC oil price shock. The term was coined by UK politician Iain Macleod in 1965. It is typically caused by supply-side shocks (e.g., a sudden rise in energy prices) that simultaneously reduce output and raise costs.

Step 2 — Policy Challenge: Stagflation is difficult to address with conventional monetary or fiscal policy. Raising interest rates to fight inflation worsens unemployment; stimulating growth through spending worsens inflation.

Why other options are wrong:

- Option A: Hyperinflation refers to an extreme, rapid collapse of a currency's purchasing power (e.g., Zimbabwe, Weimar Germany) — far beyond the scenario described.
- **Option B: Correct** — stagflation = high inflation + economic stagnation + high unemployment, first observed in the UK in the 1970s.
- Option C: Deflation is a sustained *fall* in the general price level; the scenario describes rising prices.
- Option D: Disinflation is a slowing of the rate of inflation (prices still rise, but more slowly); the scenario describes simultaneously high inflation and low growth.

Final Answer: High inflation + economic stagnation + high unemployment = stagflation $\Rightarrow \boxed{\text{B}}$

Answer: (B) Go Back to Q4

Q5.

Solution

Concept — World Bank / IBRD: The International Bank for Reconstruction and Development (IBRD) is the original and largest member of the World Bank Group. It was created to help rebuild war-devastated economies after World War II and has since evolved into a major development finance institution.

Step 1 — Key Facts about IBRD:

- Founded: 1944 at the **Bretton Woods Conference** (Bretton Woods, New Hampshire, USA).
- Commenced operations: 1946.
- Headquarters: **Washington D.C., USA**.
- Primary purpose: Provides **long-term development loans** (for infrastruc-

ture, education, health) primarily to **middle-income** and creditworthy low-income countries.

Step 2 — IBRD vs. IMF: Both were created at Bretton Woods, but the IMF provides *short-term* balance-of-payments support, while the IBRD provides *long-term* development financing.

Why other options are wrong:

- Option A: The IMF (not IBRD) provides balance-of-payments support; the IBRD was founded in 1944 (not 1995) and does not replace the IMF.
- Option B: The IBRD is headquartered in Washington D.C. (not Geneva); Geneva is the headquarters of the WTO and WHO.
- **Option C: Correct** — IBRD founded at Bretton Woods 1944, HQ in Washington D.C., provides long-term development loans to middle-income countries.
- Option D: The IBRD's primary mandate is development finance (loans for projects), not humanitarian aid.

Final Answer: IBRD founded 1944 at Bretton Woods, HQ Washington D.C., provides long-term development loans $\Rightarrow \boxed{\text{C}}$

Answer: (C) Go Back to Q5

Q6.

Solution

Concept — Place (Distribution) in the Marketing Mix: The Marketing Mix (4Ps) comprises Product, Price, Place, and Promotion. The *Place* element covers all decisions relating to **how and where the product is made available to customers** — including the choice of distribution channels, retail outlets, logistics, inventory management, and geographic coverage.

Step 1 — Place Decisions: Choosing to sell only through company-owned boutiques (selective/exclusive distribution) is a *Place* decision. It determines which outlets carry the product, who the intermediaries are (in this case, none), and where the customer can access it.

Step 2 — Strategic Intent: By restricting distribution to exclusive boutiques in premium malls, the brand controls the purchase environment and reinforces its luxury positioning. This is a classic exclusive distribution strategy under the Place element of the marketing mix.

Why other options are wrong:

- **Option A: Correct** — distribution channel decisions (which outlets carry the product) belong to the Place element.
- Option B: Price decisions cover list price, discounts, credit terms, and payment conditions — not where the product is sold.
- Option C: Promotion covers advertising, public relations, sales promotion, and personal selling — not channel/outlet selection.
- Option D: Product covers features, quality, branding, packaging, and after-sales service — not distribution logistics.

Final Answer: Distribution channel decisions (choice of outlets) belong to the *Place* element $\Rightarrow \boxed{\text{A}}$

Answer: (A) Go Back to Q6

Q7.

Solution

Concept — BCG Growth-Share Matrix (Cash Cow): The BCG (Boston Consulting Group) Growth-Share Matrix is a strategic portfolio management tool that classifies a company's product lines or business units into four categories based on two dimensions: *relative market share* (horizontal axis) and *market growth rate* (vertical axis).

Step 1 — Four Quadrants:

- *Stars*: High market share, high growth — require investment to maintain leadership.
- *Cash Cows*: **High market share, low growth** — generate more cash than needed; fund other products.
- *Question Marks*: Low market share, high growth — uncertain future; require investment to become Stars.
- *Dogs*: Low market share, low growth — typically candidates for divestiture.

Step 2 — Cash Cow Characteristics: Because the market is mature (low growth), the Cash Cow does not need heavy capital re-investment for expansion. Its dominant market position generates high revenues at relatively low costs. The surplus cash is "milked" to invest in Stars and Question Marks.

Why other options are wrong:

- Option A: A Star has high market share in a *high*-growth industry — it requires significant investment, not surplus cash generation.

- Option B: A Question Mark has *low* market share in a high-growth industry — the opposite market share position.
- Option C: A Dog has *low* market share in a low-growth industry — it neither generates significant cash nor justifies investment.
- **Option D: Correct** — Cash Cow: high market share, low growth, generates surplus cash to fund the portfolio.

Final Answer: High market share + low growth = Cash Cow (generates surplus cash) $\Rightarrow \boxed{\text{D}}$

Answer: (D) Go Back to Q7

Q8.

Solution

Concept — Behavioural Segmentation (Usage Rate): Behavioural segmentation divides the market based on consumer *behaviour* with respect to the product — including purchase occasion, benefits sought, user status (non-user, potential user, regular user), usage rate (light, medium, heavy), and brand loyalty level.

Step 1 — Usage Rate Segmentation: The coffee brand explicitly targets *heavy users* — consumers who buy coffee multiple times per day. Heavy users are a core behavioural segment; they are typically 20% of consumers but account for 80% of consumption (Pareto Principle). The loyalty card programme reinforces repeat purchasing behaviour.

Step 2 — Loyalty Cards as Behavioural Tool: Loyalty programmes are designed to reward and retain *behavioural* loyalty (repeated purchase actions) rather than attitudinal loyalty. They track purchase frequency and reward usage-based behaviour.

Why other options are wrong:

- Option A: Geographic segmentation groups by location (city, region, climate) — the question describes *usage frequency*, not location.
- **Option B: Correct** — targeting heavy users based on usage rate is behavioural segmentation.
- Option C: Demographic segmentation uses age, gender, income, and occupation — not purchase frequency.
- Option D: Psychographic segmentation targets lifestyle and values (e.g., coffee as a cultural statement); the loyalty card targets *frequency of purchase behaviour*, not values.

Final Answer: Targeting heavy users by usage rate is behavioural segmentation $\Rightarrow \boxed{\text{B}}$

Answer: (B) Go Back to Q8

Q9.

Solution

Concept — Brand Positioning: Brand positioning is the process by which a company creates a *distinctive image* and *unique place* in the minds of target consumers relative to competitors. It answers the question: "What does this brand uniquely stand for in the consumer's mind?"

Step 1 — Volvo's Positioning Strategy: Volvo's deliberate, decades-long communication of "safety" represents a *single-minded positioning* strategy. Every product innovation, advertisement, and brand association reinforces the safety attribute, making Volvo synonymous with safe cars in the consumer's mental map.

Step 2 — Positioning vs. Related Concepts:

- *Brand equity*: The financial/commercial value derived from the brand name (premium pricing power, loyalty). Positioning contributes to equity but is a different concept.
- *Brand extension*: Applying the brand name to a new product category (e.g., Volvo electric vehicles).
- *Brand licensing*: Granting others the right to use the brand name for a fee.

Why other options are wrong:

- Option A: Brand extension is about entering new product categories under the same brand — not about the "safest car" perception in consumers' minds.
- Option B: Brand equity is the commercial value of the brand; while Volvo's positioning creates equity, the specific concept illustrated here is positioning (the unique mental space occupied).
- **Option C: Correct** — brand positioning is the unique, valued space a brand occupies in the target consumer's mind relative to competitors.
- Option D: Brand licensing is a contractual arrangement (granting use of the name for royalties); Volvo's safety strategy is its own positioning, not licensing.

Final Answer: Volvo's "safest car" identity = brand positioning (unique space in consumer's mind) $\Rightarrow \boxed{\text{C}}$

Answer: (C) Go Back to Q9

Q10.

Solution

Concept — Role of a Wholesaler: In a two-level distribution channel (Manufacturer $\rightarrow$ Wholesaler $\rightarrow$ Retailer $\rightarrow$ Consumer), the wholesaler is the *first intermediary* who purchases goods in large quantities from the manufacturer and redistributes them in smaller lots to retailers.

Step 1 — Key Functions of a Wholesaler:

- *Bulk-breaking*: Buys in large quantities from manufacturers; sells in smaller lots to retailers.
- *Warehousing*: Stores goods and maintains inventory, reducing the manufacturer's storage burden.
- *Credit*: Extends credit to retailers, improving their cash flow.
- *Market information*: Provides feedback to manufacturers about retailer and consumer preferences.
- *Risk-bearing*: Takes title to goods, bearing the risk of price changes and unsold inventory.

Step 2 — Wholesaler in Channel Structure: Manufacturer $\xrightarrow{\text{large lots}}$ Wholesaler $\xrightarrow{\text{small lots}}$ Retailer $\rightarrow$ Consumer. This is a two-level channel.

Why other options are wrong:

- **Option A: Correct** — the intermediary performing bulk-breaking, warehousing, and credit functions and selling to retailers is a wholesaler.
- Option B: A retailer sells small quantities directly to the *final consumer* — not to other businesses.
- Option C: An agent facilitates transactions without taking ownership of goods (earns commission) — does not perform warehousing or bulk-breaking.
- Option D: A distributor typically handles one manufacturer's product line exclusively; the scenario describes the generic wholesaling function, not exclusive distribution.

Final Answer: Bulk-breaking, warehousing, credit, and selling to retailers = role of a Wholesaler $\Rightarrow \boxed{\text{A}}$

Answer: (A) Go Back to Q10

Q11.

Solution

Concept — Organising Function of Management: Organising is the second function of management (after Planning). It involves designing the organisational structure by dividing work into specific tasks, grouping related tasks into departments (departmentalisation), assigning authority and responsibility to managers, and establishing coordination mechanisms to ensure all parts work together.

Step 1 — Elements of Organising:

- *Division of work*: Breaking overall organisational work into specific, manageable tasks.
- *Departmentalisation*: Grouping related tasks into departments (e.g., marketing, finance, operations).
- *Delegation of authority*: Assigning authority to department heads to make decisions within their scope.
- *Coordination*: Creating systems (reporting lines, meetings, committees) to ensure all departments work towards common objectives.

Step 2 — Organising vs. Other Functions: Planning sets goals; Organising creates the structure to achieve them; Leading motivates people; Controlling monitors outcomes. The General Manager's actions (dividing work, grouping into departments, assigning authority, establishing coordination) map exactly to the Organising function.

Why other options are wrong:

- Option A: Planning involves setting objectives and deciding on strategies — not dividing work or creating departments.
- Option B: Leading (directing) involves motivating and guiding employees — not structural division of work.
- Option C: Controlling involves monitoring performance against standards and taking corrective action — not designing the organisational structure.
- **Option D: Correct** — dividing work, grouping into departments, assigning authority, and coordinating activities is the Organising function.

Final Answer: Dividing work, departmentalising, assigning authority, and coordinating = Organising function $\Rightarrow \boxed{\text{D}}$

Answer: (D) Go Back to Q11

Q12.

Solution

Concept — Job Enrichment vs. Job Enlargement: Both are job redesign strategies, but they differ in the *direction* of expansion:

- *Job Enrichment* (Vertical Loading): Adds **more responsibility, authority, and decision-making power** at a *higher level* of challenge. The employee gains control over planning, execution, and evaluation of their own work.
- *Job Enlargement* (Horizontal Loading): Adds **more tasks at the same level** of responsibility. The job becomes wider but not deeper.

Step 1 — Theoretical Basis: Job enrichment is rooted in **Frederick Herzberg's Motivator-Hygiene (Two-Factor) Theory**. Motivators (achievement, recognition, responsibility, growth) increase job satisfaction; enrichment adds these motivators to the job design.

Step 2 — Application to the Scenario: Granting the analyst authority to plan their own schedule, choose methods, and present directly to senior management adds *vertical responsibility* (autonomy, authority, visibility) — this is the defining feature of job enrichment.

Why other options are wrong:

- Option A: Job enlargement adds more tasks at the *same* level (e.g., more analysis tasks) — the scenario adds *authority and autonomy*, which is vertical (enrichment), not horizontal.
- **Option B: Correct** — job enrichment adds vertical responsibility (authority, decision-making, autonomy) based on Herzberg's theory.
- Option C: Job rotation moves an employee *across different roles* — the scenario keeps the employee in the same analyst role but with greater authority.
- Option D: Job simplification reduces complexity; the scenario *increases* responsibility and complexity.

Final Answer: Adding vertical responsibility and autonomy = job enrichment (Herzberg) $\Rightarrow \boxed{\text{B}}$

Answer: (B) Go Back to Q12

Q13.

Solution

Concept — Laissez-Faire (Free-Rein) Leadership: Laissez-faire leadership is a non-directive style in which the leader provides *minimal guidance* and allows employees *maximum freedom and autonomy* to set their own goals, choose their own methods, and make their own decisions. The leader acts as a resource provider rather than a decision-maker.

Step 1 — When Laissez-Faire Works Best: This style is most effective with *highly skilled, experienced, and self-motivated* teams — such as research scientists, creative professionals, or expert engineers — who possess the knowledge and motivation to work independently without close supervision.

Step 2 — Contrast with Other Styles:

- *Autocratic*: Leader centralises all decisions; no subordinate input.
- *Democratic*: Leader consults the team; decisions made jointly.
- *Laissez-faire*: Leader provides minimal direction; employees have maximum autonomy.
- *Transactional*: Leader motivates through reward-and-penalty systems.

Why other options are wrong:

- Option A: Autocratic leadership centralises all decisions — the *opposite* of the research director's approach of minimal intervention.
- Option B: Democratic leadership involves the leader consulting the team and incorporating suggestions — the director in the scenario does not consult; she simply steps back entirely.
- **Option C: Correct** — minimal direction, maximum autonomy for highly skilled employees = laissez-faire (free-rein) leadership.
- Option D: Transactional leadership is based on exchange (rewards for performance) — not a hands-off, autonomy-granting style.

Final Answer: Minimal direction + maximum autonomy = laissez-faire (free-rein) leadership $\Rightarrow \boxed{\text{C}}$

Answer: (C) Go Back to Q13

Q14.

Solution

Concept — Matrix Organisation Structure: A matrix organisation is a hybrid structure that overlays a *project-based structure* on top of a *functional structure*. Employees have **dual reporting relationships** — they report to both a functional manager (e.g., Head of Engineering) and a project manager simultaneously.

Step 1 — Advantages of Matrix Structure:

- Enables flexible and efficient use of specialist skills across multiple projects.
- Improves communication and coordination between functional departments and project teams.
- Allows organisations to respond quickly to complex, changing project requirements.

Step 2 — Disadvantages:

- *Role conflict and ambiguity*: Employees may receive conflicting instructions from two managers.
- *Violation of unity of command*: Employees report to two superiors, which can create confusion.
- *Power struggles*: Functional managers and project managers may conflict over resource allocation.

Why other options are wrong:

- **Option A: Correct** — dual reporting (functional manager AND project manager) is the defining feature of a matrix organisation.
- Option B: Line organisation has a single chain of command with each employee reporting to only *one* superior — the opposite of dual reporting.
- Option C: Line and staff organisation adds advisory staff but maintains a single chain of command for operational employees — not dual authority.
- Option D: Committee organisation uses collective decision-making by a group, not dual managerial reporting for individual employees.

Final Answer: Dual reporting (functional manager + project manager) = matrix organisation $\Rightarrow \boxed{\text{A}}$

Answer: (A) Go Back to Q14

Q15.

Solution

Concept — Stakeholder Theory vs. Shareholder Theory: *Shareholder theory* (Friedman, 1970) holds that the only social responsibility of a company is to maximise returns for its shareholders. *Stakeholder theory* (Freeman, 1984) argues that a company must consider the interests of *all* parties who are affected by its actions or who can affect the company.

Step 1 — Who is a Stakeholder? Stakeholders are all groups affected by or affecting the company, including:

- *Internal stakeholders*: Shareholders, employees, management.
- *External stakeholders*: Customers, suppliers, local community, government, regulators, creditors, NGOs.

Shareholders are a *subset* of stakeholders — not the only group.

Step 2 — Application to the Factory Closure: The factory closure decision affects employees (jobs), community (income), suppliers (orders), customers (product range), creditors (repayment capacity), and investors (profitability). Stakeholder theory requires all these interests to be weighed and balanced.

Why other options are wrong:

- Option A: Considering only shareholders reflects shareholder theory (not stakeholder theory), which is the narrower traditional view.
- Option B: Limiting consideration to employees and customers ignores shareholders, suppliers, community, and creditors — an incomplete stakeholder analysis.
- Option C: Considering only government and regulators is a legal compliance view, not stakeholder governance.
- **Option D: Correct** — stakeholder theory requires balancing the interests of *all* affected parties, with shareholders as one important (but not exclusive) subset.

Final Answer: Stakeholder theory = balance interests of ALL stakeholders (shareholders are a subset) $\Rightarrow \boxed{\text{D}}$

$\boxed{\textbf{Answer: (D)}}$ **Go Back to Q15**

Q16.

Solution

Concept — Bank Rate: The Bank Rate (also called the Discount Rate in some countries) is the rate at which the **Reserve Bank of India (RBI) lends money to commercial banks** for *long-term* purposes, against approved government securities, without any repurchase agreement. It is one of the RBI's key monetary policy instruments.

Step 1 — Bank Rate vs. Repo Rate:

- *Bank Rate*: Long-term lending by RBI to banks; no collateral agreement to repurchase; signals long-run monetary stance.
- *Repo Rate*: Short-term (usually overnight) lending by RBI to banks against government securities with a repurchase agreement; the primary policy rate for day-to-day liquidity management.

Step 2 — Effect of an Increase: An increase in the bank rate makes borrowing from the RBI costlier for commercial banks. This signals a **tightening of monetary policy**: banks pass on higher costs through increased lending rates, reducing credit availability and helping control inflation.

Why other options are wrong:

- Option A: The rate at which banks lend to each other overnight is the *call money rate* (or MIBOR), not the bank rate.
- **Option B: Correct** — the bank rate is the RBI's long-term lending rate to commercial banks; an increase signals monetary tightening.
- Option C: The minimum lending rate to prime customers is the Marginal Cost of Funds-based Lending Rate (MCLR) set by commercial banks, not the bank rate.
- Option D: The rate on government securities offered to banks in open market operations is the OMO rate, not the bank rate.

Final Answer: Bank Rate = RBI's long-term lending rate; increase $\Rightarrow$ tighter monetary policy $\Rightarrow \boxed{\text{B}}$

Answer: (B) Go Back to Q16

Q17.

Solution

Concept — Preference Shares: Preference shares (also called preferred stock) are a class of company shares that carry *preferential rights* over ordinary (equity) shares in two key areas: (1) payment of dividend and (2) repayment of capital on liquidation.

Step 1 — Priority of Preference Shareholders:

- *Dividend*: Preference shareholders receive a **fixed dividend** at the agreed rate *before* any dividend is paid to equity shareholders. In a given year, if profits are insufficient to pay both, preference dividends are paid first (and if cumulative preference shares, unpaid dividends accumulate).
- *Capital Repayment on Liquidation*: As shown in the diagram, after secured creditors and debenture holders, preference shareholders are repaid their capital *before* equity shareholders, who receive only the residual (if any).

Step 2 — Trade-off — No Voting Rights: In exchange for these preferential rights, preference shareholders typically have **no voting rights** in ordinary company meetings (they may vote only on matters directly affecting their rights).

Why other options are wrong:

- Option A: Preference and equity shareholders do *not* have equal priority; preference shareholders rank higher in both dividends and capital repayment.
- Option B: Equity shareholders do *not* have priority over preference shareholders — it is the other way around.
- **Option C: Correct** — preference shareholders have priority in dividends (fixed rate) and capital repayment; typically no voting rights.
- Option D: Preference shareholders have priority in *both* dividends and capital repayment on liquidation (not just dividends).

Final Answer: Preference shareholders: priority in dividends AND capital repayment; no voting rights $\Rightarrow \boxed{\text{C}}$

Answer: (C)

Go Back to Q17

Q18.

Solution

Concept — Quick Ratio (Acid-Test Ratio): The Quick Ratio is a more stringent measure of short-term liquidity than the Current Ratio. It excludes *inventory* and *prepaid expenses* from current assets because these cannot be quickly converted to cash to meet immediate obligations.

Step 1 — Formula:

$$\text{Quick Ratio} = \frac{\text{Current Assets} - \text{Inventories} - \text{Prepaid Expenses}}{\text{Current Liabilities}}$$

Step 2 — Calculation:

$$\text{Quick Assets} = 8{,}00{,}000 - 2{,}50{,}000 - 50{,}000 = 5{,}00{,}000$$
$$\text{Quick Ratio} = \frac{5{,}00{,}000}{4{,}00{,}000} = 1.25$$

The ideal Quick Ratio is **1:1** — meaning Re. 1 of liquid assets for every Re. 1 of current liabilities. A ratio of 1.25 indicates a healthy liquidity position.

Why other options are wrong:

- **Option A: Correct** — Quick Ratio $= (8{,}00{,}000 - 2{,}50{,}000 - 50{,}000)/4{,}00{,}000 = 1.25$.
- Option B: $\frac{\text{Current Assets}}{\text{Current Liabilities}} = 8{,}00{,}000/4{,}00{,}000 = 2.0$ is the *Current Ratio*, not the Quick Ratio (it includes inventories and prepaid expenses).
- Option C: $\frac{\text{Net Profit}}{\text{Current Liabilities}}$ is not a standard liquidity ratio; it mixes profitability with liquidity concepts.
- Option D: The formula given in Option D is the *Working Capital Ratio* variant, not the Quick Ratio.

Final Answer: Quick Ratio $= (CA - Inventory - Prepaid)/CL = 5{,}00{,}000/4{,}00{,}000 = 1.25 \Rightarrow \boxed{\text{A}}$

Answer: (A) **Go Back to Q18**

Q19.

Solution

Concept — Corporate Income Tax as a Direct Tax: A *direct tax* is one in which the legal liability (who is required by law to pay) and the *economic incidence* (who actually bears the burden) fall on the same entity. The tax cannot be shifted or passed on to another party.

Step 1 — Corporate Income Tax: Corporate Income Tax (Corporation Tax) is levied directly on the *net profits* of a company. The company is both legally required to pay the tax (legal liability) and bears the actual economic cost (the company's retained earnings are reduced). There is no mechanism for the company to legally add the tax to its product price and recover it from customers as a separate line item.

Step 2 — Contrast with Indirect Taxes: In indirect taxes (GST, customs duty), the legal liability rests with the seller/importer, but the economic burden is passed forward to the consumer through higher prices. The legal payer and economic bearer are different.

Why other options are wrong:

- Option A: GST is an *indirect tax*; the company collects it from consumers and remits it to the government — the burden is shifted to the consumer.
- Option B: Customs duty is levied on imports/exports, not on net profits, and its burden is typically passed on to buyers.
- Option C: GST is levied on the *supply of goods and services* at each stage; it is an indirect tax, not a tax on profits.
- **Option D: Correct** — Corporate Income Tax is a direct tax; legal liability and economic burden both rest with the company.

Final Answer: Corporate Income Tax is a direct tax (same entity bears legal liability and economic burden) $\Rightarrow \boxed{\text{D}}$

Answer: (D) Go Back to Q19

Q20.

Solution

Concept — Dormant (Sleeping) Partner: In a partnership firm, partners can play different roles. A *dormant* or *sleeping partner* is one who contributes capital and shares in the profits and losses of the firm but takes *no active part* in the day-to-day management or operations of the business.

Step 1 — Characteristics of a Dormant Partner:

- Contributes capital to the firm.
- Shares in profits (and losses) in the agreed ratio.
- Does *not* participate in daily management.
- Is *not* known to the public as a partner (need not be disclosed).
- Still has **unlimited liability** for the firm's debts (same as all general partners).

Step 2 — Distinction from Other Partner Types:

- *Active/Working partner*: Contributes capital AND actively manages the firm's operations.
- *Nominal partner*: Lends only their name/reputation to the firm (no capital, no profit share).
- *Minor partner*: Admitted to benefits only; limited liability; cannot be held liable for firm debts.

Why other options are wrong:

- Option A: An active (working) partner participates in management — Mr. Kapoor explicitly does not.
- **Option B: Correct** — a dormant (sleeping) partner contributes capital and shares profits but takes no active part in management; still has unlimited liability.
- Option C: A minor partner (under 18 years) is admitted only to benefits with limited liability — no indication that Mr. Kapoor is a minor.
- Option D: A nominal partner lends only their name without contributing capital or sharing profits — Mr. Kapoor has invested Rs. 20 lakh and receives 25% profit share.

Final Answer: Capital contributor, profit sharer, no active management = dormant (sleeping) partner $\Rightarrow \boxed{\text{B}}$

Answer: (B) Go Back to Q20

Q21.

Solution

Concept — Partnership Deed and Its Contents: A *Partnership Deed* (also called Articles of Partnership) is a written agreement between partners that defines the terms and conditions governing the partnership. Although oral partnerships are legally valid under the Indian Partnership Act, 1932, a written deed is strongly advisable to avoid future disputes.

Step 1 — Essential Contents of a Partnership Deed: A comprehensive partnership deed *must* include:

- **Names and addresses** of all partners and the firm.
- **Nature and place of business**.
- **Capital contribution** by each partner.
- **Profit-sharing ratio** — the most important clause; determines how profits and losses are divided.
- **Rights and duties of partners** (e.g., decision-making authority, restrictions on individual transactions).
- Duration of the partnership (if specified).
- **Rules for dissolution** — how the firm will be wound up.
- Provisions for admission/expulsion of partners and settlement of accounts.

Step 2 — Profit-Sharing Ratio: Without an agreed profit-sharing ratio in the deed, the Indian Partnership Act, 1932 (Section 13) presumes *equal sharing* of profits. Specifying the ratio explicitly prevents disputes.

Why other options are wrong:

- Option A: Annual turnover targets, brand ambassador details, and outlet expansion plans are business planning documents, not legal requirements of a partnership deed.
- Option B: Tax registration numbers (GSTIN, PAN) are external compliance requirements, not structural elements of the partnership deed itself.
- **Option C: Correct** — names, nature of business, capital, profit-sharing ratio, rights/duties of partners, and dissolution rules are the core mandatory contents of a partnership deed.
- Option D: Shareholding structure, voting rights, and stock exchange listing are relevant to companies (MOA/AOA), not to a partnership deed.

Final Answer: Partnership deed must include names, capital, profit-sharing ratio, rights/duties, dissolution rules $\Rightarrow \boxed{\text{C}}$

$\boxed{\text{Answer: (C)}}$ Go Back to Q21

Q22.

Solution

Concept — Articles of Association (AOA): When incorporating a company under the Companies Act, 2013, two constitutional documents are filed: the Memorandum of Association (MOA) and the Articles of Association (AOA). They serve distinct purposes:

- **MOA**: The company's constitution in relation to the *outside world* — defines its name, registered office, objects (main and ancillary), liability of members, and authorised capital. It is the supreme document.
- **AOA**: The company's *internal rulebook* — governs internal management including meetings (board and general), voting rights, procedures for transfer and transmission of shares, dividends, accounts, and powers of directors.

Step 1 — Contents of AOA: The AOA contains regulations for:

- Conduct and procedures of board and shareholder meetings.
- Voting rights of different classes of shareholders.
- Procedures for transfer and transmission of shares.
- Appointment, remuneration, and removal of directors.
- Declaration and payment of dividends.
- Maintenance of accounts and audit.

Step 2 — Relationship between MOA and AOA: The AOA must be consistent with the MOA. If there is any conflict, the MOA prevails. Any act that is *ultra vires* (beyond) the MOA is void, even if permitted by the AOA.

Why other options are wrong:

- **Option A: Correct** — the AOA is the company's internal rulebook governing meetings, voting rights, share transfers, and internal management.
- Option B: The MOA defines the company's relationship with the *outside world* (name, objects, liability, capital) — not internal management.
- Option C: A Prospectus is a public offering document for raising capital from investors — it is not a constitutional document.
- Option D: The Certificate of Incorporation is issued by the Registrar of Companies and confirms legal existence — it is not drafted by the company.

Final Answer: Internal rulebook governing meetings, voting, share transfers = Articles of Association (AOA) $\Rightarrow \boxed{\text{A}}$

Answer: (A) Go Back to Q22

Q23.

Solution

Concept — NABARD (National Bank for Agriculture and Rural Development): NABARD is the apex institution for agricultural and rural development finance in India. It was established following the recommendations of the **Shivaraman Committee** (B. Sivaraman Committee).

Step 1 — Key Facts about NABARD:

- **Established**: 12 July **1982** (replacing the Agricultural Refinance and Development Corporation and the RBI's agricultural credit functions).
- **Headquarters**: **Mumbai**, Maharashtra.
- **Primary Function**: Provides **refinancing** (apex-level credit support) to Regional Rural Banks (RRBs), State Cooperative Banks, Land Development Banks, and other rural financial institutions for agricultural and rural credit.
- Also finances rural infrastructure under schemes like RIDF (Rural Infrastructure Development Fund).
- Does *not* lend directly to individual farmers; it operates through the banking system.

Step 2 — Distinction from RBI: The RBI handled agricultural credit before NABARD was created. NABARD took over these functions in 1982 and operates as an independent apex body, though the RBI holds a stake in it.

Why other options are wrong:

- Option A: The RBI was established in 1935 to manage monetary policy; NABARD was set up in 1982 as a separate body for agricultural refinancing.
- Option B: NABARD is headquartered in Mumbai (not New Delhi) and does *not* provide direct loans to individual farmers.
- Option C: Urban cooperative banks are regulated by the RBI; NABARD regulates State Cooperative Banks and District Central Cooperative Banks for agricultural purposes.
- **Option D: Correct** — NABARD established 1982, HQ Mumbai, provides refinancing to RRBs and cooperative banks for agricultural credit; supports rural infrastructure.

Final Answer: NABARD established 1982, HQ Mumbai, apex refinancing institution for agricultural and rural credit $\Rightarrow \boxed{\text{D}}$

Answer: (D) Go Back to Q23

Q24.

Solution

Concept — Startup India Initiative: Startup India is a flagship initiative of the Government of India aimed at catalysing startup culture, building a strong and inclusive ecosystem for innovation and entrepreneurship, and enabling India to emerge as a nation of job creators rather than job seekers.

Step 1 — Launch Details:

- **Launch Date**: **January 16, 2016**, at Vigyan Bhawan, New Delhi, by Prime Minister Narendra Modi.
- **Action Plan**: A 19-point Action Plan outlining tax benefits, faster exits, and funding support.
- **Fund of Funds**: Rs. **10,000 crore** corpus to invest in SEBI-registered Alternative Investment Funds (AIFs) which then invest in startups.

Step 2 — Key Benefits for Eligible Startups:

- **3-year income tax holiday** (exemption for any three consecutive years within the first 10 years).
- **Fast-tracking of IPR** (patents processed in 30 days; 80% rebate on patent filing fees).
- Self-certification compliance for 9 environmental and labour laws for 3–5 years.
- Easy winding up (insolvency resolution within 90 days under IBC).

Why other options are wrong:

- Option A: September 25, 2014 is the launch date of *Make in India*, not Startup India. The Fund of Funds for Startup India is Rs. 10,000 crore, not Rs. 50,000 crore.
- **Option B: Correct** — Startup India launched January 16, 2016, Fund of Funds Rs. 10,000 crore, 3-year tax holiday, fast-tracked IPR.
- Option C: There is no major startup policy launched on August 15, 2017; Aatmanirbhar Bharat was announced in 2020.
- Option D: No major Startup India policy was launched on January 1, 2020; the Rs. 25,000 crore figure does not correspond to the Startup India Fund of Funds.

Final Answer: Startup India launched January 16, 2016; Fund of Funds Rs. 10,000 crore; 3-year tax holiday $\Rightarrow \boxed{\text{B}}$

Answer: (B) Go Back to Q24

Q25.

Solution

Concept — FDI Routes in India: Foreign Direct Investment (FDI) in India is governed by the Foreign Exchange Management Act (FEMA), 1999, and the Consolidated FDI Policy issued by the Department for Promotion of Industry and Internal Trade (DPIIT). India allows FDI through two distinct routes:

Step 1 — The Two FDI Routes:

- **Automatic Route**: FDI up to the permitted limit does *not* require prior approval from the Government of India or the Reserve Bank of India. The foreign investor and the Indian company only need to notify the RBI within 30 days. Applicable for most sectors (e.g., manufacturing, IT services, most infrastructure).
- **Government Route**: Prior approval from the relevant Ministry/Department of the Government of India is *required* before investing. Applicable for sensitive or strategic sectors (e.g., defence above 74%, media, multi-brand retail, telecom above 49%, banking above 74%, etc.).

Step 2 — Practical Implication: Most FDI in India today flows through the Automatic Route, making India one of the most open economies for foreign investment in Asia. The Government Route is reserved to maintain strategic oversight over sectors with national security or public interest implications.

Why other options are wrong:

- Option A: There is no “Stock Exchange Route” or “Banking Route” for FDI; FDI is distinct from FPI (portfolio investment through stock exchanges).
- Option B: The “Direct Route” and “Indirect Route” terminology applies to tax treaties, not to India’s FDI regulatory framework.
- **Option C: Correct** — Automatic Route (no prior approval for most sectors) and Government Route (prior approval for sensitive sectors) are the two FDI routes in India.
- Option D: There is no “SEBI Route” for FDI; SEBI regulates FPI (foreign portfolio investment), not FDI. The RBI and DPIIT together administer FDI.

Final Answer: FDI in India enters through Automatic Route (no prior approval) or Government Route (prior approval required) $\Rightarrow \boxed{\text{C}}$

Answer: (C) Go Back to Q25

Answer Key

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