

CWA ICWA Foundation : Economics and Business Fundamentals - June 2009

P—3(EBF)
Syllabus 2008

Time Allowed : 3 Hours

Full Marks : 100

The figures in the margin on the right side indicate full marks.

SECTION I (Marks 60)

Answer Question No.1 which is compulsory and any two from the rest.

Marks

1. (a) Answer the following :

1x9

(i) Economics is

- (A) normative science
- (B) positive science
- (C) human science
- (D) political science

(ii) Deductive method involves

- (A) Moving from general to particular
- (B) Moving from particular to general
- (C) Using mathematical reasoning
- (D) Applying ethical reasoning

(iii) Portfolio investment means

- (A) Depositing money into a company
- (B) Buying debenture of a company
- (C) Buying shares of a company
- (D) Investing in fixed assets

(iv) Diamond–water paradox is explained through

- (A) Law of substitution
- (B) Law of exchange
- (C) Law of supply
- (D) Law of diminishing marginal utility

(v) Theory of Demographic transition was developed by

- (A) Malthus
- (B) Pigou

- (C) Walker
- (D) Keynes

(vi) Bank rate policy is a

- (A) Quantitative method
- (B) Qualitative method
- (C) Optional method
- (D) Fiscal method

(vii) The theory of absolute cost advantage was developed by

- (A) David Ricardo
- (B) Malthus
- (C) Adam Smith
- (D) Marshall

(viii) Balance of Trade

- (A) Includes balance of payments statement
- (B) Excludes balance of payments
- (C) Includes value of merchandise transaction alone
- (D) Includes value of service transactions

(ix) Direct taxes

- (A) Are shiftable
- (B) Are not shiftable
- (C) Reflect economic health
- (D) Affect social welfare

(b) Fill in the blanks :

1x12

(i) Backward bending supply curve of labour indicates that labour prefers _____ to work at a high wage rate.

(ii) Total economic costs = Explicit costs + _____ + Normal profit.

(iii) Internal economies accrue to a firm when it _____.

(iv) When consumer is made to pay one price upto a certain amount of purchase and another price for purchases exceeding this amount, it is called price discrimination of _____ degree.

(v) Net national product is also called _____.

(vi) Cross elasticity of demand relates price of one good and demand for _____ good.

(vii) Investment multiplier = Change in Y/Change in _____.

- (viii) Creation of Saving and its productive investment is called _____.
- (ix) _____ function of money makes it available for future use.
- (x) Central Bank's persuasive method to control the functioning of the commercial banks is called _____.
- (xi) The bank which was established in 1985 to rehabilitate the sick industrial units with authorized capital of Rs.2.5 crores is _____.
- (xii) Paper Gold is also called _____.

(c) State which of the following statement is "True" and which is "False".:

1x9

- (i) The existence of oligopoly in the long-run requires the existence of free entry of the new firms.
- (ii) Adding value of all goods and services produced to arrived at national income of a country is called income method.
- (iii) Ratio of consumption to income is called marginal propensity to consume.
- (iv) Ralating food production rate and population rate is Optimum Theory of Population.
- (v) Aggregate demand remaining the same, a fall in aggregate supply results in cost push inflation.
- (vi) Increased velocity of circulation of money causes recession.
- (vii) The IFC (Transfer of Undertaking and Repeal) Bill passed on March 24, 1993 privatised the IFC.
- (viii) Mutual funds operations in Private sector and joint sector are closely monitored by SEBI.
- (ix) Factor cost differences occur because of different factor endowments in different countries.

(d) Define the following terms in not more than two lines:

1x6

- (i) Marginal product:
- (ii) Real differentiation:
- (iii) Gresham's law;
- (iv) Credit creation;
- (v) Regressive taxation;
- (vi) Deficit financing.

2. What are the causes of inflation? What are its effects? How would you control it?

4+4+4

3. Write short notes on the following:

6+6

- (a) Factors affecting supply;
- (b) Cost–output relationship during short period.

4. Explain the law of diminishing marginal utility. What are the limitations of the law?

8+4

SECTION II (Marks 40)

Answer Question No. 5 which is compulsory and any two from the rest.

Marks

5. (a) Answer the following :

1x6

- (i) After incorporation, a company conducts a meeting to deal with
 - (A) Issue of prospectus
 - (B) Appointment of broker for underwriting shares
 - (C) Appointment of a protem secretary
 - (D) All the above
- (ii) In a stock exchange
 - (A) any security can be transacted
 - (B) only listed securities can be transacted
 - (C) only securities of private companies be traded
 - (D) any common person can conduct transaction directly
- (iii) A stag operates
 - (A) to buy at a high price and sell at a low price
 - (B) to buy shares at a high price to make profit in due course
 - (C) to avoid buying at a high price but attempts to sell at a high price
 - (D) to enter into forward contracts
- (iv) Schematic format of a report includes
 - (A) subheadings
 - (B) sequential subheadings
 - (C) emergency communication
 - (D) All the above
- (v) Subsidiary company is one in which
 - (A) more than 40% shares are held by other company
 - (B) majority of directors are appointed by the Government

- (C) more than 50% of the paid-up equity share capital is held by another company
- (D) shareholders of the company form the majority

- (vi) Social environment includes
- (A) Taxation policies
 - (B) Culture and traditions
 - (C) Quality improvement
 - (D) Foreign direct investment

(b) Fill in the blanks:

1x6

- (i) A person who just lends his name and reputation for the benefit of the firm without taking active part is called ____ .
- (ii) Equity shares issued at a discount or for consideration other than cash for providing know how or making available rights in the nature of intellectual property rights are called ____.
- (iii) To alter a clause of memorandum of association, a ____ resolution is required.
- (iv) The Securities Contracts (Regulation) Act was passed in ____ .
- (v) When a buyer of a share acquires a share without any right to receive the dividend declared is called ____ .
- (vi) Key result areas technique was suggested to discuss the business objectives by ____ .

(c) State which of the following statement is "True" and which is "False":

1x6

- (i) Joint Hindu Family Business requires registration.
- (ii) Registration of partnership is a statutory compulsion.
- (iii) A company is a voluntary association.
- (iv) Minimum subscription is necessary to cover underwriting commissions on sale of shares.
- (v) Bargain price order specifies the price at which the broker can buy or sell the security.
- (vi) Complimentary close in a letter refers to the signature of the sender.

(d) Define the following terms in not more than two lines:

1x6

- (i) Unlimited liability;
- (ii) Contingent dissolution;
- (iii) Organic objective;
- (iv) Company limited by guarantee;

(v) Barriers to communication;

(vi) Lame duck.

6. Write short notes on:

4+4

(a) Memorandum of Association;

(b) Salient features of a good business letter.

7. What is stock exchange? Discuss the functions of stock exchange.

2+6

8. State the meaning of business environment. Discuss the various types of business environment.

2+6

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