

INDEX



MODULE 1



Chapter 1 - Nature and Scope of Business Economics	1.1 to 1.12
Chapter 2 - Theory of Demand and Supply	2.1 to 2.32
Chapter 3 - Theory of Production and Cost	3.1 to 3.20
Chapter 4 - Price Determination in Different Markets	4.1 to 4.24
Chapter 5 - Business Cycles	5.1 to 5.8

CHAPTER 1 - NATURE AND SCOPE OF BUSINESS ECONOMICS



TEST YOUR KNOWLEDGE



Multiple Choice Questions

1. Economists regard decision making as important because:

- (a) The resources required to satisfy our unlimited wants and needs are finite, or scarce.
- (b) It is crucial to understand how we can best allocate our scarce resources to satisfy society's unlimited wants and needs.
- (c) Resources have alternative uses.
- (d) All the above.

2. Business Economics is -

- (a) Abstract and applies the tools of Microeconomics.
- (b) Involves practical application of economic theory in business decision making.
- (c) Incorporates tools from multiple disciplines.
- (d) (b) and (c) above.

3. In Economics, we use the term scarcity to mean -

- (a) Absolute scarcity and lack of resources in less developed countries.
- (b) Relative scarcity i.e. scarcity in relation to the wants of the society.
- (c) Scarcity during times of business failure and natural calamities.
- (d) Scarcity caused on account of excessive consumption by the rich.

4. What implication(s) does resource scarcity have for the satisfaction of wants?

- (a) Not all wants can be satisfied.
- (b) We will never be faced with the need to make choices.
- (c) We must develop ways to decrease our individual wants.
- (d) The discovery of new natural resources is necessary to increase our ability to satisfy wants.

NATURE AND SCOPE OF BUSINESS ECONOMICS

5. Which of the following is a normative statement?

- (a) Planned economies allocate resources via government departments.
- (b) Most transitional economies have experienced problems of falling output and rising prices over the past decade.
- (c) There is a greater degree of consumer sovereignty in market economies than planned economies.
- (d) Reducing inequality should be a major priority for mixed economies.

6. In every economic system, scarcity imposes limitations on

- (a) households, business firms, governments, and the nation as a whole.
- (b) households and business firms, but not the governments.
- (c) local and state governments, but not the federal government.
- (d) households and governments, but not business firms.

7. Macroeconomics is also called—— economics.

- (a) applied
- (b) aggregate
- (c) experimental
- (d) none of the above

8. An example of 'positive' economic analysis would be:

- (a) an analysis of the relationship between the price of food and the quantity purchased.
- (b) determining how much income each person should be guaranteed.
- (c) determining the 'fair' price for food.
- (d) deciding how to distribute the output of the economy.

9. A study of how increases in the corporate income tax rate will affect the national unemployment rate is an example of -

- (a) Macro-Economics.
- (b) Descriptive Economics.
- (c) Micro-economics.
- (d) Normative economics.

NATURE AND SCOPE OF BUSINESS ECONOMICS

10. Which of the following does not suggest a macro approach for India?

- (a) Determining the GNP of India.
- (b) Finding the causes of failure of ABC Ltd.
- (c) Identifying the causes of inflation in India.
- (d) Analyse the causes of failure of industry in providing large scale employment

11. Ram: My corn harvest this year is poor.

Krishan: Don't worry. Price increases will compensate for the fall in quantity supplied.

Vinod: Climate affects crop yields. Some years are bad, others are good.

Madhu: The Government ought to guarantee that our income will not fall.

In this conversation, the normative statement is made by -

- (a) Ram
- (b) Krishan
- (c) Vinod
- (d) Madhu

12. Consider the following and decide which, if any, economy is without scarcity:

- (a) The pre-independent Indian economy, where most people were farmers.
- (b) A mythical economy where everybody is a billionaire.
- (c) Any economy where income is distributed equally among its people.
- (d) None of the above.

13. Which of the following is not a subject matter of Micro-economies?

- (a) The price of mangoes.
- (b) The cost of producing a fire truck for the fire department of Delhi, India.
- (c) The quantity of mangoes produced for the mangoes market.
- (d) The national economy's annual rate of growth.

14. The branch of economic theory that deals with the problem of allocation of resources is-

- (a) Micro-Economic theory.
- (b) Macro-economic theory.

NATURE AND SCOPE OF BUSINESS ECONOMICS

- (c) Econometrics.
- (d) None of the above.

15. Which of the following is not the subject matter of Business Economics?

- (a) Should our firm be in this business?
- (b) How much should be produced and at price should be kept?
- (c) How will the product be placed in the market?
- (d) How should we decrease unemployment in the economy?

16. Which of the following is a normative economic statement?

- (a) Unemployment rate decreases with industrialization
- (b) Economics is a social science that studies human behaviour.
- (c) The minimum wage should be raised to ` 200/- per day
- (d) India spends a huge amount of money on national defence.

17. Which of the following would be considered a topic of study in Macroeconomics?

- (a) The effect of increase in wages on the profitability of cotton industry
- (b) The effect on steel prices when more steel is imported
- (c) The effect of an increasing inflation rate on living standards of people in India
- (d) The effect of an increase in the price of coffee on the quantity of tea consumed

18. The difference between positive and normative Economics is:

- (a) Positive Economics explains the performance of the economy while normative Economics finds out the reasons for poor performance.
- (b) Positive Economics describes the facts of the economy while normative Economics involves evaluating whether some of these are good or bad for the welfare of the people.
- (c) Normative Economics describes the facts of the economy while positive Economics involves evaluating whether some of these are good or bad for the welfare of the people.
- (d) Positive Economics prescribes while normative Economics describes.

NATURE AND SCOPE OF BUSINESS ECONOMICS

19. Which of the following is not within the scope of Business Economics?

- (a) Capital Budgeting
- (b) Risk Analysis
- (c) Business Cycles
- (d) Accounting Standards

20. Which of the following statements is incorrect?

- (a) Business economics is normative in nature.
- (b) Business Economics has a close connection with statistics.
- (c) Business Economist need not worry about macro variables.
- (d) Business Economics is also called Managerial Economics.

21. Economic goods are considered scarce resources because they.

- (a) cannot be increased in quantity.
- (b) do not exist in adequate quantity to satisfy the requirements of the society.
- (c) are of primary importance in satisfying social requirements.
- (d) are limited to man made goods.

22. In a free market economy the allocation of resources is determined by

- (a) voting done by consumers.
- (b) a central planning authority.
- (c) consumer preferences.
- (d) the level of profits of firms.

23. A capitalist economy uses _____ as the principal means of allocating resources.

- (a) demand
- (b) supply
- (c) efficiency
- (d) prices

NATURE AND SCOPE OF BUSINESS ECONOMICS

24. Which of the following is considered as a disadvantage of allocating resources using the market system?

- (a) Income will tend to be unevenly distributed.
- (b) People do not get goods of their choice.
- (c) Men of Initiative and enterprise are not rewarded.
- (d) Profits will tend to be low.

25. Which of the following statements does not apply to a market economy?

- (a) Firms decide whom to hire and what to produce.
- (b) Firms aim at maximizing profits.
- (c) Households decide which firms to work for and what to buy with their incomes.
- (d) Government policies are the primary forces that guide the decisions of firms and households.

26. In a mixed economy -

- (a) all economic decisions are taken by the central authority.
- (b) all economic decisions are taken by private entrepreneurs.
- (c) economic decisions are partly taken by the state and partly by the private entrepreneurs.
- (d) none of the above.

27. The central problem in economics is that of

- (a) comparing the success of command versus market economies.
- (b) guaranteeing that production occurs in the most efficient manner.
- (c) guaranteeing a minimum level of income for every citizen.
- (d) allocating scarce resources in such a manner that society's unlimited needs or wants are satisfied in the best possible manner.

28. Capital intensive technique would get chosen in a

- (a) labour surplus economy where the relative price of capital is lower.
- (b) capital surplus economy where the relative price of capital is lower.
- (c) developed economy where technology is better.
- (d) developing economy where technology is poor.

NATURE AND SCOPE OF BUSINESS ECONOMICS

29. Which of the following is not one of the four central questions that the study of economics is supposed to answer?

- (a) Who produces what?
- (b) When are goods produced?
- (c) Who consumes what?
- (d) How are goods produced?

30. Larger production of ____ goods would lead to higher production in future.

- (a) consumer goods
- (b) capital goods
- (c) agricultural goods
- (d) public goods

31. The economic system in which all the means of production are owned and controlled by private individuals for profit.

- (a) Socialism
- (b) Capitalism
- (c) Mixed economy
- (d) Communism

32. Macro Economics is the study of _____.

- (a) all aspects of scarcity.
- (b) the national economy and the global economy as a whole.
- (c) big businesses.
- (d) the decisions of individual businesses and people.

33. Freedom of choice is the advantage of -

- (a) Socialism
- (b) Capitalism
- (c) Communism
- (d) None of the above

NATURE AND SCOPE OF BUSINESS ECONOMICS

34. Exploitation and inequality are minimal under:

- (a) Socialism
- (b) Capitalism
- (c) Mixed economy
- (d) None of the above

35. Administered prices refer to:

- (a) Prices determined by forces of demand and supply
- (b) Prices determined by sellers in the market
- (c) Prices determined by an external authority which is usually the government
- (d) None of the above

36. In Economics, the central economic problem means:

- (a) Output is restricted to the limited availability of resources
- (b) Consumer do not have as much money as they would wish
- (c) There will always be certain level of unemployment
- (d) Resources are not always allocated in an optimum way

37. Scarcity definition of Economics is given by-

- (a) Alfred Marshall
- (b) Samuelson
- (c) Robinson
- (d) Adam Smith

38. The definition “Science which deals with wealth of Nation” was given by:

- (a) Alfred Marshall
- (b) A C Pigou
- (c) Adam Smith
- (d) J B Say

NATURE AND SCOPE OF BUSINESS ECONOMICS

39. Which of the following is not one of the features of capitalist economy?

- (a) Right of private property
- (b) Freedom of choice by the consumers
- (c) No profit, No Loss motive
- (d) Competition

40. There is need of economic study, because –

- (a) The resources are limited
- (b) The wants are unlimited
- (c) The resources are unlimited
- (d) Both a and b

41. The benefit of economic study is –

- (a) It ensure that all problems will be appropriately tackled
- (b) It helps in identifying problems
- (c) It enable to examine a problem in its right perspective
- (d) It gives exact solutions to every problem

42. The managerial economics –

- (a) Is Applied Economics that fills the gap between economic theory and business practice
- (b) Is just a theory concept
- (c) Trains managers how to behave in recession
- (d) Provides the tools which explain various concepts

43. Which of the following statements is correct?

- (a) Micro economics is important for study of a particular household and a particular firm
- (b) Macro economics is important for study of economic conditions of a country
- (c) None of the above
- (d) Both a and b

NATURE AND SCOPE OF BUSINESS ECONOMICS

44. Mr. Satish hired a business consultant to guide him for growth of his business. The consultant visited his factory and suggested some changes with respect to staff appointment, loan availability and so on. Which approach is that consultant using?

- (a) Micro economics
- (b) Macro economics
- (c) None of the above
- (d) Both a and b

45. Profit motive is a merit of

- (a) Socialism
- (b) Capitalism
- (c) Mixed economy
- (d) None of the above

46. _____ is also called as command economy

- (a) Socialist
- (b) Capitalist
- (c) Mixed economy
- (d) None of the above

47. Which of the following statements is/are correct regarding business economics?

- (a) Business economics attempts to indicate how business policies are firmly rooted in economic principles.
- (b) Business economics uses micro economic analysis of the business unit and macro economic analysis of business environment.
- (c) Business economics takes a pragmatic approach towards facilitating an integration between economic theory and business practices.
- (d) All the above.

NATURE AND SCOPE OF BUSINESS ECONOMICS

48. Unlimited ends and limited means together present the problem of _____.

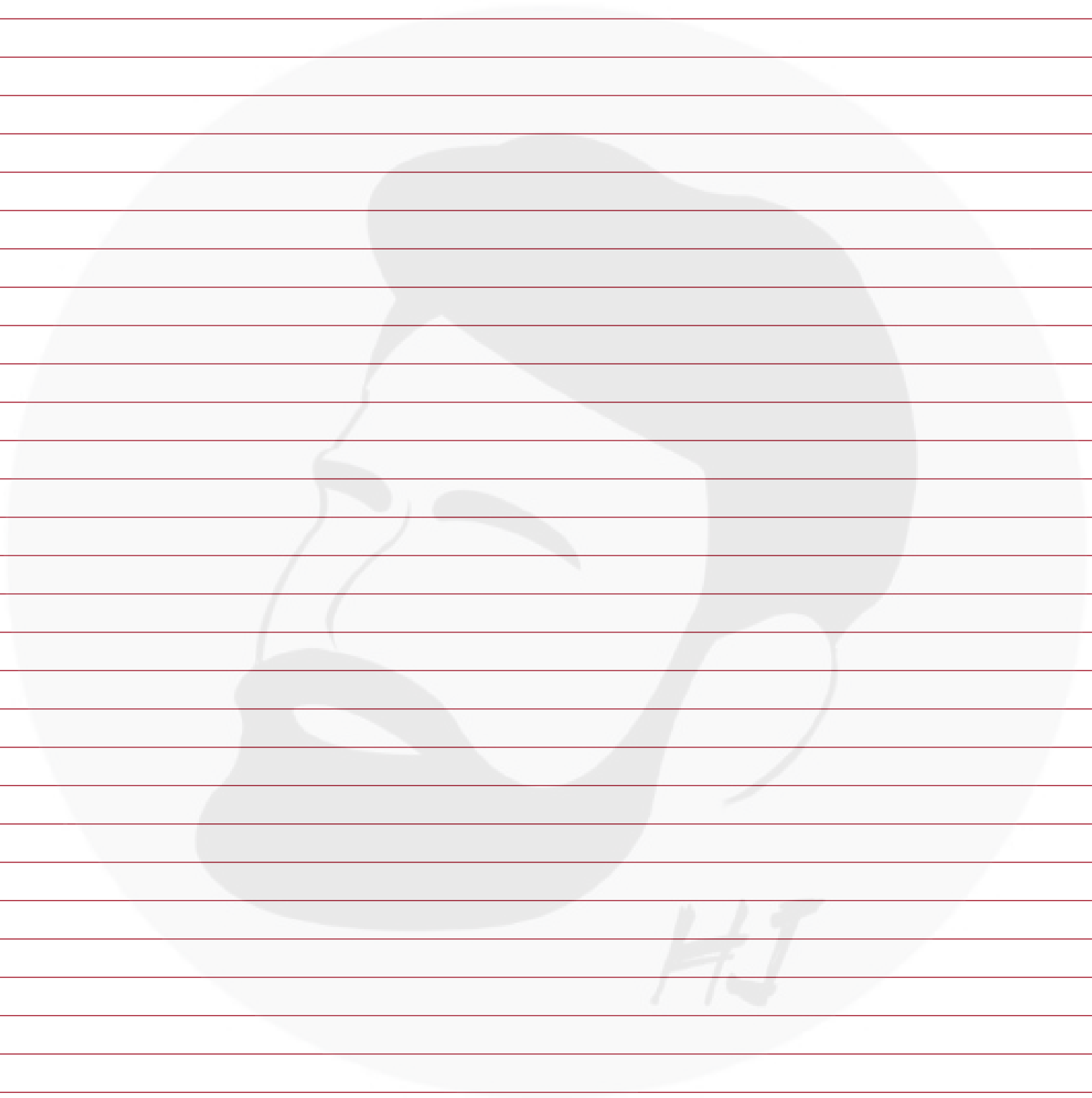
- (a) Scarcity of resources
- (b) Choice
- (c) Distribution
- (d) None of the above

ANSWERS



1. (d)	2. (d)	3. (b)	4. (a)	5. (d)	6. (a)	7. (b)	8. (a)	9. (a)	10. (b)	11. (d)	12. (d)
13. (d)	14. (a)	15. (d)	16. (c)	17. (c)	18. (b)	19. (d)	20. (c)	21. (b)	22. (c)	23. (d)	24. (a)
25. (d)	26. (c)	27. (d)	28. (b)	29. (b)	30. (b)	31. (b)	32. (b)	33. (b)	34. (a)	35. (c)	36. (a)
37. (c)	38. (c)	39. (c)	40. (d)	41. (c)	42. (a)	43. (d)	44. (a)	45. (b)	46. (a)	47. (d)	48. (b)

NATURE AND SCOPE OF BUSINESS ECONOMICS



CHAPTER 2 - THEORY OF DEMAND AND SUPPLY



TEST YOUR KNOWLEDGE



Multiple Choice Questions

1. Demand for a commodity refers to:

- (a) desire backed by ability to pay for the commodity.
- (b) need for the commodity and willingness to pay for it
- (c) the quantity demanded of that commodity at a certain price.
- (d) the quantity of the commodity demanded at a certain price during any particular period of time.

2. Contraction of demand is the result of :

- (a) decrease in the number of consumers.
- (b) increase in the price of the good concerned.
- (c) increase in the prices of other goods.
- (d) decrease in the income of purchasers.

3. All but one of the following are assumed to remain the same while drawing an individual's demand curve for a commodity. Which one is it?

- (a) The preference of the individual.
- (b) His monetary income.
- (c) Price of the commodity
- (d) Price of related goods.

4. Which of the following pairs of goods is an example of substitutes?

- (a) Tea and sugar.
- (b) Tea and coffee.
- (c) Pen and ink.
- (d) Shirt and trousers.

THEORY OF DEMAND AND SUPPLY

5. In the case of a straight line demand curve meeting the two axes, the price-elasticity of demand at the mid-point of the line would be:

- (a) 0
- (b) 1
- (c) 1.5
- (d) 2

6. The Law of Demand, assuming other things to remain constant, establishes the relationship between:

- (a) income of the consumer and the quantity of a good demanded by him.
- (b) price of a good and the quantity demanded.
- (c) price of a good and the demand for its substitute.
- (d) quantity demanded of a good and the relative prices of its complementary goods.

7. Identify the factor which generally keeps the price-elasticity of demand for a good low:

- (a) Variety of uses for that good.
- (b) Very low price of a commodity
- (c) Close substitutes for that good.
- (d) High proportion of the consumer's income spent on it.

8. Identify the coefficient of price-elasticity of demand when the percentage increase in the quantity of a good demanded is smaller than the percentage fall in its price:

- (a) Equal to one.
- (b) Greater than one.
- (c) Less than one.
- (d) Zero.

THEORY OF DEMAND AND SUPPLY

9. In the case of an inferior good, the income elasticity of demand is:

- (a) positive.
- (b) Zero.
- (c) Negative.
- (d) infinite.

10. If the demand for a good is inelastic, an increase in its price will cause the total expenditure of the consumers of the good to:

- (a) Remain the same.
- (b) Increase.
- (c) Decrease.
- (d) Any of these.

11. If regardless of changes in its price, the quantity demanded of a good remains unchanged, then the demand curve for the good will be:

- (a) horizontal.
- (b) Vertical.
- (c) positively sloped.
- (d) negatively sloped.

12. Suppose the price of Pepsi increases, we will expect the demand curve of Coca Cola to:

- (a) Shift towards left since these are substitutes
- (b) Shift towards right since these are substitutes
- (c) Remain at the same level
- (d) None of the above

THEORY OF DEMAND AND SUPPLY

13. All of the following are determinants of demand except:

- (a) Tastes and preferences.
- (b) Quantity supplied.
- (c) Income of the consumer
- (d) Price of related goods.

14. A movement along the demand curve for soft drinks is best described as:

- (a) An increase in demand.
- (b) A decrease in demand.
- (c) A change in quantity demanded.
- (d) A change in demand.

15. If the price of Pepsi decreases relative to the price of Coke and 7-UP, the demand for:

- (a) Coke will decrease.
- (b) 7-Up will decrease.
- (c) Coke and 7-UP will increase.
- (d) Coke and 7-Up will decrease.

16. If a good is a luxury, its income elasticity of demand is:

- (a) Positive and less than 1.
- (b) Negative but greater than -1.
- (c) Positive and greater than 1.
- (d) Zero.

17. The price of hot dogs increases by 22% and the quantity of hot dogs demanded falls by 25%. This indicates that demand for hot dogs is:

- (a) Elastic.
- (b) Inelastic.
- (c) Unitarily elastic.
- (d) Perfectly elastic.

THEORY OF DEMAND AND SUPPLY

18. If the quantity demanded of mutton increases by 5% when the price of chicken increases by 20%, the cross-price elasticity of demand between mutton and chicken is

- (a) -0.25
- (b) 0.25
- (c) -4
- (d) 4

19. Given the following four possibilities, which one results in an increase in total consumer expenditure?

- (a) Demand is unitary elastic and price falls.
- (b) Demand is elastic and price rises.
- (c) Demand is inelastic and price falls.
- (d) Demand is inelastic and prices rises.

20. Which of the following statements about price elasticity of supply is correct?

- (a) Price elasticity of supply is a measure of how much the quantity supplied of a good responds to a change in the price of that good
- (b) Price elasticity of supply is computed as the percentage change in quantity supplied divided by the percentage change in price
- (c) Price elasticity of supply in the long run would be different from that of the short run
- (d) All the above

21. Which of the following is an incorrect statement?

- (a) When goods are substitutes, a fall in the price of one (ceteris paribus) leads to a fall in the quantity demanded of its substitutes.
- (b) When commodities are complements, a fall in the price of one (other things being equal) will cause the demand of the other to rise
- (c) As the income of the consumer increases, the demand for the commodity increases always and vice versa.
- (d) When a commodity becomes fashionable people prefer to buy it and therefore its demand increases

THEORY OF DEMAND AND SUPPLY

22. Suppose the price of movies seen at a theatre rises from ` 120 per person to ` 200 per person. The theatre manager observes that the rise in price causes attendance at a given movie to fall from 300 persons to 200 persons. What is the price elasticity of demand for movies? (Use Arc Elasticity Method)

- (a) .5
- (b) .8
- (c) 1.0
- (d) 1.2

23. Suppose a department store has a sale on its silverware. If the price of a plate-setting is reduced from ` 300 to ` 200 and the quantity demanded increases from 3,000 plate-ettings to 5,000 plate-settings, what is the price elasticity of demand for silverware? (Use Arc Elasticity Method)

- (a) .8
- (b) 1.0
- (c) 1.25
- (d) 1.50

24. When the numerical value of cross elasticity between two goods is very high, it means

- (a) The goods are perfect complements and therefore have to be used together
- (b) The goods are perfect substitutes and can be used with ease in place of one another
- (c) There is a high degree of substitutability between the two goods
- (d) The goods are neutral and therefore cannot be considered as substitutes

25. If the local pizzeria raises the price of a medium pizza from ` 60 to ` 100 and quantity demanded falls from 700 pizzas a night to 100 pizzas a night, the price elasticity of demand for pizzas is :(Use Arc Elasticity Method)

- (a) .67
- (b) 1.5
- (c) 2.0
- (d) 3.0

THEORY OF DEMAND AND SUPPLY

26. If electricity demand is inelastic, and electricity charges increase, which of the following is likely to occur?

- (a) Quantity demanded will fall by a relatively large amount.
- (b) Quantity demanded will fall by a relatively small amount.
- (c) Quantity demanded will rise in the short run, but fall in the long run.
- (d) Quantity demanded will fall in the short run, but rise in the long run.

27. Suppose the demand for meals at a medium-priced restaurant is elastic. If the management of the restaurant is considering raising prices, it can expect a relatively:

- (a) Large fall in quantity demanded.
- (b) Large fall in demand.
- (c) Small fall in quantity demanded.
- (d) Small fall in demand.

28. Point elasticity is useful for which of the following situations?

- (a) The bookstore is considering doubling the price of notebooks.
- (b) A restaurant is considering lowering the price of its most expensive dishes by 50 percent.
- (c) An auto producer is interested in determining the response of consumers to the price of cars being lowered by ₹ 100.
- (d) None of the above.

29. A decrease in price will result in an increase in total revenue if:

- (a) The percentage change in quantity demanded is less than the percentage change in price.
- (b) The percentage change in quantity demanded is greater than the percentage change in price.
- (c) Demand is inelastic.
- (d) The consumer is operating along a linear demand curve at a point at which the price is very low and the quantity demanded is very high.

THEORY OF DEMAND AND SUPPLY

30. An increase in price will result in an increase in total revenue if:

- (a) The percentage change in quantity demanded is less than the percentage change in price.
- (b) The percentage change in quantity demanded is greater than the percentage change in price.
- (c) Demand is elastic.
- (d) The consumer is operating along a linear demand curve at a point at which the price is very high and the quantity demanded is very low.

31. Demand for a good will tend to be more elastic if it exhibits which of the following characteristics?

- (a) It represents a small part of the consumer's income.
- (b) The good has many substitutes available.
- (c) It is a necessity (as opposed to a luxury).
- (d) There is little time for the consumer to adjust to the price change.

32. Demand for a good will tend to be more inelastic if it exhibits which of the following characteristics?

- (a) The good has many substitutes.
- (b) The good is a luxury (as opposed to a necessity).
- (c) The good is a small part of the consumer's income.
- (d) There is a great deal of time for the consumer to adjust to the change in prices.

33. Suppose a consumer's income increases from ₹ 30,000 to ₹ 36,000. As a result, the consumer increases her purchases of compact discs (CDs) from 25 CDs to 30 CDs. What is the consumer's income elasticity of demand for CDs? (Use Arc Elasticity Method)

- (a) 0.5
- (b) 1.0
- (c) 1.5
- (d) 2.0

THEORY OF DEMAND AND SUPPLY

34. Total utility is maximum when:

- (a) Marginal utility is zero.
- (b) Marginal utility is at its highest point.
- (c) Marginal utility is negative
- (d) None of the above

35. Which one is not an assumption of the theory of demand based on analysis of indifference curves?

- (a) Given scale of preferences as between different combinations of two goods.
- (b) Diminishing marginal rate of substitution.
- (c) Diminishing marginal utility of money
- (d) Consumers would always prefer more of a particular good to less of it, other things remaining the same.

36. An indifference curve slopes down towards right since more of one commodity and less of another result in:

- (a) Same level of satisfaction.
- (b) Greater satisfaction.
- (c) Maximum satisfaction.
- (d) Any of the above

37. Suppose that workers in a steel plant managed to force a significant increase in their wage package. How would the new wage contract be likely to affect the market supply of steel, other things remaining the same?

- (a) Supply curve will shift to the left.
- (b) Supply curve will shift to the right.
- (c) Supply will not shift, but the quantity of cars produced per month will decrease.
- (d) Supply will not shift, but the quantity of cars produced per month will increase.

THEORY OF DEMAND AND SUPPLY

38. Which of the following statements is incorrect?

- (a) An indifference curve must be downward-sloping to the right.
- (b) Convexity of a curve implies that the slope of the curve diminishes as one moves from left to right.
- (c) The income elasticity for inferior goods to a consumer is positive
- (d) The total effect of a change in the price of a good on its quantity demanded is called the price effect.

39. The successive units of stamps collected by a little boy give him greater and greater satisfaction. This is a clear case of

- (a) Operation of the law of demand.
- (b) Consumer surplus enjoyed in hobbies and rare collections
- (c) Exception to the law of diminishing utility.
- (d) None of the above

40. What will happen in the rice market if buyers are expecting higher rice prices in the near future?

- (a) The demand for rice will increase and the demand curve will shift to the right
- (b) The demand for rice will decrease and the demand curve will shift to the left
- (c) The demand for rice will be unaffected as it is a necessity
- (d) The demand for wheat will increase and the demand curve will shift to the right

41. In the case of a Giffen good, the demand curve will usually be:

- (a) horizontal.
- (b) downward-sloping to the right.
- (c) vertical.
- (d) upward-sloping to the right.

42. By consumer surplus, economists mean

- (a) The area inside the budget line above the price of the commodity
- (b) The area between the average revenue and marginal revenue curves.

THEORY OF DEMAND AND SUPPLY

(c) The difference between the maximum amount that a person is willing to pay for a good and its market price.

(d) The difference between the market price and the supply curve

43. Which of the following is a property of an indifference curve?

(a) It is convex to the origin due to diminishing marginal rate of substitution

(b) The marginal rate of substitution is constant as you move along an indifference curve.

(c) Marginal utility is constant as you move along an indifference curve.

(d) Total utility is greatest where the budget line cuts the indifference curve.

44. When economists speak of the utility of a certain good, they are referring to

(a) The demand for the good.

(b) The usefulness of the good in consumption.

(c) The expected satisfaction derived from consuming the good.

(d) The rate at which consumers are willing to exchange one good for another.

45. A vertical supply curve parallel to Y axis implies that the elasticity of supply is:

(a) Zero

(b) Infinity

(c) Equal to one

(d) Greater than zero but less than infinity.

46. For a normal good with a downward sloping demand curve:

(a) The price elasticity of demand is negative; the income elasticity of demand is negative.

(b) The price elasticity of demand is positive; the income elasticity of demand is negative.

(c) The price elasticity of demand is positive; the income elasticity of demand is positive.

(d) The price elasticity of demand is negative; the income elasticity of demand is positive.

THEORY OF DEMAND AND SUPPLY

47. An increase in the supply of a good is caused by :

- (a) Improvements in its production technology
- (b) Fall in the prices of other goods which can be produced using the same inputs.
- (c) Fall in the prices of factors of production used in its production.
- (d) all of the above.

48. Elasticity of supply refers to the degree of responsiveness of supply of a good to changes in its:

- (a) Demand.
- (b) Price.
- (c) Cost of production.
- (d) State of technology.

49. A horizontal supply curve parallel to the quantity axis implies that the elasticity of supply is:

- (a) Zero.
- (b) Infinite.
- (c) Equal to one.
- (d) Greater than zero but less than one.

50. Contraction of supply is the result of:

- (a) Decrease in the number of producers.
- (b) Decrease in the price of the good concerned.
- (c) Increase in the prices of other goods.
- (d) Decrease in the outlay of sellers.

51. Conspicuous goods are also known as

- (a) Prestige goods
- (b) Snob goods

THEORY OF DEMAND AND SUPPLY

- (c) Veblen goods
- (d) All of the above

52. The quantity purchased remains constant irrespective of the change in income. This is known as

- (a) negative income elasticity of demand
- (b) income elasticity of demand less than one
- (c) zero income elasticity of demand
- (d) income elasticity of demand is greater than one

53. As income increases, the consumer will go in for superior goods and consequently the demand for inferior goods will fall. This means inferior goods have

- (a) income elasticity of demand less than one
- (b) negative income elasticity of demand
- (c) zero income elasticity of demand
- (d) unitary income elasticity of demand

54. When income increases the money spent on necessities of life may not increase in the same proportion. This means

- (a) income elasticity of demand is zero
- (b) income elasticity of demand is one
- (c) income elasticity of demand is greater than one
- (d) income elasticity of demand is less than one

55. The luxury goods like jewellery and fancy articles will have

- (a) low income elasticity of demand
- (b) high income elasticity of demand
- (c) zero income elasticity of demand
- (d) none of the above

THEORY OF DEMAND AND SUPPLY

56. A good which cannot be consumed more than once is known as

- (a) Durable good
- (b) Non-durable good
- (c) Producer good
- (d) None of the above

57. A relative price is

- (a) price expressed in terms of money
- (b) what you get paid for babysitting your cousin
- (c) the ratio of one money price to another
- (d) equal to a money price

58. A point below the budget line of a consumer

- (a) Represents a combination of goods which costs the whole of consumer's income
- (b) Represents a combination of goods which costs less than the consumer's income
- (c) Represents a combination of goods which is unattainable to the consumer given his/her money income
- (d) Represents a combination of goods which costs more than the consumers' income

59. Demand is the

- (a) the desire for a commodity given its price and those of related commodities
- (b) the entire relationship between the quantity demanded and the price of a good other things remaining the same
- (c) willingness to pay for a good if income is larger enough
- (d) ability to pay for a good

60. Suppose potatoes have $(-).0.4$ as income elasticity. We can say from the data given that:

- (a) Potatoes are superior goods.
- (b) Potatoes are necessities.
- (c) Potatoes are inferior goods.
- (d) There is a need to increase the income of consumers so that they can purchase potatoes.

THEORY OF DEMAND AND SUPPLY

61. The price of tomatoes increases and people buy tomato puree. You infer that tomato puree and tomatoes are

- (a) Normal goods
- (b) Complements
- (c) Substitutes
- (d) Inferior goods

62. Chicken and fish are substitutes. If the price of chicken increases, the demand for fish will

- (a) Increase or decrease but the demand curve for chicken will not change
- (b) Increase and the demand curve for fish will shift rightwards.
- (c) Not change but there will be a movement along the demand curve for fish.
- (d) Decrease and the demand curve for fish will shift leftwards.

63. Potato chips and popcorn are substitutes. A rise in the price of potato chips will _____ the demand for popcorn and the quantity of popcorn sold will _____

- (a) increase; increase
- (b) increase; decrease
- (c) decrease; decrease
- (d) decrease; increase

64. If the price of orange Juice increases, the demand for apple Juice will _____.

- (a) increase because they are substitutes
- (b) decrease because they are substitutes
- (c) remain the same because real income is increased
- (d) decrease as real income decreases

65. An increase in the demand for computers, other things remaining same, will:

- (a) Increase the number of computers bought.
- (b) Decrease the price but increase the number of computers bought.

THEORY OF DEMAND AND SUPPLY

- (c) Increase the price of computers.
- (d) Increase the price and number of computers bought.

66. When total demand for a commodity whose price has fallen increases, it is due to:

- (a) Income effect.
- (b) Substitution effect
- (c) Complementary effect
- (d) Price effect

67. With a fall in the price of a commodity:

- (a) Consumer's real income increases
- (b) Consumer's real income decreases
- (c) There is no change in the real income of the consumer
- (d) None of the above

68. With an increase in the price of diamond, the quantity demanded also increases. This is because it is a:

- (a) Substitute good
- (b) Complementary good
- (c) Conspicuous good
- (d) None of the above

69. An example of goods that exhibit direct price-demand relationship is

- (a) Giffen goods
- (b) Complementary goods
- (c) Substitute goods
- (d) None of the above

THEORY OF DEMAND AND SUPPLY

70. In Economics, when demand for a commodity increases with a fall in its price it is known as:

- (a) Contraction of demand
- (b) Expansion of demand
- (c) No change in demand
- (d) None of the above

71. The quantity supplied of a good or service is the amount that

- (a) is actually bought during a given time period at a given price
- (b) producers wish they could sell at a higher price
- (c) producers plan to sell during a given time period at a given price
- (d) people are willing to buy during a given time period at a given price

72. Supply is the

- (a) limited resources that are available with the seller
- (b) cost of producing a good
- (c) entire relationship between the quantity supplied and the price of good.
- (d) Willingness to produce a good if the technology to produce it becomes available

73. In the book market, the supply of books will decrease if any of the following occurs except

- (a) a decrease in the number of book publishers
- (b) a decrease in the price of the book
- (c) an increase in the future expected price of the book
- (d) an increase in the price of paper used.

74. If price of computers increases by 10% and supply increases by 25%. The elasticity of supply is :

- (a) 2.5
- (b) 0.4
- (c) (-) 2.5
- (d) (-) 0.4

THEORY OF DEMAND AND SUPPLY

75. An increase in the number of sellers of bikes will increase the

- (a) The price of a bike
- (b) Demand for bikes
- (c) The supply of bikes
- (d) Demand for helmets

76. If the supply of bottled water decreases, other things remaining the same, the equilibrium price _____ and the equilibrium quantity _____

- (a) increases; decreases
- (b) decreases; increases
- (c) decreases; decreases
- (d) increases; increases

77. A decrease in the demand for cameras, other things remaining the same will

- (a) Increase the number of cameras bought
- (b) Decrease the price but increase the number of cameras bought
- (c) Decrease in quantity of camera demanded
- (d) Decrease the price and decrease in the number of cameras bought.

78. Which of the following statements about inferior goods is/are false?

- I. Inferior goods are those that we will never buy, no matter how cheap they are.
- II. Inferior goods are those that we buy more of, if we become poorer.
- III. Inferior goods are those that we buy more of, if we become richer.

- (a) I and III only.
- (b) I only
- (c) III only.
- (d) I, II, and III.

THEORY OF DEMAND AND SUPPLY

79. Comforts lie between

- (a) inferior goods and necessities
- (b) luxuries and inferior goods
- (c) necessities and luxuries
- (d) none of the above

80. In a very short period, the supply

- (a) can be changed
- (b) can not be changed
- (c) can be increased
- (d) none of the above

81. When supply curve moves to the left, it means

- (a) lesser quantity is supplied at a given price
- (b) larger quantity is supplied at a given price
- (c) prices have fallen and quantity is supplied at a lower price
- (d) none of the above

82. When supply curve moves to right, it means

- (a) supply increases and more quantity is supplied at a given price
- (b) supply decreases and less quantity is supplied at a given price
- (c) supply remains constant at a given price
- (d) none of the above

83. The elasticity of supply is defined as the

- (a) responsiveness of the quantity supplied of a good to a change in its price
- (b) responsiveness of the quantity supplied of a good without change in its price
- (c) responsiveness of the quantity demanded of a good to a change in its price
- (d) responsiveness of the quantity demanded of a good without change in its price

THEORY OF DEMAND AND SUPPLY

84. Elasticity of supply is measured by dividing the percentage change in quantity supplied of a good by _____

- (a) Percentage change in income
- (b) Percentage change in quantity demanded of goods
- (c) Percentage change in price
- (d) Percentage change in taste and preference

85. Elasticity of supply is zero means

- (a) perfectly inelastic supply
- (b) perfectly elastic supply
- (c) imperfectly elastic supply
- (d) none of the above

86. Elasticity of supply is greater than one when

- (a) Proportionate change in quantity supplied is more than the proportionate change in price.
- (b) Proportionate change in price is greater than the proportionate change in quantity supplied.
- (c) change in price and quantity supplied are equal
- (d) None of the above

87. If the quantity supplied is exactly equal to the relative change in price then the elasticity of supply is

- (a) Less than one
- (b) Greater than one
- (c) One
- (d) None of the above

THEORY OF DEMAND AND SUPPLY

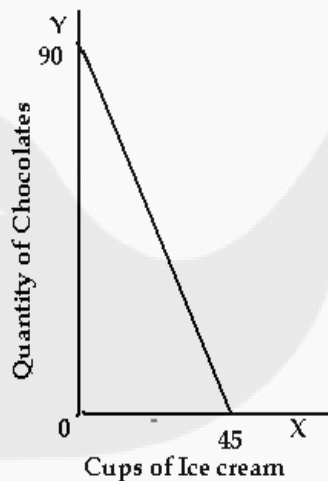
88. The price of a commodity decreases from ₹ 6 to ₹ 4 and the quantity demanded of the good increases from 10 units to 15 units. Find the coefficient of price elasticity.

- (a) 1.5
- (b) 2.5
- (c) -1.5
- (d) 0.5

89. The supply function is given as $Q = -100 + 10P$. Find the elasticity using point method, when price is ₹ 15.

- (a) 4
- (b) -3
- (c) -5
- (d) 3

90. The figure below shows the budget constraint of a consumer with an income of ₹ 900/- to spend on two commodities, namely ice cream and chocolates.



The prices of these two commodities respectively are:

- (a) ₹ 10 and ₹ 20
- (b) ₹ 20 and ₹ 10
- (c) ₹ 10 and ₹ 5
- (d) Any of the above

THEORY OF DEMAND AND SUPPLY

91. 'No matter what the price of coffee is, Arjun always spend a total of exactly 100 per week on coffee.' The statement implies that:

- (a) Arjun is very fond of coffee and therefore he has an inelastic demand for coffee
- (b) Arjun has elastic demand for coffee
- (c) Arjun's demand for coffee is relatively less elastic
- (d) Arjun's demand for coffee is unit elastic

92. A firm learns that the own price elasticity of a product it manufactures is 3.5. What would be the correct action for this firm to take if it wishes to raise its total revenue?

- (a) Lower the price because demand for the good is elastic.
- (b) Raise the price because demand for the product is inelastic.
- (c) Raise the price because demand is elastic.
- (d) We need information in order to answer this question.

93. At higher prices people demand more of certain goods not for their worth but for their prestige value – This is called

- (a) Veblen effect
- (b) Giffens paradox
- (c) Speculative effect
- (d) None of the above

94. If the price of air-conditioner increases from ` 30,000 to ` 30,010 and resultant change in demand is negligible, we use the measure of _____ to measure elasticity.

- (a) Point elasticity of demand since it is a small change
- (b) Arc elasticity of demand since it is a small change
- (c) Price elasticity based on average prices method
- (d) Any of the above

THEORY OF DEMAND AND SUPPLY

95. Given the following four possibilities, which one will result in an increase in total expenditure of the consumer?

- (a) Demand is unit elastic and price rises
- (b) Demand is elastic and price rises
- (c) Demand is inelastic and price falls
- (d) demand is inelastic and price rises

96. The supply curve shifts to the right because of _____

- (a) improved technology
- (b) increased price of factors of production
- (c) increased excise duty
- (d) all of the above

97. Which of the following statements is correct?

- (a) When the price falls the quantity demanded falls
- (b) Seasonal changes do not affect the supply of a commodity
- (c) Taxes and subsidies do not influence the supply of the commodity
- (d) With lower cost, it is profitable to supply more of the commodity.

98. If the demand is more than supply, then the pressure on price will be

- (a) Upward
- (b) Downward
- (c) Constant
- (d) None of the above

99. The supply curve for highly perishable commodities during very short period is generally _____

- (a) Elastic
- (b) Inelastic

THEORY OF DEMAND AND SUPPLY

- (c) Perfectly elastic
- (d) Perfectly inelastic

100. Supply is a _____ concept.

- (a) Stock
- (b) Flow and stock
- (c) Flow
- (d) None of the above

101. The cross elasticity between Rye bread and Whole Wheat bread is expected to be:

- (a) Positive
- (b) Negative
- (c) Zero
- (d) Can't say

102. The cross elasticity between personal computers and soft wares is:

- (a) Positive
- (b) Zero
- (c) Negative
- (d) One

103. The cross elasticity between Bread and DVDs is:

- (a) Positive
- (b) Negative
- (c) Zero
- (d) One

THEORY OF DEMAND AND SUPPLY

104. Which of the following statements is correct?

- (a) With the help of statistical tools, the demand can be forecasted with perfect accuracy
- (b) The more the number of substitutes of a commodity, the more elastic is the demand.
- (c) Demand for butter is perfectly elastic.
- (d) Gold jewellery will have negative income elasticity.

105. Suppose the income elasticity of education in private school in India is 3.6. What does this indicate:

- (a) Private school education is highly wanted by rich
- (b) Private school education is a necessity.
- (c) Private school education is a luxury.
- (d) We should have more private schools.

106. If the organizers of an upcoming cricket match decide to increase the ticket price in order to raise its revenues, what they have learned from past experience is;

- (a) The percentage increase in ticket rates will be always equal the percentage decrease in tickets sold
- (b) The percentage increase in ticket rates will be always greater than the percentage decrease in tickets sold
- (c) The percentage increase in ticket rates will be less than the percentage decrease in tickets sold
- (d) (a) and (c) above are true

107. Data on production of vegetables for the past two years showed that, despite stable prices, there is a substantial decline in output of cabbage leading to lower supply into the market. Which of the following can possibly be the reason?

- (a) An increase in the price of cauliflower which is equally preferred by consumers
- (b) Announcement of a subsidy by government on vegetable production
- (c) More farmers producing cabbage and the increasing competition among them
- (d) A substantial decrease in the price of capsicum

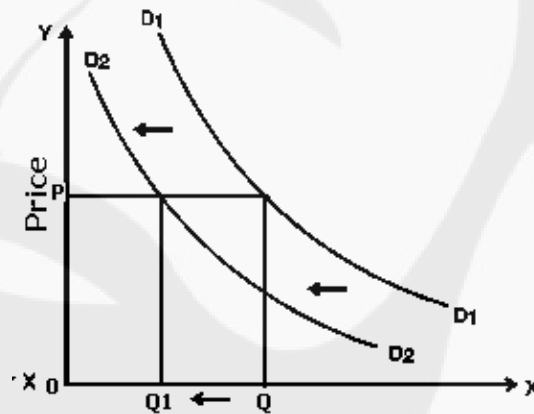
THEORY OF DEMAND AND SUPPLY

108. The following diagram shows the relationship between price of Good X and quantity demanded of Good Y. What we infer from the diagram is;



- (a) Good X and Good Y are perfect complements
- (b) Good X and Good Y are perfect substitutes
- (c) Good X and Good Y are remote substitutes
- (d) Good X and Good Y are close substitutes

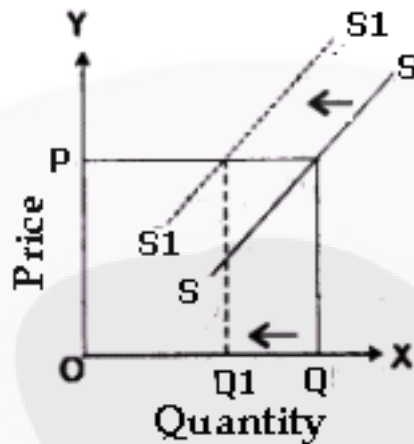
109. The diagram given below shows



- (a) A change in demand which may be caused by a rise in income and the good is a normal good
- (b) A shift of demand curve caused by a fall in the price of a complementary good
- (c) A change in demand which is caused by a rise in income and the good is an inferior good
- (d) A shift of demand curve caused by a rise in the price of a substitute and the good is a normal good.

THEORY OF DEMAND AND SUPPLY

110. Which of the following alternatives would be true if the event presented in the following diagram occurs?



- (a) A fall in wage costs of the firm along with a fall in consumer incomes
- (b) A shortage of raw materials and consequent increase in raw material price
- (c) An increase in subsidy by the government and a reduction in taxes
- (d) Decrease in the market price of the commodity in question

111. The demand curve of a normal good has shifted to the right. Which of the four events would have caused the shift?

- (a) A fall in the price of a substitute with the price of the good unchanged
- (b) A fall in the nominal income of the consumer and a fall in the price of the normal good
- (c) A fall in the price of a complementary good with the price of the normal good unchanged
- (d) A fall in the price of the normal good, other things remaining the same

112. If roller-coaster ride is a function of amusement park visit, then, if the price of amusement park entry falls

- (a) The demand for roller-coaster rides will rise and the demand curve will shift to right
- (b) The demand for roller coaster ride cannot be predicted as it depends on the tastes of consumers for the ride
- (c) There will be an expansion in the demand for roller coaster drive as it complementary
- (d) None of the above

THEORY OF DEMAND AND SUPPLY

113. If a short run supply curve is plotted for the following table which presents price and quantity of fighter aircrafts, what will be its shape?

Price in millions of \$	Number of Aircrafts
124	28
140	28
150	28
160	28
175	28

- (a) Horizontal straight line parallel to the quantity axis
- (b) Steeply rising with elasticity less than one
- (c) Vertical straight line parallel to Y axis
- (d) A perfectly elastic supply curve

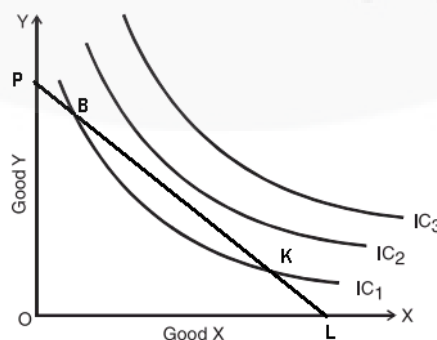
114. The average income of residents of two cities A and B and the corresponding change in demand for two goods is given in the following table. Which of the following statements is true?

City	%Increase In Income	% change in demand for Good X	% change in demand for Good Y
A	12	6.5	- 2.3
B	9	5.6	1.6

- (a) Both goods are normal goods in both cities A and B
- (b) Good X is a normal good in both cities; good Y is an inferior good in city A
- (c) Good X is a normal good in both cities; good Y is an inferior good in city B
- (d) Need more information to make an accurate comment

Refer to the figure below. Answer questions 115 and 116

115. If this consumer is spending her entire income and consuming at point B, what advise will you give her?



THEORY OF DEMAND AND SUPPLY

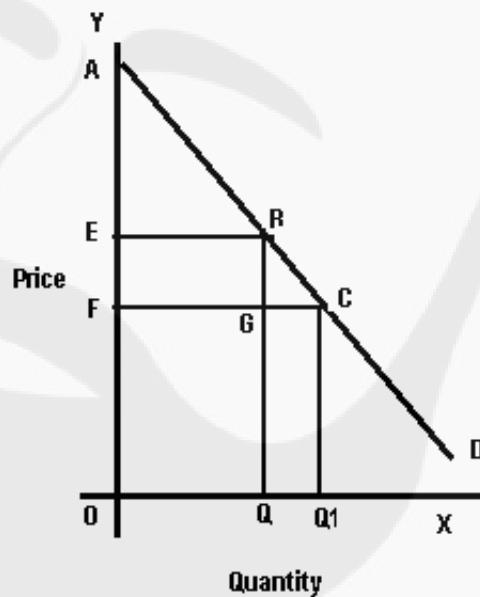
- (a) No advise needed, as she is maximizing her utility at B
- (b) Consume more of Good X and less of Good Y
- (c) Consume more of X and less of Y and reach point K
- (d) Consume same quantity of Good Y and more of Good X

116. Which of the following statements is true about this consumer?

- (a) The consumer is not maximizing her utility at point K
- (b) The consumer is spending her entire income on both goods
- (c) The consumer gets equal pleasure at points B and K
- (d) All the above

Refer to the figure below. Answer questions 117 and 118

117. The effect on consumer surplus of a fall in price from E to F is



- (a) A decrease in consumer surplus by EFGR
- (b) A decrease in consumer surplus by AER
- (c) A decrease in consumer surplus by EFCR
- (d) None of the above

THEORY OF DEMAND AND SUPPLY

118. When price rises from F to E, the increase in revenue earned by the seller is

- (a) Equivalent to area EFGR
- (b) Equivalent to area EFCR
- (c) Equivalent to area AER
- (d) None of the above

119. How would that budget line be affected if the price of both goods fell?

- (a) The budget line would not shift.
- (b) The new budget line must be parallel to the old budget line.
- (c) The budget line must be shifting to the left
- (d) The new budget line will have the same slope as the original so long as the prices of both goods change in the same proportion.

120. During a recession, economies experience increased unemployment and a reduced level of income. How would a recession likely to affect the market demand for new cars?

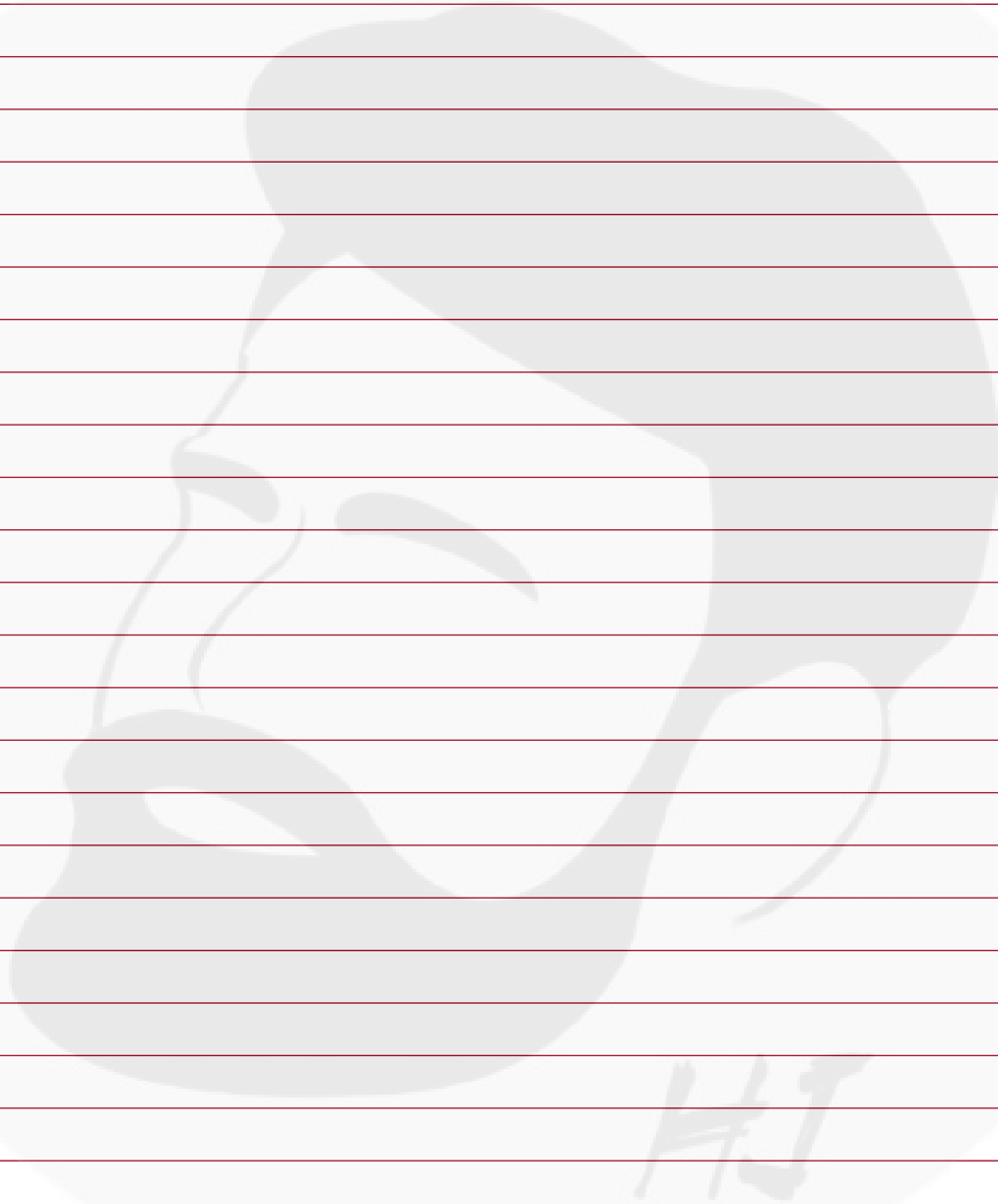
- (a) Demand curve will shift to the right.
- (b) Demand curve will shift to the left.
- (c) Demand will not shift, but the quantity of cars sold per month will decrease.
- (d) Demand will not shift, but the quantity of cars sold per month will increase.

ANSWERS

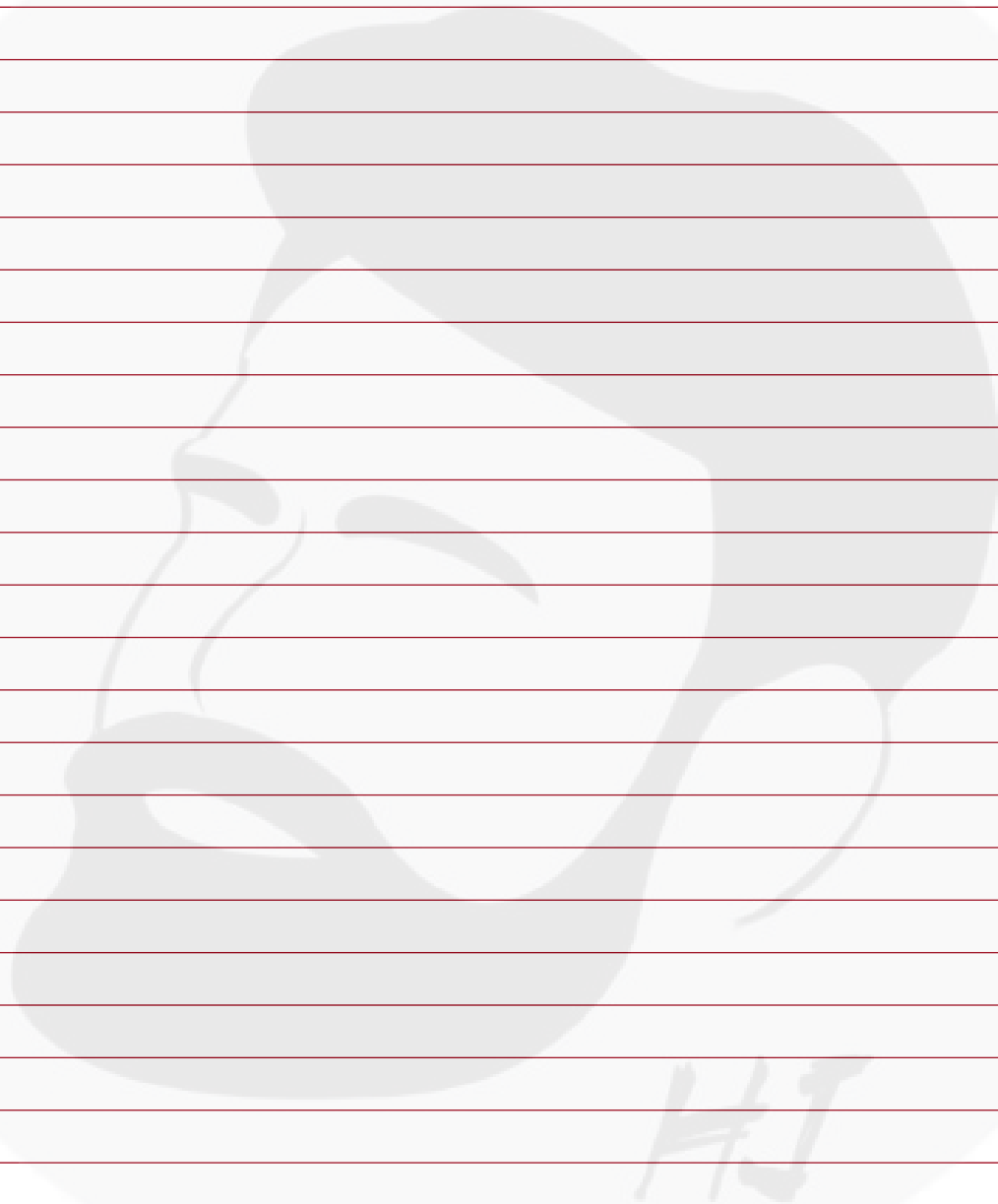


1. (d)	2. (b)	3. (c)	4. (b)	5. (b)	6. (b)	7. (b)	8. (c)	9. (c)	10. (b)	11. (b)	12. (b)
13. (b)	14. (c)	15. (d)	16. (c)	17. (a)	18. (b)	19. (d)	20. (d)	21. (c)	22. (b)	23. (c)	24. (c)
25. (d)	26. (b)	27. (a)	28. (c)	29. (b)	30. (a)	31. (b)	32. (c)	33. (b)	34. (a)	35. (c)	36. (a)
37. (a)	38. (c)	39. (c)	40. (a)	41. (d)	42. (c)	43. (a)	44. (c)	45. (a)	46. (d)	47. (d)	48. (b)
49. (b)	50. (b)	51. (d)	52. (c)	53. (b)	54. (d)	55. (b)	56. (b)	57. (c)	58. (b)	59. (b)	60. (c)
61. (c)	62. (b)	63. (a)	64. (a)	65. (d)	66. (d)	67. (a)	68. (c)	69. (a)	70. (b)	71. (c)	72. (c)
73. (b)	74. (a)	75. (c)	76. (a)	77. (c)	78. (a)	79. (c)	80. (b)	81. (a)	82. (a)	83. (a)	84. (c)
85. (a)	86. (a)	87. (c)	88. (a)	89. (d)	90. (b)	91. (d)	92. (a)	93. (a)	94. (a)	95. (d)	96. (a)
97. (d)	98. (a)	99. (d)	100. (c)	101. (a)	102. (c)	103. (c)	104. (b)	105. (c)	106. (b)	107. (a)	108. (d)
109. (c)	110. (b)	111. (c)	112. (a)	113. (c)	114. (b)	115. (b)	116. (d)	117. (d)	118. (a)	119. (d)	120. (b)

THEORY OF DEMAND AND SUPPLY



THEORY OF DEMAND AND SUPPLY



CHAPTER 3 - THEORY OF PRODUCTION AND COST



TEST YOUR KNOWLEDGE



Multiple Choice Questions

1. Which of the following is considered production in Economics?

- (a) Tilling of soil.
- (b) Singing a song before friends.
- (c) Preventing a child from falling into a manhole on the road.
- (d) Painting a picture for pleasure.

2. Identify the correct statement:

- (a) The average product is at its maximum when marginal product is equal to average product.
- (b) The law of increasing returns to scale relates to the effect of changes in factor proportions.
- (c) Economies of scale arise only because of indivisibilities of factor proportions.
- (d) Internal economies of scale can accrue when industry expands beyond optimum.

3. Which of the following is not a characteristic of land?

- (a) Its supply for the economy is limited.
- (b) It is immobile.
- (c) Its usefulness depends on human efforts.
- (d) It is produced by our forefathers.

4. Which of the following statements is true?

- (a) Accumulation of capital depends solely on income of individuals.
- (b) Savings can be influenced by government policies.
- (c) External economies go with size and internal economies with location.
- (d) The supply curve of labour is an upward slopping curve.

THEORY OF PRODUCTION AND COST

5. In the production of wheat, all of the following are variable factors that are used by the farmer except:

- (a) the seed and fertilizer used when the crop is planted.
- (b) the field that has been cleared of trees and in which the crop is planted.
- (c) the tractor used by the farmer in planting and cultivating not only wheat but also corn and barley.
- (d) the number of hours that the farmer spends in cultivating the wheat fields.

6. The marginal product of a variable input is best described as:

- (a) total product divided by the number of units of variable input.
- (b) the additional output resulting from a one unit increase in the variable input.
- (c) the additional output resulting from a one unit increase in both the variable and fixed inputs.
- (d) the ratio of the amount of the variable input that is being used to the amount of the fixed input that is being used.

7. Diminishing marginal returns implies:

- (a) decreasing average variable costs.
- (b) decreasing marginal costs.
- (c) increasing marginal costs.
- (d) decreasing average fixed costs.

8. The short run, as economists use the phrase, is characterized by:

- (a) at least one fixed factor of production and firms neither leaving nor entering the industry.
- (b) generally a period which is shorter than one year.
- (c) all factors of production are fixed and no variable inputs.
- (d) all inputs are variable and production is done in less than one year.

9. The marginal, average, and total product curves encountered by the firm producing in the short run exhibit all of the following relationships except:

- (a) when total product is rising, average and marginal product may be either rising or falling.
- (b) when marginal product is negative, total product and average product are falling.
- (c) when average product is at a maximum, marginal product equals average product, and total product is rising.
- (d) when marginal product is at a maximum, average product equals marginal product, and total product is rising.

THEORY OF PRODUCTION AND COST

10. To economists, the main difference between the short run and the long run is that:

- (a) In the short run all inputs are fixed, while in the long run all inputs are variable.
- (b) In the short run the firm varies all of its inputs to find the least-cost combination of inputs.
- (c) In the short run, at least one of the firm's input levels is fixed.
- (d) In the long run, the firm is making a constrained decision about how to use existing plant and equipment efficiently.

11. Which of the following is the best definition of "production function"?

- (a) The relationship between market price and quantity supplied.
- (b) The relationship between the firm's total revenue and the cost of production.
- (c) The relationship between the quantities of inputs needed to produce a given level of output.
- (d) The relationship between the quantity of inputs and the firm's marginal cost of production.

12. The "law of diminishing returns" applies to:

- (a) the short run, but not the long run.
- (b) the long run, but not the short run.
- (c) both the short run and the long run.
- (d) neither the short run nor the long run.

13. Diminishing returns occur:

- (a) when units of a variable input are added to a fixed input and total product falls.
- (b) when units of a variable input are added to a fixed input and marginal product falls.
- (c) when the size of the plant is increased in the long run.
- (d) when the quantity of the fixed input is increased and returns to the variable input falls.

Use the following information to answer questions 14-16.

Hours of Labour	Total Output	Marginal Product
0	—	—
1	100	100
2	—	80
3	240	—

THEORY OF PRODUCTION AND COST

14. What is the total output when 2 hours of labour are employed?

- (a) 80
- (b) 100
- (c) 180
- (d) 200

15. What is the marginal product of the third hour of labour?

- (a) 60
- (b) 80
- (c) 100
- (d) 240

16. What is the average product of the first three hours of labour?

- (a) 60
- (b) 80
- (c) 100
- (d) 240

17. Which cost increases continuously with the increase in production?

- (a) Average cost.
- (b) Marginal cost.
- (c) Fixed cost.
- (d) Variable cost.

18. Which of the following cost curves is never 'U' shaped?

- (a) Average cost curve.
- (b) Marginal cost curve.
- (c) Average variable cost curve.
- (d) Average fixed cost curve.

THEORY OF PRODUCTION AND COST

19. Total cost in the short run is classified into fixed costs and variable costs. Which one of the following is a variable cost?

- (a) Cost of raw materials.
- (b) Cost of equipment.
- (c) Interest payment on past borrowings.
- (d) Payment of rent on building.

20. In the short run, when the output of a firm increases, its average fixed cost:

- (a) increases.
- (b) decreases.
- (c) remains constant.
- (d) first declines and then rises.

21. Which one of the following is also known as planning curve?

- (a) Long run average cost curve.
- (b) Short run average cost curve.
- (c) Average variable cost curve.
- (d) Average total cost curve.

22. If a firm moves from one point on a production isoquant to another, which of the following will not happen.

- (a) A change in the ratio in which the inputs are combined to produce output.
- (b) A change in the ratio of marginal products of the inputs.
- (c) A change in the marginal rate of technical substitution.
- (d) A change in the level of output.

23. With which of the following is the concept of marginal cost closely related?

- (a) Variable cost.
- (b) Fixed cost.
- (c) Opportunity cost.
- (d) Economic cost.

THEORY OF PRODUCTION AND COST

24. Which of the following statements is correct?

- (a) When the average cost is rising, the marginal cost must also be rising.
- (b) When the average cost is rising, the marginal cost must be falling.
- (c) When the average cost is rising, the marginal cost is above the average cost.
- (d) When the average cost is falling, the marginal cost must be rising.

25. Which of the following is an example of “explicit cost”?

- (a) The wages a proprietor could have made by working as an employee of a large firm.
- (b) The income that could have been earned in alternative uses by the resources owned by the firm.
- (c) The payment of wages by the firm.
- (d) The normal profit earned by a firm.

26. Which of the following is an example of an “implicit cost”?

- (a) Interest that could have been earned on retained earnings used by the firm to finance expansion.
- (b) The payment of rent by the firm for the building in which it is housed.
- (c) The interest payment made by the firm for funds borrowed from a bank.
- (d) The payment of wages by the firm.

Use the following data to answer questions 27-29.

Output (O)	0	1	2	3	4	5	6
Total Cost (TC)	₹ 240	₹ 330	₹ 410	₹ 480	₹ 540	₹ 610	₹ 690

27. The average fixed cost of 2 units of output is:

- (a) ₹ 80
- (b) ₹ 85
- (c) ₹ 120
- (d) ₹ 205

28. The marginal cost of the sixth unit of output is:

- (a) ₹ 133
- (b) ₹ 75
- (c) ₹ 80
- (d) ₹ 450

THEORY OF PRODUCTION AND COST

29. Diminishing marginal returns start to occur between units:

- (a) 2 and 3.
- (b) 3 and 4.
- (c) 4 and 5.
- (d) 5 and 6.

30. Marginal cost is defined as:

- (a) the change in total cost due to a one unit change in output.
- (b) total cost divided by output.
- (c) the change in output due to a one unit change in an input.
- (d) total product divided by the quantity of input.

31. Which of the following is true of the relationship between the marginal cost function and the average cost function?

- (a) If MC is greater than ATC, then ATC is falling.
- (b) The ATC curve intersects the MC curve at minimum MC.
- (c) The MC curve intersects the ATC curve at minimum ATC.
- (d) If MC is less than ATC, then ATC is increasing.

32. Which of the following statements is true of the relationship among the average cost functions?

- (a) $ATC = AFC - AVC$.
- (b) $AVC = AFC + ATC$.
- (c) $AFC = ATC + AVC$.
- (d) $AFC = ATC - AVC$.

33. Which of the following is not a determinant of the firm's cost function?

- (a) The production function.
- (b) The price of labour.
- (c) Taxes.
- (d) The price of the firm's output.

THEORY OF PRODUCTION AND COST

34. Which of the following statements is correct concerning the relationships among the firm's cost functions?

- (a) $TC = TFC - TVC$.
- (b) $TVC = TFC - TC$.
- (c) $TFC = TC - TVC$.
- (d) $TC = TVC - TFC$.

35. Suppose output increases in the short run. Total cost will:

- (a) increase due to an increase in fixed costs only.
- (b) increase due to an increase in variable costs only.
- (c) increase due to an increase in both fixed and variable costs.
- (d) decrease if the firm is in the region of diminishing returns.

36. Which of the following statements concerning the long-run average cost curve is false?

- (a) It represents the least-cost input combination for producing each level of output.
- (b) It is derived from a series of short-run average cost curves.
- (c) The short-run cost curve at the minimum point of the long-run average cost curve represents the least-cost plant size for all levels of output.
- (d) As output increases, the amount of capital employed by the firm increases along the curve.

37. The negatively-sloped (i.e. falling) part of the long-run average total cost curve is due to which of the following?

- (a) Diseconomies of scale.
- (b) Diminishing returns.
- (c) The difficulties encountered in coordinating the many activities of a large firm.
- (d) The increase in productivity that results from specialization.

38. The positively sloped (i.e. rising) part of the long run average total cost curve is due to which of the following?

- (a) Diseconomies of scale.
- (b) Increasing returns.
- (c) The firm being able to take advantage of large-scale production techniques as it expands its output.
- (d) The increase in productivity that results from specialization.

THEORY OF PRODUCTION AND COST

39. A firm's average total cost is ₹ 300 at 5 units of output and ₹ 320 at 6 units of output.

The marginal cost of producing the 6th unit is:

- (a) ₹ 20
- (b) ₹ 120
- (c) ₹ 320
- (d) ₹ 420

40. A firm producing 7 units of output has an average total cost of ₹ 150 and has to pay ₹ 350 to its fixed factors of production whether it produces or not. How much of the average total cost is made up of variable costs?

- (a) ₹ 200
- (b) ₹ 50
- (c) ₹ 300
- (d) ₹ 100

41. A firm has a variable cost of ₹ 1000 at 5 units of output. If fixed costs are ₹ 400, what will be the average total cost at 5 units of output?

- (a) ₹ 280
- (b) ₹ 60
- (c) ₹ 120
- (d) ₹ 1400

42. A firm's average fixed cost is ₹ 20 at 6 units of output. What will it be at 4 units of output?

- (a) ₹ 60
- (b) ₹ 30
- (c) ₹ 40
- (d) ₹ 20

43. Which of the following statements is true?

- (a) The services of a doctor are considered production.
- (b) Man can create matter.
- (c) The services of a housewife are considered production.
- (d) When a man creates a table, he creates matter.

THEORY OF PRODUCTION AND COST

44. Which of the following is a function of an entrepreneur?

- (a) Initiating a business enterprise.
- (b) Risk bearing.
- (c) Innovating.
- (d) All of the above.

45. In describing a given production technology, the short run is best described as lasting:

- (a) up to six months from now.
- (b) up to five years from now.
- (c) as long as all inputs are fixed.
- (d) as long as at least one input is fixed.

46. If decreasing returns to scale are present, then if all inputs are increased by 10% then:

- (a) output will also decrease by 10%.
- (b) output will increase by 10%.
- (c) output will increase by less than 10%.
- (d) output will increase by more than 10%.

47. The production function is a relationship between a given combination of inputs and:

- (a) another combination that yields the same output.
- (b) the highest resulting output.
- (c) the increase in output generated by one-unit increase in one output.
- (d) all levels of output that can be generated by those inputs.

48. If the marginal product of labour is below the average product of labour, it must be true that:

- (a) the marginal product of labour is negative.
- (b) the marginal product of labour is zero.
- (c) the average product of labour is falling.
- (d) the average product of labour is negative.

49. The average product of labour is maximized when marginal product of labour:

- (a) equals the average product of labour.
- (b) equals zero.

THEORY OF PRODUCTION AND COST

- (c) is maximized.
- (d) none of the above.

50. The law of variable proportions is drawn under all of the assumptions mentioned below except the assumption that:

- (a) the technology is changing.
- (b) there must be some inputs whose quantity is kept fixed.
- (c) we consider only physical inputs and not economic profitability in monetary terms.
- (d) the technology is given and stable.

51. What is a production function?

- (a) Technical relationship between physical inputs and physical output.
- (b) Relationship between fixed factors of production and variable factors of production.
- (c) Relationship between a factor of production and the utility created by it.
- (d) Relationship between quantity of output produced and time taken to produce the output.

52. Laws of production does not include

- (a) returns to scale.
- (b) law of diminishing returns to a factor.
- (c) law of variable proportions.
- (d) least cost combination of factors.

53. An iso quant shows

- (a) All the alternative combinations of two inputs that can be produced by using a given set of output fully and in the best possible way.
- (b) All the alternative combinations of two products among which a producer is indifferent because they yield the same profit.
- (c) All the alternative combinations of two inputs that yield the same total product.
- (d) Both (b) and (c).

54. Economies of scale exist because as a firm increases its size in the long run:

- (a) Labour and management can specialize in their activities more.
- (b) As a larger input buyer, the firm can get finance at lower cost and purchase inputs at a lower per unit cost.

THEORY OF PRODUCTION AND COST

- (c) The firm can afford to employ more sophisticated technology in production.
- (d) All of these.

55. The production function:

- (a) is the relationship between the quantity of inputs used and the resulting quantity of a product.
- (b) Tells us the maximum attainable output from a given combination of inputs.
- (c) Expresses the technological relationship between inputs and output of a product.
- (d) All the above.

56. The production process described below exhibits.

Number of Workers	Output
0	0
1	23
2	40
3	50

- (a) constant marginal product of labour.
- (b) diminishing marginal product of labour.
- (c) increasing return to scale.
- (d) increasing marginal product of labour.

57. Which of the following is a variable cost in the short run?

- (a) rent of the factory.
- (b) wages paid to the factory labour.
- (c) interest payments on borrowed financial capital.
- (d) payment on the lease for factory equipment.

58. The efficient scale of production is the quantity of output that minimizes

- (a) average fixed cost.
- (b) average total cost.
- (c) average variable cost.
- (d) marginal cost.

THEORY OF PRODUCTION AND COST

59. In the short run, the firm's product curves show that

- (a) Total product begins to decrease when average product begins to decrease but continues to increase at a decreasing rate.
- (b) When marginal product is equal to average product, average product is decreasing but at its highest.
- (c) When the marginal product curve cuts the average product curve from below, the average product is equal to marginal product.
- (d) In stage two, total product increases at a diminishing rate and reaches maximum at the end of this stage.

60. A fixed input is defined as

- (a) That input whose quantity can be quickly changed in the short run, in response to the desire of the company to change its production.
- (b) That input whose quantity cannot be quickly changed in the short run, in response to the desire of the company to change its production.
- (c) That input whose quantities can be easily changed in response to the desire to increase or reduce the level of production.
- (d) That input whose demand can be easily changed in response to the desire to increase or reduce the level of production.

61. Average product is defined as

- (a) total product divided by the total cost.
- (b) total product divided by marginal product.
- (c) total product divided by the number of units of variable input.
- (d) marginal product divided by the number of units of variable input.

62. Which of the following statements is true?

- (a) After the inflection point of the production function, a greater use of the variable input induces a reduction in the marginal product.
- (b) Before reaching the inevitable point of decreasing marginal returns, the quantity of output obtained can increase at an increasing rate.
- (c) The first stage corresponds to the range in which the AP is increasing as a result of utilizing increasing quantities of variable inputs.
- (d) All the above.

THEORY OF PRODUCTION AND COST

63. Marginal product, mathematically, is the slope of the

- (a) total product curve.
- (b) average product curve.
- (c) marginal product curve.
- (d) implicit product curve.

64. Suppose the first four units of a variable input generate corresponding total outputs of 200, 350, 450, 500. The marginal product of the third unit of input is:

- (a) 50
- (b) 100
- (c) 150
- (d) 200

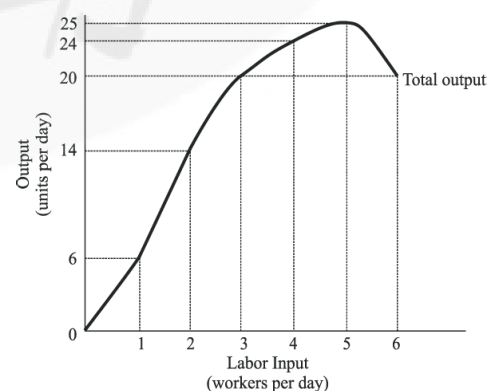
65. Which of the following statements is false in respect of fixed cost of a firm?

- (a) As the fixed inputs for a firm cannot be changed in the short run, the TFC are constant, except when the prices of the fixed inputs change.
- (b) TFC continue to exist even when production is stopped in the short run, but they exist in the long run even when production is not stopped.
- (c) Total Fixed Costs (TFC) can be defined as the total sum of the costs of all the fixed inputs associated with production in the short run.
- (d) In the short run, a firm's fixed cost cannot be escaped even when production is stopped.

66. Diminishing marginal returns for the first four units of a variable input is exhibited by the total product sequence:

- (a) 50, 50, 50, 50
- (b) 50, 110, 180, 260
- (c) 50, 100, 150, 200
- (d) 50, 90, 120, 140

67. Use the following diagram to answer the question given below it



THEORY OF PRODUCTION AND COST

The marginal physical product of the third unit of labour is _____, the MP of the _____ labour is Negative

- (a) Six; fourth
- (b) Six; third
- (c) Six; fifth
- (d) Six; sixth

68. In the third of the three stages of production:

- (a) the marginal product curve has a positive slope.
- (b) the marginal product curve lies completely below the average product curve.
- (c) total product increases.
- (d) marginal product is positive.

69. When marginal costs are below average total costs,

- (a) average fixed costs are rising.
- (b) average total costs are falling.
- (c) average total costs are rising.
- (d) average total costs are minimized.

70. A firm's long-run average total cost curve is

- (a) Identical to its long-run marginal-cost curve.
- (b) Also its long-run supply curve because it explains the relationship between price and quantity supplied.
- (c) In fact the average total cost curve of the optimal plant in the short run as it tries to produce at least cost.
- (d) Tangent to all the curves of short-run average total cost.

71. In the long run, if a very small factory were to expand its scale of operations, it is likely that it would initially experience

- (a) an increase in pollution level.
- (b) diseconomies of scale.
- (c) economies of scale.
- (d) constant returns to scale.

THEORY OF PRODUCTION AND COST

72. A firm's long-run average total cost curve is.

- (a) Identical to its long-run marginal-cost curve as all factors are variable.
- (b) Also its long-run total cost curve because it explains the relationship cost and quantity supplied in the long run.
- (c) In fact the average total cost curve of the optimal plant in the short run as it tries to produce at least cost.
- (d) Tangent to all short-run average total cost the curves and represents the lowest average total cost for producing each level of output.

73. Which of the following statements describes increasing returns to scale?

- (a) Doubling of all inputs used leads to doubling of the output.
- (b) Increasing the inputs by 50% leads to a 25% increase in output.
- (c) Increasing inputs by $1/4$ leads to an increase in output of $1/3$.
- (d) None of the above.

74. The marginal cost for a firm of producing the 9th unit of output is ₹ 20. Average cost at the same level of output is ₹ 15. Which of the following must be true?

- (a) marginal cost and average cost are both falling
- (b) marginal cost and average cost are both rising
- (c) marginal cost is rising and average cost is falling
- (d) it is impossible to tell if either of the curves are rising or falling

75. Implicit cost can be defined as

- (a) Money payments made to the non-owners of the firm for the self-owned factors employed in the business and therefore not entered into books of accounts.
- (b) Money not paid out to the owners of the firm for the self-owned factors employed in a business and therefore not entered into books of accounts.
- (c) Money payments which the self-owned and employed resources could have earned in their next best alternative employment and therefore entered into books of accounts.
- (d) Money payments which the self-owned and employed resources earn in their best use and therefore entered into book of accounts.

76. The most important function of an entrepreneur is to _____.

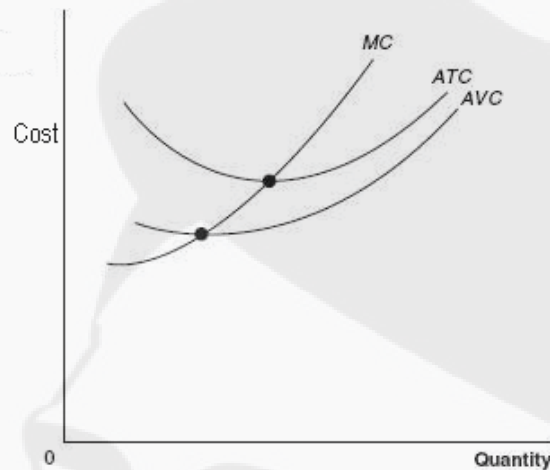
- (a) Innovate
- (b) Bear the sense of responsibility
- (c) Finance
- (d) Earn profit

THEORY OF PRODUCTION AND COST

77. Economic costs of production differ from accounting costs of production because

- (a) Economic costs include expenditures for hired resources while accounting costs do not.
- (b) Accounting costs include opportunity costs which are deducted later to find paid out costs.
- (c) Accounting costs include expenditures for hired resources while economic costs do not.
- (d) Economic costs add the opportunity cost of a firm which uses its own resources.

78. In figure below, possible reason why the average variable cost curve approaches the average total cost curve as output rises is:



- (a) Fixed costs are falling while total costs are rising at rising output.
- (b) Total costs are rising and average costs are also rising.
- (c) Marginal costs are above average variable costs as output rises.
- (d) Average fixed costs are falling as output rises.

79. Marginal cost changes due to changes in _____

- (a) Total cost
- (b) Average cost
- (c) Variable cost
- (d) Quantity of output

80. Which of the following statements is correct?

- (a) Fixed costs vary with change in output.
- (b) If we add total variable cost and total fixed cost we get the average cost.
- (c) Marginal cost is the result of total cost divided by number of units produced.
- (d) Total cost is obtained by adding up the fixed cost and total variable cost.

THEORY OF PRODUCTION AND COST

81. Which of the following statements is incorrect?

- (a) The LAC curve is also called the planning curve of a firm.
- (b) Total revenue = price per unit \times number of units sold.
- (c) Opportunity cost is also called alternative cost.
- (d) If total revenue is divided by the number of units sold we get marginal revenue.

82. The vertical difference between TVC and TC is equal to-

- (a) MC
- (b) AVC
- (c) TFC
- (d) None of the above

83. The falling part of long run average cost curve is tangent to the _____ of corresponding short run average cost curve(s).

- (a) falling part
- (b) rising part
- (c) minimum point
- (d) None of the above

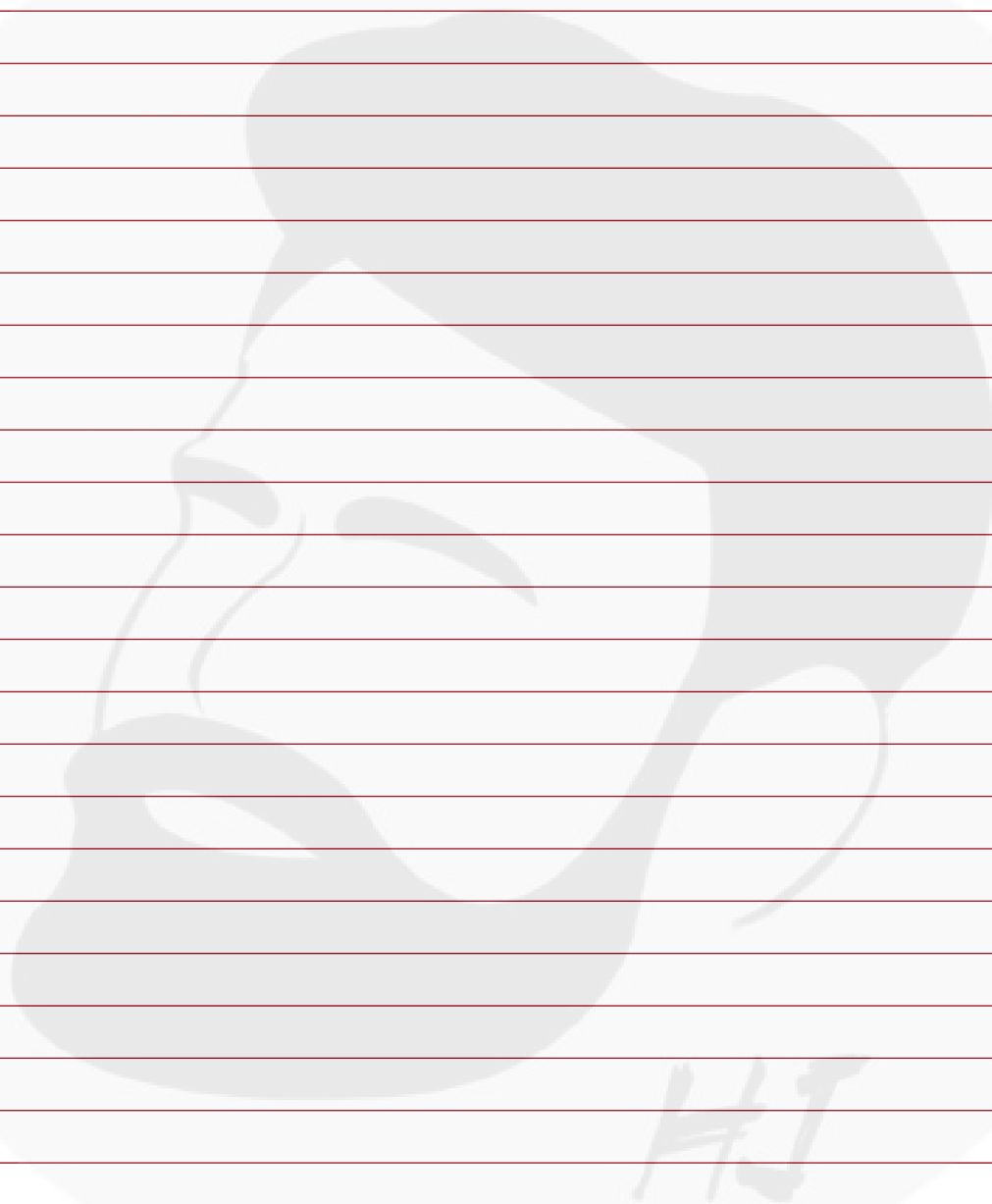
84. Which one of the following is an external economies of scale in long run?

- (a) Risk bearing economies
- (b) Financial economies
- (c) Development of skill labour
- (d) None of the above

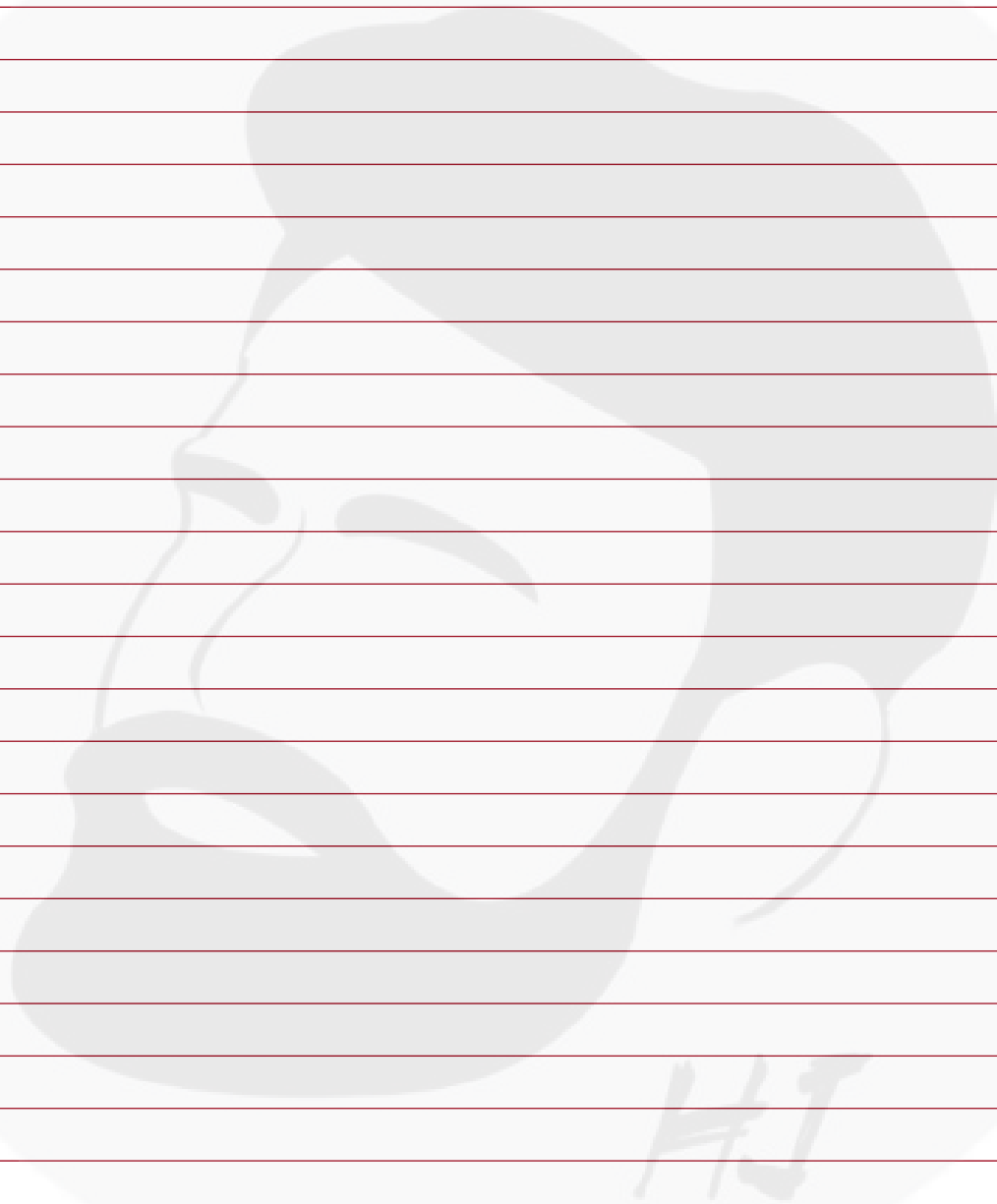
ANSWERS

1. (a)	2. (a)	3. (d)	4. (b)	5. (b)	6. (b)	7. (c)	8. (a)	9. (d)	10. (c)	11. (c)	12. (a)
13. (b)	14. (c)	15. (a)	16. (b)	17. (d)	18. (d)	19. (a)	20. (b)	21. (a)	22. (d)	23. (a)	24. (c)
25. (c)	26. (a)	27. (c)	28. (c)	29. (c)	30. (a)	31. (c)	32. (d)	33. (d)	34. (c)	35. (b)	36. (c)
37. (d)	38. (a)	39. (d)	40. (d)	41. (a)	42. (b)	43. (a)	44. (d)	45. (d)	46. (c)	47. (b)	48. (c)
49. (a)	50. (a)	51. (a)	52. (d)	53. (c)	54. (d)	55. (d)	56. (b)	57. (b)	58. (b)	59. (d)	60. (b)
61. (c)	62. (d)	63. (a)	64. (b)	65. (b)	66. (d)	67. (d)	68. (b)	69. (b)	70. (d)	71. (c)	72. (d)
73. (c)	74. (b)	75. (b)	76. (a)	77. (d)	78. (d)	79. (c)	80. (d)	81. (d)	82. (c)	83. (a)	84. (c)

THEORY OF PRODUCTION AND COST



THEORY OF PRODUCTION AND COST



CHAPTER 4 - PRICE DETERMINATION IN DIFFERENT MARKETS



TEST YOUR KNOWLEDGE



Multiple Choice Questions

1. In the table below what will be equilibrium market price?

Price (₹)	Demand (tonnes per annum)	Supply (tonnes per annum)
1	1000	400
2	900	500
3	800	600
4	700	700
5	600	800
6	500	900
7	400	1000
8	300	1100

- (a) ₹ 2
- (b) ₹ 3
- (c) ₹ 4
- (d) ₹ 5

2. Assume that when price is ₹ 20, the quantity demanded is 9 units, and when price is ₹ 19, the quantity demanded is 10 units. Based on this information, what is the marginal revenue resulting from an increase in output from 9 units to 10 units.

- (a) ₹ 20
- (b) ₹ 19
- (c) ₹ 10
- (d) ₹ 1

3. Assume that when price is ₹ 20, the quantity demanded is 15 units, and when price is ₹ 18, the quantity demanded is 16 units. Based on this information, what is the marginal revenue resulting from an increase in output from 15 units to 16 units?

PRICE DETERMINATION IN DIFFERENT MARKETS

- (a) ₹ 18
- (b) ₹ 16
- (c) -₹ 12
- (d) ₹ 28

4. Suppose a firm is producing a level of output such that $MR > MC$, what should be firm do to maximize its profits?

- (a) The firm should do nothing.
- (b) The firm should hire less labour.
- (c) The firm should increase price.
- (d) The firm should increase output.

5. Marginal Revenue is equal to:

- (a) The change in price divided by the change in output.
- (b) The change in quantity divided by the change in price.
- (c) The change in $P \times Q$ due to a one unit change in output.
- (d) Price, but only if the firm is a price searcher.

6. Suppose that a sole proprietorship is earning total revenues of ₹ 1,00,000 and is incurring explicit costs of ₹ 75,000. If the owner could work for another company for ₹ 30,000 a year, we would conclude that :

- (a) The firm is incurring an economic loss.
- (b) Implicit costs are ₹ 25,000.
- (c) The total economic costs are ₹ 1,00,000.
- (d) The individual is earning an economic profit of ₹ 25,000.

7. Which of the following is not an essential condition of pure competition?

- (a) Large number of buyers and sellers
- (b) Homogeneous product
- (c) Freedom of entry
- (d) Absence of transport cost

PRICE DETERMINATION IN DIFFERENT MARKETS

8. What is the shape of the demand curve faced by a firm under perfect competition?

- (a) Horizontal
- (b) Vertical
- (c) Positively sloped
- (d) Negatively sloped

9. Which is the first order condition for the profit of a firm to be maximum?

- (a) $AC = MR$
- (b) $MC = MR$
- (c) $MR = AR$
- (d) $AC = AR$

10. Which of the following is not a characteristic of a “price-taker”?

- (a) $TR = P \times Q$
- (b) $AR = \text{Price}$
- (c) Negatively – sloped demand curve
- (d) $\text{Marginal Revenue} = \text{Price}$

11. Which of the following statements is false?

- (a) Economic costs include the opportunity costs of the resources owned by the firm.
- (b) Accounting costs include only explicit costs.
- (c) Economic profit will always be less than accounting profit if resources owned and used by the firm have any opportunity costs.
- (d) Accounting profit is equal to total revenue less implicit costs.

12. With a given supply curve, a decrease in demand causes

- (a) an overall decrease in price but an increase in equilibrium quantity.
- (b) an overall increase in price but a decrease in equilibrium quantity.
- (c) an overall decrease in price and a decrease in equilibrium quantity.
- (d) no change in overall price but a reduction in equilibrium quantity.

PRICE DETERMINATION IN DIFFERENT MARKETS

13. It is assumed in economic theory that

- (a) decision making within the firm is usually undertaken by managers, but never by the owners.
- (b) the ultimate goal of the firm is to maximise profits, regardless of firm size or type of business organisation.
- (c) as the firm's size increases, so do its goals.
- (d) the basic decision making unit of any firm is its owners.

14. Assume that consumers' incomes and the number of sellers in the market for good A both decrease. Based upon this information, we can conclude, with certainty, that the equilibrium:

- (a) price will increase.
- (b) price will decrease.
- (c) quantity will increase.
- (d) quantity will decrease.

15. If supply increases in a greater proportion than demand

- (a) The new equilibrium price and quantity will be greater than the original equilibrium price and quantity.
- (b) The new equilibrium price will be greater than the original equilibrium price but equilibrium quantity will be higher.
- (c) The new equilibrium price and quantity will be lower than the original equilibrium price and quantity.
- (d) The new equilibrium price will be lower than the original equilibrium and the new equilibrium quantity will be higher.

16. Assume that in the market for good Z there is a simultaneous increase in demand and the quantity supplied. The result will be:

- (a) an increase in equilibrium price and quantity.
- (b) a decrease in equilibrium price and quantity.
- (c) an increase in equilibrium quantity and uncertain effect on equilibrium price.
- (d) a decrease in equilibrium price and increase in equilibrium quantity.

PRICE DETERMINATION IN DIFFERENT MARKETS

17. Suppose the technology for producing personal computers improves and, at the same time, individuals discover new uses for personal computers so that there is greater utilisation of personal computers. Which of the following will happen to equilibrium price and equilibrium quantity?

- (a) Price will increase; quantity cannot be determined.
- (b) Price will decrease; quantity cannot be determined.
- (c) Quantity will increase; price cannot be determined.
- (d) Quantity will decrease; price cannot be determined.

18. Which of the following is not a condition of perfect competition?

- (a) A large number of firms.
- (b) Perfect mobility of factors.
- (c) Informative advertising to ensure that consumers have good information.
- (d) Freedom of entry and exit into and out of the market.

19. Which of the following is not a characteristic of a perfectly competitive market?

- (a) Large number of firms in the industry.
- (b) Outputs of the firms are perfect substitutes for one another.
- (c) Firms face downward-sloping demand curves.
- (d) Resources are very mobile.

20. Which of the following is not a characteristic of monopolistic competition?

- (a) Ease of entry into the industry.
- (b) Product differentiation.
- (c) A relatively large number of sellers.
- (d) A homogeneous product.

21. Monopoly may arise in a product market because

- (a) A significantly important resource for the production of the commodity is owned by a single firm.
- (b) The government has given the firm patent right to produce the commodity.
- (c) The costs of production and economies of scale makes production by a single producer more efficient.
- (d) All the above.

PRICE DETERMINATION IN DIFFERENT MARKETS

22. Oligopolistic industries are characterized by:

- (a) a few dominant firms and substantial barriers to entry.
- (b) a few large firms and no entry barriers.
- (c) a large number of small firms and no entry barriers.
- (d) one dominant firm and low entry barriers.

23. Price-taking firms, i.e., firms that operate in a perfectly competitive market, are said to be “small” relative to the market. Which of the following best describes this smallness?

- (a) The individual firm must have fewer than 10 employees.
- (b) The individual firm faces a downward-sloping demand curve.
- (c) The individual firm has assets of less than ₹ 20 lakhs.
- (d) The individual firm is unable to affect market price through its output decisions.

24. For a price-taking firm:

- (a) marginal revenue is less than price.
- (b) marginal revenue is equal to price.
- (c) marginal revenue is greater than price.
- (d) the relationship between marginal revenue and price is indeterminate.

25. Monopolistic competition differs from perfect competition primarily because

- (a) in monopolistic competition, firms can differentiate their products.
- (b) in perfect competition, firms can differentiate their products.
- (c) in monopolistic competition, entry into the industry is blocked.
- (d) in monopolistic competition, there are relatively few barriers to entry.

26. The long-run equilibrium outcomes in monopolistic competition and perfect competition are similar, because in both market structures

- (a) the efficient output level will be produced in the long run.
- (b) firms will be producing at minimum average cost.
- (c) firms will only earn a normal profit.
- (d) firms realise all economies of scale.

PRICE DETERMINATION IN DIFFERENT MARKETS

27. Which of the following is the distinguishing characteristic of oligopolies?

- (a) A standardized product
- (b) The goal of profit maximization
- (c) The interdependence among firms
- (d) Downward-sloping demand curves faced by firms.

28. In which form of the market structure is the degree of control over the price of its product by a firm very large?

- (a) Monopoly
- (b) Imperfect Competition
- (c) Oligopoly
- (d) Perfect competition

29. Average revenue curve is also known as:

- (a) Profit Curve
- (b) Demand Curve
- (c) Average Cost Curve
- (d) Indifference Curve

30. Under which of the following forms of market structure does a firm have no control over the price of its product?

- (a) Monopoly
- (b) Monopolistic competition
- (c) Oligopoly
- (d) Perfect competition

31. Discriminating monopoly implies that the monopolist charges different prices for his commodity:

- (a) from different groups of consumers
- (b) for different uses
- (c) at different places
- (d) any of the above.

PRICE DETERMINATION IN DIFFERENT MARKETS

32. Price discrimination will be profitable only if the elasticity of demand in different submarkets is:

- (a) uniform
- (b) different
- (c) less
- (d) zero

33. In the context of oligopoly, the kinked demand hypothesis is designed to explain

- (a) Price and output determination
- (b) Price rigidity
- (c) Price leadership
- (d) Collusion among rivals.

34. The firm in a perfectly competitive market is a price-taker. This designation as a price-taker is based on the assumption that -

- (a) the firm has some, but not complete, control over its product price.
- (b) there are so many buyers and sellers in the market that any individual firm cannot affect the market.
- (c) each firm produces a homogeneous product.
- (d) there is easy entry into or exit from the market place.

35. Suppose that the demand curve for the XYZ Co. slopes downward and to the right. We can conclude that

- (a) the firm operates in a perfectly competitive market.
- (b) the firm can sell all that it wants to at the established market price.
- (c) the XYZ Co. is not a price-taker in the market because it must lower price to sell additional units of output.
- (d) the XYZ Co. will not be able to maximise profits because price and revenue are subject to change.

36. If firms in the toothpaste industry have the following market shares, which market structure would best describe the industry?

PRICE DETERMINATION IN DIFFERENT MARKETS

Market share	(% of market)
Toothpaste	18.7
Dentipaste	14.3
Shinibright	11.6
I can't believe its not toothpaste	9.4
Brighter than white	8.8
Pastystuff	7.4
Others	29.8

- (a) Perfect competition.
- (b) Monopolistic competition.
- (c) Oligopoly.
- (d) Monopoly.

37. The kinked demand curve model of oligopoly assumes that

- (a) the response (of consumers) to a price increase is less than the response to a price decrease.
- (b) the response (of consumers) to a price increase is more than the response to a price decrease.
- (c) the elasticity of demand is constant regardless of whether price increases or decreases.
- (d) the elasticity of demand is perfectly elastic if price increases and perfectly inelastic if price decreases.

38. A firm encounters its “shutdown point” when:

- (a) average total cost equals price at the profit-maximising level of output.
- (b) average variable cost equals price at the profit-maximising level of output.
- (c) average fixed cost equals price at the profit-maximising level of output.
- (d) marginal cost equals price at the profit-maximising level of output.

39. Suppose that, at the profit-maximizing level of output, a firm finds that market price is less than average total cost, but greater than average variable cost. Which of the following statements is correct?

- (a) The firm should shutdown in order to minimise its losses.
- (b) The firm should raise its price enough to cover its losses.
- (c) The firm should move its resources to another industry.
- (d) The firm should continue to operate in the short run in order to minimize its losses.

PRICE DETERMINATION IN DIFFERENT MARKETS

40. When price is less than average variable cost at the profit-maximising level of output, a firm should:

- (a) produce where marginal revenue equals marginal cost if it is operating in the short run.
- (b) produce where marginal revenue equals marginal cost if it is operating in the long run.
- (c) shut down, since it will lose nothing in that case.
- (d) shut down, since it cannot even cover its variable costs if it stays in business.

41. A purely competitive firm's supply schedule in the short run is determined by

- (a) its average revenue.
- (b) its marginal revenue.
- (c) its marginal utility for money curve.
- (d) its marginal cost curve.

42. One characteristic not typical of oligopolistic industry is

- (a) horizontal demand curve.
- (b) too much importance to non-price competition.
- (c) price leadership.
- (d) a small number of firms in the industry.

43. The structure of the toothpaste industry in India is best described as

- (a) perfectly competitive.
- (b) monopolistic.
- (c) monopolistically competitive.
- (d) oligopolistic.

44. The structure of the cold drink industry in India is best described as

- (a) perfectly competitive.
- (b) monopolistic.
- (c) monopolistically competitive.
- (d) oligopolistic.

PRICE DETERMINATION IN DIFFERENT MARKETS

45. Which of the following statements is incorrect?

- (a) Even a monopolistic firm can have losses.
- (b) Firms in a perfectly competitive market are price takers.
- (c) It is always beneficial for a firm in a perfectly competitive market to discriminate prices.
- (d) Kinked demand curve is related to an oligopolistic market.

46. Under perfect competition, in the long run, there will be no _____ .

- (a) normal profits
- (b) supernormal profits.
- (c) production
- (d) costs.

47. When _____, we know that the firms are earning just normal profits.

- (a) $AC = AR$
- (b) $MC = MR$
- (c) $MC = AC$
- (d) $AR = MR$

48. When _____, we know that the firms under perfect competition must be producing at the minimum point of the average cost curve and so there will be productive efficiency.

- (a) $AC = AR$
- (b) $MC = AC$
- (c) $MC = MR$
- (d) $AR = MR$

49. When _____, there will be allocative efficiency meaning thereby that the cost of the last unit is exactly equal to the price consumers are willing to pay for it and so that the right goods are being sold to the right people at the right price.

- (a) $MC = MR$
- (b) $MC = AC$

PRICE DETERMINATION IN DIFFERENT MARKETS

(c) $MC = AR$

(d) $AR = MR$

50. Agricultural goods markets depict characteristics close to

(a) perfect competition.

(b) oligopoly.

(c) monopoly.

(d) monopolistic competition.

51. Which of the following is not a characteristic of a competitive market?

(a) There are many buyers and sellers in the market.

(b) The goods offered for sales are largely the same.

(c) Firms generate small but positive supernormal profits in the long run.

(d) Firms can freely enter or exit the market.

52. Which of the following markets would most closely satisfy the requirements for a perfectly competitive market?

(a) Electricity

(b) Cable television

(c) Cola

(d) Milk

53. Which of the following statements is accurate regarding a perfectly competitive firm?

(a) Demand curve is downward sloping

(b) The demand curve always lies above the marginal revenue curve

(c) Average revenue need not be equal to price

(d) Price is given and is determined by the equilibrium in the entire market

54. The market for hand tools (such as hammers and screwdrivers) is dominated by Draper, Stanley, and Craftsman. This market is best described as

(a) Monopolistically competitive

(b) a monopoly

PRICE DETERMINATION IN DIFFERENT MARKETS

- (c) an oligopoly
- (d) perfectly competitive

55. A market structure in which many firms sell products that are similar but not identical is known as

- (a) monopolistic competition
- (b) monopoly
- (c) perfect competition
- (d) oligopoly

56. When an oligopolist individually chooses its level of production to maximize its profits, it charges a price that is

- (a) more than the price charged by either monopoly or a competitive market
- (b) less than the price charged by either monopoly or a competitive market
- (c) more than the price charged by a monopoly and less than the price charged by a competitive market
- (d) less than the price charged by a monopoly and more than the price charged by a competitive market.

57. In the long-run equilibrium of a competitive market, firms operate at

- (a) the intersection of the marginal cost and marginal revenue
- (b) their efficient scale
- (c) zero economic profit
- (d) all of these answers are correct

58. Which of the following is not a characteristic of a monopolistically competitive market?

- (a) Free entry and exit
- (b) Abnormal profits in the long run
- (c) Many sellers
- (d) Differentiated products

59. In a very short period market:

- (a) the supply is fixed
- (b) the demand is fixed

PRICE DETERMINATION IN DIFFERENT MARKETS

- (c) demand and supply are fixed
- (d) none of the above

60. Time element was conceived by

- (a) Adam Smith
- (b) Alfred Marshall
- (c) Pigou
- (d) Lionel Robinson

61. Total revenue =

- (a) price \times quantity
- (b) price \times income
- (c) income \times quantity
- (d) none of the above

62. Average revenue is the revenue earned

- (a) per unit of input
- (b) per unit of output
- (c) different units of input
- (d) different units of output

63. AR can be symbolically written as:

- (a) MR / Q
- (b) Price \times quantity
- (c) TR / Q
- (d) none of the above

64. AR is also known as:

- (a) price
- (b) income

PRICE DETERMINATION IN DIFFERENT MARKETS

- (c) revenue
- (d) none of the above

65. Marginal revenue can be defined as the change in total revenue resulting from the:

- (a) purchase of an additional unit of a commodity
- (b) sales of an additional unit of a commodity
- (c) sale of subsequent units of a product
- (d) none of the above

66. When $e > 1$ then MR is

- (a) zero
- (b) negative
- (c) positive
- (d) one

67. When $e = 1$ then MR is

- (a) positive
- (b) zero
- (c) one
- (d) negative

68. When $e < 1$ then MR is

- (a) negative
- (b) zero
- (c) positive
- (d) one

69. In Economics, the term 'market' refers to a:

- (a) place where buyer and seller bargain a product or service for a price
- (b) place where buyer does not bargain

PRICE DETERMINATION IN DIFFERENT MARKETS

- (c) place where seller does not bargain
- (d) none of the above

70. Under perfect competition a firm is the _____

- (a) price-maker and not price-taker
- (b) price-taker and not price-maker
- (c) neither price-maker nor price-taker
- (d) none of the above

71. A Monopolist is a

- (a) price-maker
- (b) price-taker
- (c) price-adjuster
- (d) none of the above

72. Price discrimination is one of the features of _____

- (a) monopolistic competition
- (b) monopoly
- (c) perfect competition
- (d) oligopoly

73. Under monopoly, the degree of control over price is:

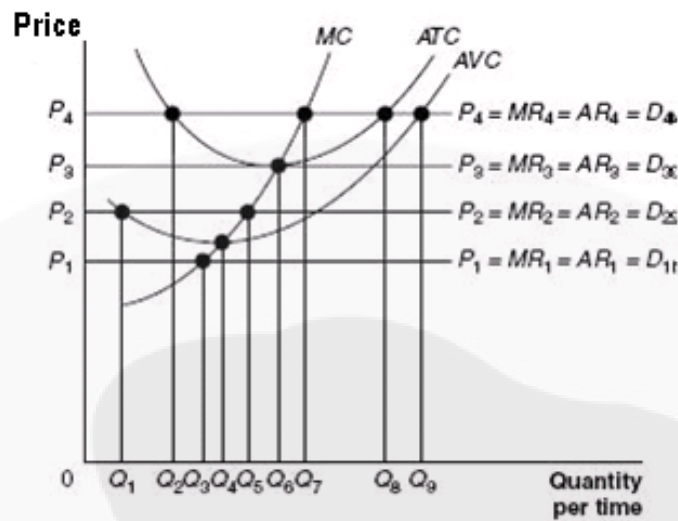
- (a) none
- (b) some
- (c) very considerable
- (d) none of the above

74. Generally, perishable goods like butter, eggs, milk, vegetables etc., will have

- (a) regional market
- (b) local market
- (c) national market
- (d) none of the above

PRICE DETERMINATION IN DIFFERENT MARKETS

75. At price P_1 , the firm in the figure would produce



- (a) Zero output
- (b) Q_3 .
- (c) Q_5 .
- (d) Q_6 .

76. Secular period is also known as

- (a) very short period
- (b) short period
- (c) very long period
- (d) long period

77. Stock exchange market is an example of

- (a) unregulated market
- (b) regulated market
- (c) spot market
- (d) none of the above

78. The market for the ultimate consumers is known as

- (a) whole sale market
- (b) regulated market

PRICE DETERMINATION IN DIFFERENT MARKETS

- (c) unregulated market
- (d) retail market

79. The condition for pure competition is

- (a) large number of buyer and seller, free entry and exist
- (b) homogeneous product
- (c) both (a) and (b)
- (d) large number of buyer and seller, homogeneous product, perfect knowledge about the product

80. Pure oligopoly is based on the _____ products

- (a) differentiated
- (b) homogeneous
- (c) unrelated
- (d) none of the above

81. In oligopoly, when the industry is dominated by one large firm which is considered as leader of the group, Then it is called:

- (a) full oligopoly
- (b) collusive oligopoly
- (c) partial oligopoly
- (d) syndicated oligopoly

82. When the products are sold through a centralized body, oligopoly is known as

- (a) organized oligopoly
- (b) partial oligopoly
- (c) competitive oligopoly
- (d) syndicated oligopoly

83. When the monopolist divides the consumers into separate sub markets and charges different prices in different sub-markets it is known as

- (a) first degree of price discrimination
- (b) second degree of price discrimination

PRICE DETERMINATION IN DIFFERENT MARKETS

- (c) third degree of price discrimination
- (d) none of the above.

84. Under _____ the monopolist will fix a price which will take away the entire consumers' surplus.

- (a) second degree of price discrimination
- (b) first degree of price discrimination
- (c) third degree of price discrimination
- (d) none of the above.

85. Price discrimination is related to

- (a) time
- (b) size of the purchase
- (c) income
- (d) any of the above

86. The firm and the industry are one and the same in _____

- (a) Perfect competition
- (b) Monopolistic competition
- (c) Duopoly
- (d) Monopoly

87. The demand curve of a monopoly firm will be _____

- (a) Upward sloping
- (b) Downward sloping
- (c) Horizontal
- (d) Vertical

88. If the average cost is higher than the average revenue then the firm incurs _____

- (a) Normal profit
- (b) Abnormal profit

PRICE DETERMINATION IN DIFFERENT MARKETS

- (c) Loss
- (d) No profit, no loss

89. Which of the following statements is correct?

- (a) Price rigidity is an important feature of monopoly.
- (b) Selling costs are possible under perfect competition.
- (c) Under perfect competition factors of production do not move freely as there are legal restrictions.
- (d) An industry consists of many firms.

90. Which of the following statements is incorrect?

- (a) Under monopoly there is no difference between a firm and an industry.
- (b) A monopolist may restrict the output and raise the price.
- (c) Commodities offered for sale under a perfect competition will be heterogeneous.
- (d) Product differentiation is peculiar to monopolistic competition.

91. For market the essential condition is –

- (a) A particular geographical place
- (b) Control of the government
- (c) Close contact between buyers and sellers
- (d) None of these

92. Assume that when Price is ₹ 10, the quantity demanded is 5 units and when Price is ₹ 12 the quantity demanded is 4 units. Based on this information, what is the Marginal Revenue resulting from increase in output from 4 units to 5 units.

- (a) ₹ 5
- (b) ₹ 4
- (c) ₹ 2
- (d) ₹ 3

PRICE DETERMINATION IN DIFFERENT MARKETS

93. Average revenue is equal to.

- (a) The change in P & Q due to a one unit change in output.
- (b) Nothing but price of one unit of output.
- (c) The change in quantity divided by change in price.
- (d) Graphically it denotes the firm's supply curve.

94. Example of a commodity said to have an International Market.

- (a) Perishable Goods.
- (b) High Value and Small Bulk Commodities.
- (c) Product whose trading is restricted by government.
- (d) Bulky Articles.

95. Weekly market is example of _____ Market:

- (a) Regulated Market
- (b) Spot Market
- (c) Forward Market
- (d) Unregulated Market

96 Conditions for equilibrium of a firm are:

- (a) $MR = MC$
- (b) MC should cut MR from below.
- (c) $MR = AR$ and MC should cut MR from below.
- (d) $MR = MC$ and MC should have a positive slope.

97 Natural Monopoly arises when

- (a) There is enormous goodwill enjoyed by a firm.
- (b) There are stringent legal and regulatory requirement.
- (c) There are very large Economies of Scale.
- (d) There are Business Combinations and Cartels.

PRICE DETERMINATION IN DIFFERENT MARKETS

98 Price Discrimination cannot persist under the following market form:

- (a) Perfect Competition
- (b) Monopoly
- (c) Monopolistic
- (d) Oligopoly

99. Sweezy's Model explains the concept of price rigidity relating to following market form:

- (a) Oligopoly Market
- (b) Perfect Competition Market
- (c) Monopoly Market
- (d) Monopolistic Market

100. Combination of Monopoly Market and Monopsony Market is called as:

- (a) Duopoly Market
- (b) Oligopoly Market
- (c) Bilateral Monopoly Market
- (d) Monopolistic Market

101. Price varies by attributes such as location or by Customer Segment is _____ degree of Price Discrimination.

- (a) First
- (b) Second
- (c) Third
- (d) Fourth

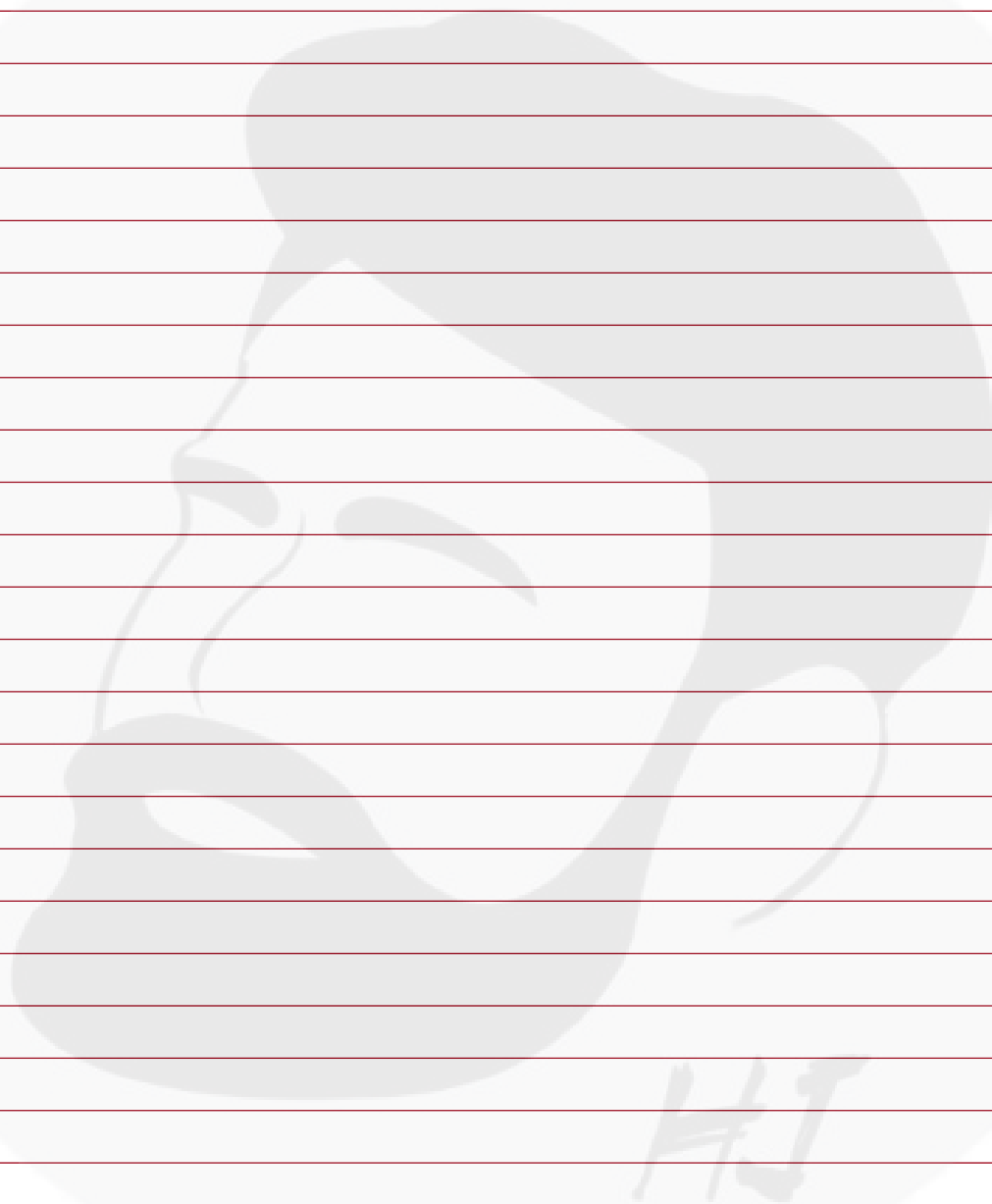
PRICE DETERMINATION IN DIFFERENT MARKETS

ANSWERS



1. (c)	2. (c)	3. (c)	4. (d)	5. (c)	6. (a)	7. (d)	8. (a)	9. (b)	10. (c)	11. (d)	12. (c)
13. (b)	14. (d)	15. (d)	16. (c)	17. (c)	18. (c)	19. (c)	20. (d)	21. (d)	22. (a)	23. (d)	24. (b)
25. (a)	26. (c)	27. (c)	28. (a)	29. (b)	30. (d)	31. (d)	32. (b)	33. (b)	34. (b)	35. (c)	36. (c)
37. (b)	38. (b)	39. (d)	40. (d)	41. (d)	42. (a)	43. (c)	44. (d)	45. (c)	46. (b)	47. (a)	48. (b)
49. (c)	50. (a)	51. (c)	52. (d)	53. (d)	54. (c)	55. (a)	56. (d)	57. (d)	58. (b)	59. (a)	60. (b)
61. (a)	62. (b)	63. (c)	64. (a)	65. (b)	66. (c)	67. (b)	68. (a)	69. (a)	70. (b)	71. (a)	72. (b)
73. (c)	74. (b)	75. (a)	76. (c)	77. (b)	78. (d)	79. (c)	80. (b)	81. (c)	82. (d)	83. (c)	84. (b)
85. (d)	86. (d)	87. (b)	88. (c)	89. (d)	90. (c)	91. (c)	92. (c)	93. (b)	94. (b)	95. (d)	96. (d)
97. (c)	98. (a)	99. (a)	100. (c)	101. (c)							

PRICE DETERMINATION IN DIFFERENT MARKETS



CHAPTER 5

BUSINESS CYCLES



TEST YOUR KNOWLEDGE



Multiple Choice Questions

1. The term business cycle refers to

- (a) the ups and downs in production of commodities
- (b) the fluctuating levels of economic activity over a period of time
- (c) decline in economic activities over prolonged period of time
- (d) increasing unemployment rate and diminishing rate of savings

2. A significant decline in general economic activity extending over a period of time is

- (a) business cycle
- (b) contraction phase
- (c) recession
- (d) recovery

3. The trough of a business cycle occurs when _____ hits its lowest point.

- (a) inflation in the economy
- (b) the money supply
- (c) aggregate economic activity
- (d) the unemployment rate

4. The lowest point in the business cycle is referred to as the

- (a) Expansion.
- (b) Boom.
- (c) Peak.
- (d) Trough.

BUSINESS CYCLES

5. A leading indicator is

- (a) a variable that tends to move along with the level of economic activity
- (b) a variable that tends to move in advance of aggregate economic activity
- (c) a variable that tends to move consequent on the level of aggregate economic activity
- (d) None of the above

6. A variable that tends to move later than aggregate economic activity is called

- (a) a leading variable.
- (b) a coincident variable.
- (c) a lagging variable.
- (d) a cyclical variable.

7. Industries that are extremely sensitive to the business cycle are the

- (a) Durable goods and service sectors.
- (b) Non-durable goods and service sectors.
- (c) Capital goods and non-durable goods sectors.
- (d) Capital goods and durable goods sectors.

8. A decrease in government spending would cause

- (a) the aggregate demand curve to shift to the right.
- (b) the aggregate demand curve to shift to the left.
- (c) a movement down and to the right along the aggregate demand curve.
- (d) a movement up and to the left along the aggregate demand curve.

9. Which of the following does not occur during an expansion?

- (a) Consumer purchases of all types of goods tend to increase.
- (b) Employment increases as demand for labour rises.
- (c) Business profits and business confidence tend to increase
- (d) None of the above.

BUSINESS CYCLES

10. Which of the following best describes a typical business cycle?

- (a) Economic expansions are followed by economic contractions.
- (b) Inflation is followed by rising income and unemployment.
- (c) Economic expansions are followed by economic growth and development.
- (d) Stagflation is followed by inflationary economic growth.

11. During recession, the unemployment rate _____ and output _____.

- (a) Rises; falls
- (b) Rises; rises
- (c) Falls; rises
- (d) Falls; falls

12. The four phases of the business cycle are

- (a) expansion, peak, contraction and trough
- (b) contraction, expansion, trough and boom
- (c) expansion contraction, peak, and trough
- (d) peak, depression, bust, and boom

13. Leading economic indicators

- (a) are used to forecast probable shifts in economic policies
- (b) are generally used to forecast economic fluctuations
- (c) are indicators of stock prices existing in an economy
- (d) are indicators of probable recession and depression

14. When aggregate economic activity is declining, the economy is said to be in

- (a) Contraction.
- (b) an expansion.
- (c) a trough.
- (d) a turning point.

BUSINESS CYCLES

15. Peaks and troughs of the business cycle are known collectively as

- (a) Volatility.
- (b) Turning points.
- (c) Equilibrium points.
- (d) Real business cycle events.

16. The most probable outcome of an increase in the money supply is

- (a) interest rates to rise, investment spending to rise, and aggregate demand to rise
- (b) interest rates to rise, investment spending to fall, and aggregate demand to fall
- (c) interest rates to fall, investment spending to rise, and aggregate demand to rise
- (d) interest rates to fall, investment spending to fall, and aggregate demand to fall

17. Which of the following is not a characteristic of business cycles?

- (a) Business cycles have serious consequences on the well-being of the society.
- (b) Business cycles occur periodically, although they do not exhibit the same regularity.
- (c) Business cycles have uniform characteristics and causes.
- (d) Business cycles are contagious and unpredictable.

18. Economic recession shares all of these characteristics except.

- (a) Fall in the levels of investment, employment
- (b) Incomes of wage and interest earners gradually decline resulting in decreased demand for goods and services
- (c) Investor confidence is adversely affected and new investments may not be forthcoming
- (d) Increase in the price of inputs due to increased demand for inputs

19. The different phases of a business cycle

- (a) do not have the same length and severity
- (b) expansion phase always last more than ten years
- (c) last many years and are difficult to get over in short periods
- (d) none of the above

BUSINESS CYCLES

20. Which of the following is not an example of coincident indicator?

- (a) Industrial production
- (b) inflation
- (c) Retail sales
- (d) New orders for plant and equipment

21. According to _____ trade cycles occur due to onset of innovations.

- (a) Hawtrey
- (b) Adam Smith
- (c) J M Keynes
- (d) Schumpeter

22. Economic indicators are –

- (a) A one stroke solution to check the phase of economy
- (b) Indicators showing the movement of economy
- (c) Some activities which predict the direction of economy
- (d) Just an illusion

23. Which economic indicator is required to predict the turning point of business cycle?

- (a) Leading indicator
- (b) Lagging indicator
- (c) Coincident
- (d) All of the above

24. Business cycle generally originates in free market economies, what is a free market economy?

- (a) The economy where government is in possession of major assets
- (b) The economy where private firms control major assets
- (c) The economy where decisions of productions are taken by public sector undertakings
- (d) The economy where price is controlled by government.

BUSINESS CYCLES

25. Which of the following statements is correct?

- (a) The business cycle largely affects the agricultural sector
- (b) The business cycle largely affects small employees
- (c) The business cycle generally affects all sectors of economy but business sector in particular.
- (d) The business cycle affects low wages workers

26. According to Keynes, fluctuations in Economic activities are due to-

- (a) Fluctuation in aggregate effective demand.
- (b) Innovations
- (c) Changes in money supply
- (d) Fluctuation in agricultural output

27. Which of the following is the cause of business cycles?

- (a) Fluctuations in aggregate effective demand
- (b) Fluctuations in investments
- (c) Fluctuations in government spending
- (d) All of the above

28. Economists use changes in a variety of activities to measure the business cycle and to predict where the economy is headed towards which are called _____.

- (a) Signals
- (b) Indicators
- (c) Barometer
- (d) Clues

29. If the growth rate of population is higher than the rate of economic growth, there will be _____ in the economy.

- (a) more savings
- (b) no effect on savings
- (c) lesser savings
- (d) none of these

BUSINESS CYCLES

30. The cobweb theory was propounded by _____

- (a) Hawtrey
- (b) Adam Smith
- (c) J M Keynes
- (d) Nicholas Kaldor

ANSWERS



1. (b)	2. (b)	3. (c)	4. (d)	5. (b)	6. (c)	7. (d)	8. (b)	9. (d)	10. (a)	11. (a)	12. (a)
13. (b)	14. (a)	15. (b)	16. (c)	17. (c)	18. (d)	19. (a)	20. (d)	21. (d)	22. (c)	23. (d)	24. (b)
25. (c)	26. (a)	27. (d)	28. (b)	29. (c)	30. (d)						

BUSINESS CYCLES

