



CA FOUNDATION

# MCQ COMPILER

ALL MCQs ARE ARRANGED CHAPTER WISE AND CONCEPT WISE

## BUSINESS ECONOMICS AND BUSINESS & COMMERCIAL KNOWLEDGE

APPLICABLE FOR JUNE 2023 EXAMS

### 1800+ MCQs

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- ✓ Extra Questions by MVSIR



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(CA, CFA L1, B.COM)



# Chapter 1 - NATURE AND SCOPE OF BUSINESS ECONOMICS

## UNIT 1

### Basic

A.Q.

1 In the beginning the name of economics was \_\_\_\_\_

- a) Economics of wealth
- b) Political economy
- c) Welfare economics
- d) None of these

### Extra MCQ

2 The book named 'An Inquiry into the Nature and Causes of the Wealth of Nations' (1776) usually abbreviated as 'The Wealth of Nations', was written by \_\_\_\_\_

- a) Alfred Marshall
- b) Lionel Robbins
- c) Adam Smith
- d) AC Pigou

### ICAI SM

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.

### ICAI SM

4 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

MTP Oct 19, ICAI SM

5

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.

### ICAI SM

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.

ICAI SM, MTP Mar 18

7

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.

A.Q.

8

According to which of the following definitions, economics studies human behavior regarding how he satisfied his wants with scarce resources?

- a) Robbin's definition
- b) Marshall's definition
- c) J.B. Say's definition
- d) Adam Smith's definition

Notes



# Chapter 1 - NATURE AND SCOPE OF BUSINESS ECONOMICS

## Notes

MTP Oct 20, ICAI SM

9 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

MTP Mar 18

10 Economics is a Science which deals with wealth' was referred by

- a) Alfred Marshal
- b) J.B. Say
- c) Adam Smith
- d) A.C. Pigou.

MTP Oct 20, ICAI SM

11 Scarcity definition of Economics is given by

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

MTP Apr 21, ICAI SM

12 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

A.Q., MTP Mar 18, MTP Apr 19

13 The law of scarcity

- a) does not apply to rich developed countries
- b) applies only to the less developed countries
- c) implies that consumers wants will be satisfied in a socialistic system
- d) implies that consumers wants will never be completely satisfied

A.Q.

14 Which of the following is/are limitation(s) of the wealth definitions of economics given by classical economists?

- a) By considering the problem of production distribution & exchange of wealth, they focused attention on important issues with which economics is concerned.
- b) By restricting the definition of wealth to material wealth & the neglect of immaterial services, they narrowed down the scope of economics.
- c) Both (A) and (B)
- d) None of these

MTP Apr 19, Oct 20, ICAI SM

15 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

MTP Dec 22, A.Q.

16 "If Americans today, for example were to content to live at the level of the Indian middle class people, all their wants would be fully satisfied with their available resources and capacity to produce." On the basis of the above statement, which of the following conclusion can be made?

- a) The possession of goods and services by USA has enormously increased to exceed their wants.
- b) The affluent and developed countries of USA and Western Europe face the problem of scarcity even today as their present wants remain a head of their increased resources and capacity to produce.
- c) The affluent and developed countries are not facing the problem of scarcity.
- d) None of these



# Chapter 1 - NATURE AND SCOPE OF BUSINESS ECONOMICS

Notes

ICAI SM	
17	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	

A.Q.	
18	In the beginning the name of economics was _____ word
a) French b) Latin c) Greek d) German	

A.Q.	
19	Business economics is a field in _____ which uses economic theory and quantitative methods to analyze business enterprises
a) Welfare Economics b) Development Economics c) Applied economics d) None of these	

MTP Dec 22, A.Q.	
20	Economics is a branch of _____ focused on the production, distribution and consumption of goods and services.
a) Natural science b) Physical science c) Social science d) None of these	

MTP Apr 21	
21	Scarcity of resources of occurs due to:
a) High demand of resources b) Absence of Substitutes c) Mismanagement and inequality d) All of these	

Extra MCQ	
22	_____ defined Business Economics as use of economic analysis in the formulation of business policies
a) Joel Dean b) Adam Smith c) Alfred Marshall d) Lionel Robbins	

Extra MCQ	
23	Business Economics is not only valuable to business decision makers, but also useful for managers of 'not-for-profit' organisations. This is-
a) True b) False c) Partly True d) Partly False	

MTP Mar 18, MTP Mar 19	
24	Which of the following is a cause of an economic problem?
a) Scarcity of Resources b) Unlimited wants c) Alternative uses d) All of the above.	

MTP Oct 20	
25	The economic analysis expects the consumer to behave in a manner which is:
a) Rational b) Irrational c) Emotional d) Indifferent	

MTP Apr 19, Oct 20, ICAI SM	
26	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	



# Chapter 1 - NATURE AND SCOPE OF BUSINESS ECONOMICS

## Notes

MTP Nov 22, MTP Aug 18, MTP Oct 20

27 \_\_\_\_\_ expressed the view the "Economics is neutral between end".

- a) Robbins
- b) Marshall
- c) Pigou
- d) Adam Smith

MTP June 22

28 Most of the economic problems are of \_\_\_\_\_ nature and are affected by \_\_\_\_\_

- a) Complex, Several forces
- b) Simple, Several forces
- c) Simple, single factor
- d) Complex, Single factor

MTP Nov 22

29 Which of the following statements is true?

- a) The study of economics ensures that all problems will be appropriately tackled.
- b) The study of economics cannot ensure that all problems will be appropriately tackled.
- c) The study of economics does not enable a student to examine a problem in its right perspective.
- d) None of these

PYQ June 22

30 Which of the following is the central problem of the economy?

- a) Unemployment
- b) Poverty
- c) Scarcity of resources
- d) Inflation

## Decision Making

ICAI SM

31 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

ICAI SM

32 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?

MTP Mar 21

33 Rational decision making requires that

- a) one's choice be arrived at logically and without error.
- b) one's choice be consistent with one's goal.
- c) one's choice never vary.
- d) the consumer plan's to attain the highest possible level of satisfaction.

MTP June 22

34 The survival and success of any business depends on sound \_\_\_\_\_

- a) Mind
- b) Environment
- c) Decisions
- d) None of these



# Chapter 1 - NATURE AND SCOPE OF BUSINESS ECONOMICS

## Micro Vs. Macro Economics

ICAI SM

35 Macroeconomics is also called \_\_\_\_\_ economics.

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

MTP May 20, ICAI SM

36 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

ICAI SM

37 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

ICAI SM, MTP Mar 22

38 The branch of economic theory that deals with the problem of allocation of resources is

- a) Micro-Economic theory.
- b) Macro-economic theory.
- c) Econometrics.
- d) none of the above

ICAI SM

39 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

ICAI SM

40 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.

ICAI SM

41 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

ICAI SM

42 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

Notes



A.Q.	
43	Micro-economics is concerned with
a) the economy as a whole b) the electronics industry c) the study of individual economic behaviour d) the interactions within the entire economy	

MTP Oct 18, A.Q.	
44	Which of the following statements is incorrect?
a) Unlike normative economics, positive economics is based on objective analysis of economic issues. b) The opportunity cost of a good is the quantity of other goods sacrificed to get another unit of that good. c) Microeconomics emphasizes interactions in the economy as a whole. d) None of the above	

A.Q.	
45	Which of the following falls under Micro Economics ?
a) National Income b) General Price level c) Factor Pricing d) National Saving and Investment	

A.Q.	
46	Which of the following statements is correct?
a) Employment and economic growth are studied in micro-economics. b) Micro economics deals with balance of trade c) Economic condition of a section of the people is studied in micro-economics d) External value of money is dealt with in micro-economics	

A.Q.	
47	Which of the following is/are correct about micro economics?
a) Micro economics studies the economy in its totality. b) In micro economics we make a microscopic study of the economy. c) Micro economics deals with the division of total output among industries and firms & the allocation of resources among competing uses. d) Both (B) and (C)	

MTP Oct 20, MTP Aug 18	
48	Which of the following is not a subject matter of Micro-economics?
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	

MTP Mar 19	
49	Macroeconomics is the study of:
a) Inflation b) Unemployment c) Growth d) All of the above	

MTP Mar 18	
50	When we study why saving rates are high or low, we are studying :
a) Macro Economics b) Micro Economics c) Econometrics d) Both (a) and (b)	

MTP Apr 19	
51	We mainly study the following in Micro Economics:
a) Location of a Industry b) Study of firms c) Factor pricing d) All of the above	



# Chapter 1 - NATURE AND SCOPE OF BUSINESS ECONOMICS

MTP Apr 19	
52	Macro economics doesn't include one example from the following:
a) National Income and output b) Study of firms c) General Price Level d) Saving and Investment	

Extra MCQ	
53	The long-run trends in business world are determined by prevailing _____
a) microeconomic factors b) macroeconomic factors c) Both (a) & (b) d) None of the above	

Extra MCQ	
54	Consumer behaviour & location of industry are areas under _____
a) Macro environment b) Micro environment c) Both (a) & (b) d) None of the above	

MTP Dec 2022	
55	Microeconomic theory studies how a free-enterprise economy determines _____
a) the price of goods b) the price of services c) the price of economic resources d) all of the above.	

MTP Dec 2022	
56	Which of the following is not studied in micro economics?
a) Factor pricing b) Location of Industry c) Consumer Behaviour d) External value of currency	

PYQ June 22	
57	Which of the following is not a subject matter of micro economics?
a) Behaviour of firms b) Location of industry c) Consumer behaviour d) Foreign exchange rate	

## Nature of Business Economics

ICAI SM	
58	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.	

ICAI SM	
59	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	



# Chapter 1 - NATURE AND SCOPE OF BUSINESS ECONOMICS

## Notes

MTP Oct 19, ICAI SM

60 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 Rs. 200/- per day
- d) India spends a huge amount of money on national defence.

MTP May 20, ICAI SM

61 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.

MTP Oct 20, ICAI SM

62 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

A.Q.

63 Which of the following statements is normative?

- a) Large government deficits cause an economy to grow more slowly.
- b) People work harder if the wage is higher.
- c) The unemployment rate should be less.
- d) Printing too much money causes inflation

A.Q.

64 Which of the following falls within the domain of Normative Economics?

- a) How national income between different individuals is distributed?
- b) What actual wage rate is determined under monopsony in labour market?
- c) What wage should be paid to the labourers so that they should not be exploited?
- d) None of these

MTP Nov 22, A.Q.

65 \_\_\_\_\_ is concerned with welfare proposition

- a) Normative Economics
- b) Positive Economics
- c) Both (A) and (B)
- d) None of these



# Chapter 1 - NATURE AND SCOPE OF BUSINESS ECONOMICS

A.Q.	
66	Business economics is based on micro economics in two categories ____ and ____
a) Positive, Normative b) Qualitative, Quantitative c) Both (A) and (B) d) None of these	

MTP Apr 21	
67	Which of the following is a normative statement?
a) Health care basic facilities to be provided to all citizens. b) With Industrialisation, unemployment rate decreases. c) On national defence India spent huge amount of money. d) None of these	

A.Q.	
68	Business economics is ____ in its approach
a) Idealistic b) Pragmatic c) Both (A) and (B) d) None of these	

A.Q.	
69	"A business manager must know the external forces working over his business environment." State whether the above statement is ____
a) True b) False c) Partly True d) Partly False	

MTP Apr 19	
70	Questions like what should be the level of national income, what should be the wage rate fall within the scope of:
a) Positive Science b) Normative Science c) Both (a) and (b) d) None of the above	

A.Q.	
71	"Generally a business manager is concerned with problems of his own business units. He does not study the economic problems of an economy as a whole." State whether the above statement is ____
a) True b) False c) Partly True d) Partly False	

MTP Aug 18, MTP May 20	
72	Which of the following statements would you consider to be a normative one?
a) Faster economic growth should result if an economy has a higher level of investment. b) Changing the level of interest rates is a better way of managing the economy than using taxation and government expenditure. c) Higher levels of unemployment will lead to higher levels of inflation. d) The average level of growth in the economy was faster in the 1990s than the 1980s	

MTP Nov 22, ICAI SM	
73	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	



# Chapter 1 - NATURE AND SCOPE OF BUSINESS ECONOMICS

## Notes

MTP Apr 19

74 Which of the following statements is correct?

- a) As normative science, Economics involves value judgments
- b) Robbins has made economics as a form of welfare economics
- c) The Law of Demand is always true
- d) None of the above

MTP Mar 22

75 Which of the following are the characteristics of Business Economics:

- a) It is a normative Science
- b) It is inter disciplinary
- c) Pragmatic in Nature
- d) All of the above

MTP Mar 22, Dec 22

76 Taxation involves which aspects of normative economics:

- a) Incidence
- b) Fairness
- c) Incentive to work
- d) All of the above

PYQ June 22

77 Which of the following is not a correct statement?

- a) Business economics is a normative science
- b) Business economics is an art
- c) Business economics is based largely on micro economics
- d) Business economics does not incorporate elements of macro economic analysis

MTP Nov 22

78 Business economics is \_\_\_\_\_

- a) science
- b) An art
- c) Both science and art
- d) None of these

PYQ June 22

79 Normative science suggests which of the following?

- a) What should be
- b) What to produce
- c) How to produce
- d) When to produce

PYQ June 22

80 \_\_\_\_\_ involves the predominance of bureaucracy and resulting inefficiencies and delays

- a) Socialistic economy
- b) Capitalist economy
- c) Mixed economy
- d) Free market economy

PYQ June 22

81 Business Economics is pragmatic in approach because of which of the following cause?

- a) Based on assumptions
- b) Tackles practical problems
- c) Considers profit only
- d) Considers internal value

## Scope of Business Economics

MTP Mar 18, May 20, ICAI SM

82 Which of the following is not within the scope of Business Economics?

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

A.Q.

83 The scope of business economics includes \_\_\_\_\_

- a) Demand analysis
- b) Cost analysis
- c) Inventory management
- d) All of these



84	Management of the firm _____ control over macro-economic factors.
a) has b) has no c) has partial d) None of these	

MTP Dec 22	
85	Which of the following are within the scope of business economics?
a) Capital Budgeting b) Risk Analysis c) Business cycles d) All of the Above	

Extra MCQs	
86	Which of the following is NOT a basic problem of an economy ?
a) Whether to produce more of consumer goods or capital goods b) Whether to lay emphasis on labour intensive techniques or on capital intensive techniques c) Whether to produce for rich people or for poor people d) Whether to accept foreign direct investment in the economy	

87	The basic problem of scarcity gives rise to
a) Technological problems b) Social problems c) Cultural problems d) Economic problems	

## Answer Key - Economics Chapter 1 - Unit 1

1	B	16	B	31	D	46	C	61	B	76	B
2	C	17	D	32	D	47	D	62	C	77	D
3	B	18	C	33	D	48	D	63	C	78	C
4	B	19	C	34	C	49	D	64	C	79	A
5	A	20	C	35	B	50	A	65	A	80	A
6	A	21	D	36	A	51	D	66	A	81	B
7	D	22	A	37	B	52	B	67	A	82	D
8	A	23	A	38	A	53	B	68	B	83	D
9	C	24	D	39	C	54	B	69	A	84	B
10	B	25	A	40	B	55	A	70	B	85	D
11	C	26	C	41	D	56	D	71	A	86	D
12	A	27	A	42	A	57	D	72	B	87	D
13	D	28	A	43	C	58	D	73	A		
14	B	29	B	44	C	59	D	74	A		
15	D	30	C	45	C	60	C	75	D		



# Chapter 1 - NATURE AND SCOPE OF BUSINESS ECONOMICS

## UNIT 2

### Central Economic Problems

ICAI SM

1 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.

MTP May 20, ICAI SM

2 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.

ICAI SM

3 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?

ICAI SM

4 Larger production of \_\_\_\_\_ goods would lead to higher production in future.

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

A.Q.

5

"A wise individual or a society likes to provide for its growth of productive capacity." This requires that a part of its resources should be devoted to the production of \_\_\_\_\_

- a) Consumer goods
- b) Capital goods
- c) Defense goods
- d) None of these

MTP Nov 22, A.Q.

6

The greater the inequalities in the distribution of money incomes, the \_\_\_\_\_ the inequalities in the distribution of national output.

- a) greater
- b) lesser
- c) (A) or (B)
- d) None of these

MTP Mar 21

7

The problem what to produce relates to:

- a) choice of goods and services
- b) distribution of Income
- c) choice of technique
- d) market value of goods and services

MTP Dec 22, A.Q.

8

Capital intensive technique of production is used in \_\_\_\_\_

- a) Developed Economy
- b) Underdeveloped Economy
- c) Labour surplus economy
- d) Capital surplus economy

MTP Dec 22

9

The problem of "what to produce relate to

- a) The choice of goods and service
- b) Distribution of income
- c) The choice of technique
- d) None of these

Notes



MTP Apr 19, Oct 20, ICAI SM

10 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

### Capitalistic Economy

ICAI SM

11 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.

MTP Nov 22, MTP Apr 19, Oct 20,

12 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

ICAI SM

13 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.

ICAI SM

14 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

ICAI SM, MTP Mar 22

15 Freedom of choice is the advantage of

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

Extra MCQ

16 Precedence of property rights over human rights is demerit of \_

- a) Socialist Economy
- b) Mixed Economy
- c) Capitalist Economy
- d) All of the above

MTP June 22, MTP Nov 22

17 The regulatory mechanism of the market system is-

- a) Self interest
- b) Private property
- c) Competition
- d) Specialization

A.Q.

18 If there is no central planning authority to make the fundamental economic decisions and thus to allocate productive resources, how can then free enterprise or capitalist economy solve its central problems?

- a) Through the power of God
- b) On the basis of decision taken by industrial groups.
- c) The free market economy uses the impersonal forces of the market to solve its central problems
- d) None of these



# Chapter 1 - NATURE AND SCOPE OF BUSINESS ECONOMICS

Notes

A.Q.	
19	The industrialization and economic development of the USA, Great Britain and other Western European countries have taken place under the condition of _____?
a) Socialism and planned structure b) Capitalism and laissez faire c) Mixed economic structure d) None of these	

MTP Apr 21	
20	Which of the following is not a demerit of Capitalism?
a) The pattern of demand does not represent the real need of the society. b) Strikes and lockdown are very common under capitalism c) Capitalism usually functions in a democratic framework. d) None of these	

ICAI SM	
21	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.	

MTP Oct 20, ICAI SM	
22	A capitalist economy uses _____ as the principal means of allocating resources.
a) demand b) supply c) efficiency d) prices	

MTP June 22	
23	Demand and _____ are the forces that make market economies work.
a) Elasticity of demand b) Quantity demanded c) Supply d) Quantity supplied	

MTP Dec 22	
24	Consumer is sovereign under
a) Free Economy b) Mixed Economy c) Controlled Economy d) Both (a) and (b)	

MTP Dec 22	
25	The Characteristics of capitalist economics does not include?
a) Right to Private property b) Freedom of economic choice c) Absence of Consumer choice d) Competition	

MTP Nov 22	
26	Which one of the following countries does not follow Capitalist economic system?
a) USA b) UK c) Germany d) India	

PYQ June 22	
27	Which of the following economic system is self regulating and run by invisible hands?
a) Mixed economic system b) Socialistic economic system c) Capitalist economic system d) Planned economic system	



# Chapter 1 - NATURE AND SCOPE OF BUSINESS ECONOMICS

## Socialistic Economy

PYQ June 22

28 In a socialist economy the allocation of resources is done by

- a) Market Price
- b) Consumer preferences
- c) A central planning authority
- d) The level of corporate profits

PYQ June 22

29 A socialist economy is called as which of the following ?

- a) Command economy
- b) Military economy
- c) Behavioralist economy
- d) Applied economy

MTP Mar 18, May 20, ICAI SM

30 Exploitation and inequality are minimal under

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

MTP May 20, ICAI SM

31 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.

ICAI SM

32 \_\_\_\_\_ is also called as command economy

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

MTP Dec 22, A.Q.

33 A socialist economy is a system of production where goods and services are produced \_\_\_\_\_

- a) to generate profit
- b) directly for use
- c) Both (A) and (B)
- d) None of these

A.Q.

34 Which one of the following statements is correct regarding socialist economy?

- a) Production is planned or coordinated and suffers from the business cycle
- b) Production suffers from the business cycle
- c) Production is planned and does not suffer from business cycle
- d) None of these

A.Q.

35 Which of the following is not a merit of socialist economy?

- a) It provides equal access to health care and education
- b) Workers are no longer exploited because they own the means of production
- c) Profits are not spread equitably among all workers according to their individual contributions.
- d) Natural resources are preserved for the good of the whole



# Chapter 1 - NATURE AND SCOPE OF BUSINESS ECONOMICS

## Notes

MTP Apr 21	
36	Socialist economy does have:
a) Right to work and minimum standard to living b) Absence of competition c) Right to private property d) Both a and b	
37	In a planned or command economy all the economic decisions are taken by the _____.
a) Workers b) Consumers c) Voters d) Government	

MTP Apr 21	
38	Administered price are determined in socialism by:
a) Market Forces b) Government c) Both (a) and (b) d) None of these	

MTP Mar 19	
39	Which economy is now a myth only, as no country in the world is having that type of economy?
a) Capitalist Economy b) Socialist Economy c) Mixed Economy d) None of the above	

## Mixed Economy

ICAI SM	
40	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.	

A.Q.	
41	Which of the following is/are the merit(s) of mixed economic system?
a) Entrepreneurs able to make profit b) Progressive taxes to reduce inequality c) Government's provision of public goods d) All of the above	

MTP Aug 18	
42	Which of the following is correct?
a) Normative economics is not concerned with value judgment. b) A market is a process that reconciles consumer decision, production decisions and labour decisions. c) A mixed economy has a certain level of government intervention in the economy along with private sector ownership of the economy. d) Both (b) and (c)	

43	Which of the following statements is/are correct about mixed economic system?
a) Mixed economic system depends on both markets and governments for allocation of resources b) Mixed economy is not always a golden path between capitalism and socialism. c) It is very difficult to maintain a proper balance between private and public sectors. d) All of the above	



# Chapter 1 - NATURE AND SCOPE OF BUSINESS ECONOMICS

## Extra MCQs

44 Which of the following statements is correct?

- a) In a two-good economy, the production possibilities frontier reflects the maximum amount of one good that can be produced when a given amount of the other good is produced.
- b) Microeconomics is the study of the behavior of the economy as a whole.
- c) Positive economics focuses on welfare of the people of a society
- d) None of the above

45 Which of the following statement is correct?

- a) Mixed economy is not always a 'golden path' between capitalistic and socialistic economy
- b) Socialistic economy is not always a 'golden path' between mixed economy and capitalism
- c) Capitalistic economy is not always a 'golden path' between mixed economy and socialism
- d) Local economy is not always a 'golden path' between internal and international economy

46 Which of the following statements is not correct?

- a) Scarcity of resources is the key problem of all economies
- b) Economic inequalities lead to wide differences in economic opportunities to people
- c) Economic instability is very common under capitalism
- d) Freedom of enterprise is one of the main characteristic of command economy

47 Capitalist system offers incentives for

- a) Efficient business decisions
- b) Efficient government decisions
- c) Efficient non-governmental decisions
- d) Efficient economic decisions

## Answer Key - Economics Chapter 1 - Unit 2

1	D	11	A	21	C	31	C	41	D
2	B	12	C	22	D	32	A	42	D
3	B	13	D	23	C	33	B	43	D
4	B	14	B	24	D	34	C	44	A
5	B	15	B	25	C	35	C	45	A
6	A	16	C	26	D	36	D	46	D
7	A	17	C	27	C	37	D	47	D
8	D	18	C	28	C	38	B		
9	A	19	B	29	A	39	B		
10	A	20	C	30	A	40	C		



## Chapter 2 - THEORY OF DEMAND AND SUPPLY

### UNIT 1

#### Basics of Demand

ICAI SM

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

ICAI SM

2 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

Extra MCQ

3 By demand we mean

- a) Various quantities of a commodity
- b) Something which a consumer would buy at various prices
- c) Quantity sold during a period of time
- d) All of the above

MTP Mar 19

4 Effective Demand depends on:

- a) Desire
- b) Means to purchase
- c) Willingness to use those means
- d) All of the above

MTP Mar 19

5 Quantity demanded is a:

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

A.Q.

6

Successful business firms spend considerable time, energy and efforts in analyzing the \_\_\_\_\_ for their products.

- a) Supply
- b) Price
- c) Demand
- d) None of these

A.Q.

7

The economist's concept of demand is \_\_\_\_\_ as desire or need or choice or preference or order.

- a) the same thing
- b) not the same thing
- c) (A) or (B)
- d) None of these

#### Determinants of Demand

8 Which of the following is true?

- a) The price of a commodity has no relation with the demand of that commodity
- b) The price of a commodity has positive relation with the demand of that commodity
- c) The price of a commodity has negative relation with the demand of that commodity
- d) Ceterus paribus, if price of a commodity falls, the demand of that commodity would also fall.



## Chapter 2 - THEORY OF DEMAND AND SUPPLY

### Notes

#### ICAI SM

9 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.

#### SEQ, ICAI SM

10 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.

#### SEQ, ICAI SM

11 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.

#### ICAI SM

12 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

#### ICAI SM

13 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

#### MTP May 20, ICAI SM

14 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

#### ICAI SM

15 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

#### SEQ

16 \_\_\_\_ and \_\_\_\_ do not directly affect the demand curve

- a) the price of related goods, consumer incomes
- b) Consumer incomes, tastes
- c) the costs of production, bank opening hours
- d) the price of related goods, preferences



## Chapter 2 - THEORY OF DEMAND AND SUPPLY

MTP Dec 22, A.Q.

17 The most crucial determinant of demand for an item is \_\_\_\_\_

- a) Income of consumer
- b) Prices of other related goods
- c) Taste and preference of consumer
- d) It's own price

MTP Oct 20

18 Coco-cola and Pepsi are substitutes. A rise in the price of coco-cola will \_\_\_\_\_ the demand for Pepsi and the quantity of Pepsi sold will \_\_\_\_\_

- a) Increase; increase
- b) Increase; decrease
- c) Decrease; decrease
- d) Decrease; increase

MTP Oct 20

19 If price of good A increases relative to the price of its substitutes B and C, then demand for \_\_\_\_\_

- a) B will decrease
- b) C will decrease
- c) B and C will increase
- d) B and C will decrease

MTP Aug 18

20 \_\_\_\_\_ pair of commodities is an example of substitutes

- a) Coffee and milk
- b) Diamond and cow
- c) Pen and ink
- d) Mustard oil and coconut oil

MTP Aug 18

21 If an increase in the price of blue jeans leads to an increase in the demand for tennis shoes, then blue jeans and tennis shoes are \_\_\_\_\_

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

MTP Mar 18

22 If distribution of income is more equal, then the propensity to consumer of the country is \_\_\_\_\_

- a) Relatively High
- b) Relatively Low
- c) Unaffected
- d) None of the above

MTP Mar 18, MTP Dec 22

23 When the price of a substitute of X commodity falls, the demand for X \_\_\_\_\_

- a) Rises
- b) Falls
- c) Remains unchanged
- d) Any of the above.

MTP Dec 22, MTP June 22

24 Computers and computer software are \_\_\_\_\_

- a) Substitute goods
- b) Complementary goods
- c) Independent goods
- d) Normal goods

Extra MCQ

25 Ceterus paribus, if the price of Tea decreases, then \_\_\_\_\_

- a) Demand of coffee will decrease.
- b) Demand of coffee will increase
- c) Demand of coffee will not change.
- d) Demand of tea will decrease.

Extra MCQ

26 If, as people's income increases, the quantity demanded of a good decreases, the good is called \_\_\_\_\_

- a) a substitute.
- b) a normal good.
- c) an inferior good.
- d) a complement.



## Chapter 2 - THEORY OF DEMAND AND SUPPLY

### Notes

#### Extra MCQ

27 In case of luxury goods,

- Demand rises only up to a certain level of income & decreases with an increase in money income beyond this level.
- Increase in income leads to higher demand, but this increase will be less than proportionate to the increase in income.
- Demand rises beyond a certain level of consumers' income and keep rising as income increases.
- Increase in income leads to lower demand.

#### Extra MCQ

28 In case of essential consumer goods, if the income of the consumer increases then,

- Increase in income leads to higher demand, but this increase will be less than proportionate to the increase in income.
- Increase in income leads to lower demand, but this decrease will be less than proportionate to the increase in income.
- Increase in income leads to no change in demand.
- Increase in income leads to higher demand, but this increase will be more than proportionate to the increase in income.

#### Extra MCQ

29 In case of durable goods, as a person becomes richer

- there is a rise in the importance of these goods
- there is a decrease in the importance of these goods
- there is no change in the importance of these goods
- None of the above

#### MTP Oct 20, ICAI SM

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

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

- I and III only.
- I only
- III only.
- I, II, and III

#### Extra MCQ

31 In case of inferior goods, which of the statement/s are true-

- Demand rises only up to a certain level of income & decreases with an increase in money income beyond this level.
- Increase in income leads to higher demand, but this increase will be less than proportionate to the increase in income.
- A same good may be normal for one condition and may be inferior in another.
- (a) & (c)

#### Extra MCQ

32 Which of the following is incorrect?

- Availability of credit facilities encourages consumers to buy more.
- Generally, larger the size of population, lower will be the demand for goods.
- Availability of loans at lower interest rate encourages consumers to buy more.
- The propensity to consume of rich people is relatively less than that of poor people.



## Chapter 2 - THEORY OF DEMAND AND SUPPLY

Extra MCQ	
33	Which of the following is incorrect?
a) Goods which are modern command higher demand b) Goods which are more in fashion command lower demand c) Consumers may perceive a product as obsolete and discard it before it is fully utilized and prefer another good which is currently in fashion. d) None of the above	

Extra MCQ	
34	_____ refers to the extent to which the demand for a commodity is increased due to the fact that others are also consuming the same commodity
a) Demonstration Effect b) Snob Effect c) Bandwagon Effect d) Veble Effect	

MTP June 22	
35	Demonstration effect, a term coined by _____
a) Adam Smith b) James Duesenberry c) Alfred Marshall d) None of these	

Extra MCQ	
36	In a country where National Income is unevenly distributed, which of the following statement is false ?
a) propensity to consume of the country will be relatively less b) means few very rich people while the majority are very poor c) demand for consumer goods will be comparatively less d) propensity to consume of the country as a whole will be relatively high	

Extra MCQ	
37	Which of the following statements are true or false- 1) Snob Effect represents the desire of people to be exclusive; to be different; to dissociate themselves from the "common herd." 2) Snob Effect is a function of price
a) (1) & (2) are false b) (1) & (2) are true c) (1) Is true & (2) is false d) (1) Is false & (2) is true	

Extra MCQ	
38	Highly priced goods are consumed by status seeking rich people to satisfy their need for conspicuous consumption. This happens because of-
a) Veblen Effect b) Snob Effect c) Bandwagon Effect d) Price Effect	

Extra MCQ	
39	Which of the following is true ?
a) The propensity to consume of rich people is the same as of poor people. b) The propensity to consume of rich people is higher than that of poor people. c) The propensity to consume of rich people is lower than that of poor people. d) None of the above.	

Extra MCQ	
40	An individual's demand for a product may be affected by his seeing one in his neighbour's or friend's house because he figures out that if his neighbour or friend can afford it, he too can. This happens because of
a) Veblen Effect b) Snob Effect c) Demonstration Effect d) Price Effect	



## Chapter 2 - THEORY OF DEMAND AND SUPPLY

### Notes

### Law of Demand - Basics

MTP Dec 22	
41	Related goods are of ____ types.
a) two b) three c) four d) five	

MTP Nov 22	
42	"The increase in demand of a commodity due to the fact that others are also consuming the same commodity" is known as ____
a) Veblen effect b) Bandwagon effect c) Snob effect d) Demonstration effect	

MTP Nov 22	
43	Match the following  LIST-I (a) Tea and Coffee (b) Car and Petrol (c) Gold & Diamond (d) Ragi and Bajara  LIST II 1. Veblen goods 2. Substitutes 3. Giffen goods 4. complementary
Codes: <u>a</u> <u>b</u> <u>c</u> <u>d</u> (a)            1        2        3        4 (b)            2        4        1        3 (c)            1        3        4        2 (d)            1        3        2        4	

PYQ June 22	
44	Due to increase in price of coffee, the demand for tea increases. The two commodities under consideration are
a) Substitute goods b) Complementary goods c) Unrelated goods d) Producers goods	

ICAI SM	
45	The Law of Demand, assuming other things to remain constant, establishes the relationship between:

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

A.Q.	
46	An important generalization about demand is described by ____
a) Law of demand b) Factors affecting demand c) Quantity demanded d) None of these	

A.Q.	
47	'Ceteris Paribus' clause in Law of demand does not mean-
a) The price of the commodity does not change b) The price of substitutes does not change c) The income of consumer does not change d) The price of complementary goods does not change	

MTP Aug 18	
48	The law of demand refers to ____
a) Price-supply relationship b) Price-cost relationship c) Price-demand relationship d) Price-income relationship	



## Chapter 2 - THEORY OF DEMAND AND SUPPLY

MTP Dec 22

49

Traditional approach of law of demand was propounded by

- a) Duffer
- b) Paul A Samuelson
- c) Alfred Marshall
- d) Pique

### Rationale of Law of Demand

ICAI SM

50

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

ICAI SM

51

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

SEQ

52

The 'substitution effect' takes place due to change in

- a) income of the consumer
- b) prices of the commodity
- c) relative prices of the commodities
- d) all of the above

MTP Apr 21

53

In case of inferior goods:

- a) Income effect and substitution effect work in opposite direction
- b) Income effect and substitution effect work in same direction
- c) It leads consumer to purchase less of a good and more of the substitute
- d) None of these

MTP Oct 19

54

Inferior goods are those goods whose income effect is-

- a) Negative
- b) Positive
- c) Zero
- d) None of these

Extra MCQ

55

In the case of inferior goods, the expansion in demand due to a price fall will take place only if the -

- a) income effect outweighs the substitution effect
- b) substitution effect outweighs the income effect
- c) substitution effect equals the income effect
- d) None of the above

MTP Dec 22, MTP Mar 21

56

When violation of law of demand occurs:

- a) substitution effect is negative
- b) income effect is negative
- c) negative income effect is less than substitution effect
- d) negative income effect is greater than substitution effect

MTP Oct 18

57

The total effect of a price change of commodity is

- a) substitution effect plus price effect
- b) substitution effect plus income effect
- c) substitution effect plus demonstration effect
- d) substitution effect minus income effect



## Chapter 2 - THEORY OF DEMAND AND SUPPLY

### Notes

MTP June 22	
58	The substitution effect works to encourage a consumer to purchase more of a product when the price of that product is falling because-
a) The consumer's real income has increased. b) The consumer's real income has decreased. c) The product is now relatively less expensive than before. d) Other products are now less expensive than before.	

MTP Dec 22, MTP Mar 21, Mar 22	
59	The substitution effect will be stronger when:
a) the goods are closer substitute b) there is lower cost of switching to the substitute good. c) there is lower inconvenience while switching to the substitute good. d) all the above	

Extra MCQ	
60	Which of the following is not a rationale of law of demand-
a) Law of diminishing marginal utility b) Demand for necessities c) Arrival of new consumers d) Multiple uses of same commodity	

Extra MCQ	
61	As per the rationale of law of demand, when the price of a commodity falls, then
a) more consumers start buying it because some of those who could not afford to buy it earlier may now be able to buy it b) it becomes relatively cheaper than other commodities and induces consumers to substitute the commodity whose price has fallen for other commodities c) Consumers can use the commodity for varied purposes and therefore their demand for such commodities will increase d) All of the above	

PYQ June 22	
62	The substitution effect will be what when the price of the product falls?
a) Zero b) Negative c) Positive d) Lower cost	

### Exceptions of Law of Demand

MTP Mar 19, Aug 18, Oct 20, SEQ, ICAI SM	
63	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	

MTP Oct 20, ICAI SM	
64	Conspicuous goods are also known as
a) Prestige goods b) Snob goods c) Veblen goods d) All of the above	

ICAI SM	
65	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	

ICAI SM	
66	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	



## Chapter 2 - THEORY OF DEMAND AND SUPPLY

ICAI SM	
67	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	

A.Q.	
68	The price of a piece of jewellery rises, the demand for it may also rise as consumers attach a _____ to owning and displaying expensive items.
a) money value b) use value c) snob value d) None of these	

MTP Apr 21	
69	Exception to the law of demand
a) Speculative effect b) Fear of Shortage c) Ignorance d) All the above	

MTP Mar 18	
70	Giffen goods are those goods
a) For which demand increases as price increases b) That have a high income elasticity of demand c) That are in short supply d) None of these	

MTP Mar 22	
71	For Giffen good the Engel curve is:
a) Positive sloped b) Vertical c) horizontal d) Negative sloped	

MTP Mar 22	
72	According to Hicks and Allen the demand curve slope downwards due to _____
a) Law of diminishing marginal utility b) Income effect and substitution effect c) Either (a) or (b) d) None of these	

MTP Dec 22	
73	In spite of the fact that the price of the television sets refrigerators, air conditions etc. have been continuously rising their demand does not stand any tendency to fall because they are
a) Conspicuous goods b) Giffen goods c) Speculative goods d) Conspicuous necessities.	

PYQ June 22	
74	In case of Veblen goods, the demand curve is
a) Horizontal b) Vertical c) Upward sloping to the right d) Downward sloping to the right	

PYQ June 22	
75	Which of the following statements is not correct?
a) Giffen goods exhibit negative relationship between price and demand b) Conspicuous goods exhibit positive relationship between price and demand c) Incomplete information and irrational behaviour of consumer is one of the reasons of exception to the law of demand d) Law of demand states inverse relationship between price of a commodity and its quantity demanded	



## Chapter 2 - THEORY OF DEMAND AND SUPPLY

### Notes

PYQ June 22	
76	Which of the following is not an exception to the law of demand?
a) Giffen goods b) Speculative goods c) Conspicuous goods d) White goods	

### Demand Curve & Demand Schedule

Extra MCQ	
77	Which of the following is correct?
a) Demand curve has a positive slope, with price on the vertical axis and quantity on the horizontal axis b) Demand curve has a positive slope, with price on the horizontal axis and quantity on the vertical axis c) Demand curve has a negative slope, with price on the vertical axis and quantity on the horizontal axis d) Demand curve has a negative slope, with price on the horizontal axis and quantity on the vertical axis	

ICAI SM	
78	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.	

SEQ	
79	If the demand curve for good X is downward-sloping, an increase in the price will result in
a) A decrease in the demand for good X. b) No change in the quantity demanded for good X. c) A larger quantity demanded for good X. d) A smaller quantity demanded for good X.	

80	A market demand curve is a graphical presentation of the _____
a) Demand schedule b) Market demand schedule c) Supply schedule d) Market supply schedule	

MTP Dec 22	
81	When real income rather than money income is kept constant in drawing a consumer's demand curve for a commodity, the demand curve is negatively sloped,
a) Always b) Never c) Sometimes d) Often.	

MTP Dec 22	
82	Empirical demand curves refer to demand curves estimated from
a) utility theory b) the new approach to consumer theory c) information provided by individual consumers d) Actual market price-quantities observations.	

### Changes in Demand

MTP Oct 20, Mar 22, Nov 22, A.Q., ICAI SM	
83	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.	



## Chapter 2 - THEORY OF DEMAND AND SUPPLY

ICAI SM

84 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

ICAI SM

85 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.

MTP May 20, ICAI SM

86 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

MTP Oct 20, ICAI SM

87 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.

ICAI SM

88 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.
- c) Increase the price of computers.
- d) Increase the price and number of computers bought

ICAI SM

89 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

MTP Oct 20, ICAI SM

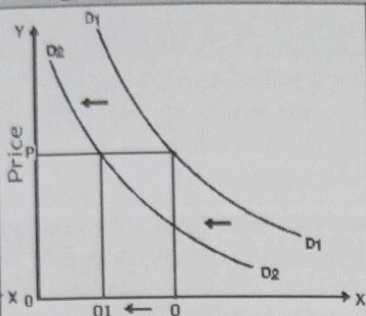
90 A decrease in the demand for cameras, other things remaining the same will

- a) Increase the number of cameras bought
- b) Decrease the price but increase the number of cameras bought
- c) Increase the price of cameras
- d) Decrease the price and decrease in the number of cameras bought



## Chapter 2 - THEORY OF DEMAND AND SUPPLY

### Notes

ICAI SM	
91	<p>The diagram given below shows</p>  <p>a) A change in demand which may be caused by a rise in income and the good is a normal good</p> <p>b) A shift of demand curve caused by a fall in the price of a complementary good</p> <p>c) A change in demand which is caused by a rise in income and the good is an inferior good</p> <p>d) A shift of demand curve caused by a rise in the price of a substitute and the good is a normal good.</p>

ICAI SM	
92	<p>The demand curve of a normal good has shifted to the right. Which of the four events would have caused the shift?</p> <p>a) A fall in the price of a substitute with the price of the good unchanged</p> <p>b) A fall in the nominal income of the consumer and a fall in the price of the normal good</p> <p>c) A fall in the price of a complementary good with the price of the normal good unchanged</p> <p>d) A fall in the price of the normal good, other things remaining the same</p>

MTP Apr 21	
93	<p>If the Price of Thumps Up increase the demand curve of Pepsi will:</p> <p>a) Remain at the same level</p> <p>b) Shift towards right</p> <p>c) Shift towards left</p> <p>d) None of those</p>

ICAI SM	
94	<p>If roller-coaster ride is a function of amusement park visit, then, if the price of amusement park entry falls</p> <p>a) The demand for roller-coaster rides will rise and the demand curve will shift to right</p> <p>b) The demand for roller coaster ride cannot be predicted as it depends on the tastes of consumers for the ride</p> <p>c) There will be an expansion in the demand for roller coaster drive as it complementary</p> <p>d) None of the above</p>

ICAI SM	
95	<p>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?</p> <p>a) Demand curve will shift to the right.</p> <p>b) Demand curve will shift to the left.</p> <p>c) Demand will not shift, but the quantity of cars sold per month will decrease.</p> <p>d) Demand will not shift, but the quantity of cars sold per month will increase</p>

Extra MCQ	
96	<p>During expansion, economies experience increased employment and an increased level of income. How would a expansion likely to affect the market demand for new houses?</p> <p>a) Demand curve will shift to the left.</p> <p>b) Demand curve will shift to right.</p> <p>c) Demand will not shift, but the quantity of houses sold per month will increase.</p> <p>d) Demand will not shift, but the quantity of houses sold per month will decrease</p>



## Chapter 2 - THEORY OF DEMAND AND SUPPLY

MTP Oct 19

97 A downward movement along a demand curve indicate-

- a) Increase in demand
- b) Decrease in demand
- c) Contraction of demand
- d) Expansion of Demand

MTP Mar 22

98 A fall in the price of a commodity where everything else is held constant, will lead to

- a) An increase in quantity demand
- b) A decrease in demand
- c) An increase in demand
- d) None of these

Extra MCQ

99 Redistribution of income away from groups of people who favour the commodity will lead to \_\_\_\_

- a) Increase in demand
- b) Decrease in demand
- c) Contraction of demand
- d) Expansion of Demand

Extra MCQ

100 During \_\_\_\_\_ quantity demanded increases at all the prices

- a) Expansion of Demand
- b) Contraction of Demand
- c) Increase in Demand
- d) Decrease in Demand

Extra MCQ

101 During \_\_\_\_\_ quantity demanded decreases at all the prices

- a) Expansion of Demand
- b) Contraction of Demand
- c) Increase in Demand
- d) Decrease in Demand

PYQ June 22

102 The demand for petrol decreases due to increases in its price, it is termed as

- a) A decreases in demand
- b) A change in demand
- c) A contraction in demand
- d) An increases in demand

### Price Elasticity of Demand - Percentage Method

ICAI SM

103 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.

MTP Oct 20, ICAI SM

104 The price of a commodity decreases from Rs 6 to Rs 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

A.Q.

105 Let  $Q_x = 1500/P_x$  the elasticity of demand of the good X when its price falls from \$ 8 to \$ 2 per unit, will be \_\_\_\_ (Use Arc Method)

- a) greater than one
- b) less than one
- c) equal to one
- d) can't say



## Chapter 2 - THEORY OF DEMAND AND SUPPLY

Notes

Notes

MTP Oct 20	
106	If as a result of 20 percent fall in the ticket fares the demand for watching movie in the cinema hall increases by 10 percent, then price elasticity is
a) 0 b) Greater than 0 but less than 1 c) 1 d) Greater than 1	

ICAI SM	
108	A consumer buys 80 units of a good at a price of Rs 4 per unit. Suppose price elasticity of demand is -4. At what price will he buy 60 units?
a) 5 b) 4.25 c) 4.20 d) 3.80	

A.Q.	
Match the following	
LIST I	
A	for a given 10% change in price demand changes by zero per cent.
B	for a given 10% change in price demand changes by 5%
C	for a given 10% change in price demand changes by 10%
D	for a given 10% change in price demand changes by 20%.
LIST 2	
1	$e > 1$
2	$e = 1$
3	$e < 1$
4	$e = 0$

Codes:	a	b	c	d
(A)	3	1	2	4
(B)	4	3	2	1
(C)	1	2	3	4
(D)	2	3	1	4

MTP Oct 18, May 20			
Read the below table and answer Questions number 109-111			
	% change in price	% change in quantity demanded (quantity Supplied)	Elasticity
Demand for salt	20	-1	x
Demand for bananas	15	y	3
Supply of chicken	z	14	1

MTP May 20	
109	Refer the above table and find the value of x.
a) -20 b) -0.05 c) -1 d) Can not be determined	

MTP May 20	
110	Refer the above table and find the value of y.
a) -5 b) 15 c) -45 d) -3	



## Chapter 2 - THEORY OF DEMAND AND SUPPLY

MTP May 20

111 Refer the above and find the value of  $z$ .

- a) 14
- b) 1
- c) 0.07
- d) 5

MTP Oct 19

112 When the price of commodity increases by 40% and its quantity demanded falls from 150 to 120 units, then the price elasticity of demand for a commodity is-

- a) -0.8%
- b) 0.8%
- c) 0.5%
- d) -0.5%

MTP Oct 19

113 A consumer demands 5 units of a commodity at the price of Rs. 4 per unit. He demands 10 units when the price falls to Rs 3 per unit. Price elasticity of demand is equal to-

- a) 3
- b) 2
- c) 1.5
- d) 4

ICAI SM

114 The price of a good decreases from Rs 100 to Rs 60 per unit. If the price elasticity of demand for it is 1.5 and the original quantity demanded is 30 units, calculate the new quantity demanded.

- a) 60 units
- b) 45 units
- c) 48 units
- d) 54 units

Extra MCQ

115 The price of a good decreases from Rs 80 to Rs 60 per unit. If price elasticity of demand = 2 Original Qty demanded = 50 units. Calculate the new qty demanded.

- a) 25 units
- b) 75 units
- c) 100 units
- d) 0 units

ICAI SM

116 The quantity demanded by a consumer at price Rs 9 per unit is 800 units. Its price falls by 25% and quantity demanded rises by 160 units. Calculate its price elasticity of demand.

- a) 0.50
- b) 0.80
- c) 1.25
- d) 2

PYQ June 22

117 The price of X commodity decreases from Rs. 10 to 8, owing to which its demand increases from 100 to 120 units. Calculate the price elasticity of demand

- a) (-) 1
- b) 1
- c) 0.8
- d) 1.2

### Price Elasticity of Demand - Point Method

MTP Oct 20, ICAI SM

118 In the case of a straight line demand curve meeting the two axes, the price-elasticity of demand at the midpoint of the line would be :

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



## Chapter 2 - THEORY OF DEMAND AND SUPPLY

Notes

ICAI SM

119

Point elasticity is useful for which of the following situations?

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

MTP Oct 18

120

If R point bisects the demand curve in two equal part, then elasticity at R equals\_\_

- Zero
- Five
- Two
- One

ICAI SM

121

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

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

SEQ

122

If a point on a demand curve of any commodity lies on X Axis then price elasticity of demand of that commodity at that point will be : \_\_\_\_

- Infinite
- More than zero
- Less than zero
- zero

MTP Apr 21

123

From the following demand curve determine the elasticity at the given price  
 $Q = 1200 - 10P$   
 When  $P = 5$ ,  $dQ/dP = 10$

- Elastic
- Inelastic
- Unitary elastic
- None of these

### Price Elasticity of Demand - Arc Method

ICAI SM

124

Suppose the price of movies seen at a theatre rises from Rs 120 per person to Rs 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)

- 0.5
- 0.8
- 1.0
- 1.2

SEQ, ICAI SM

125

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

- 0.8
- 1.0
- 1.25
- 1.50



## Chapter 2 - THEORY OF DEMAND AND SUPPLY

ICAT SM

126

If the local pizzeria raises the price of a medium pizza from Rs. 60 to Rs. 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) 0.67
- b) 1.5
- c) 2.0
- d) 3.0

MTP Dec 22, A.Q.

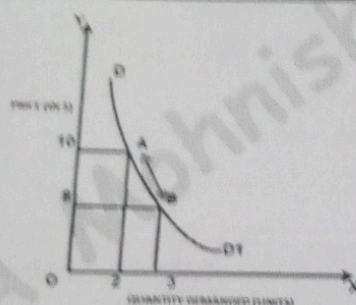
127

With reference to Arc elasticity measures the responsiveness of demand \_\_\_\_\_ on the demand curve.

- a) at one given point
- b) at intercepts on X-axis & Y-axis
- c) between two points
- d) Any of the above

A.Q.

128



In the above figure, DD1 is the demand curve of a commodity. There are two points on the demand curve i.e., A and B with (P, Q) as (10, 2) & (8, 3) respectively. If the initial point is A OR initial point is B, the price elasticity of demand will be

- a) same in both cases by point method of price elasticity of demand
- b) different in both cases by Arc method of price elasticity of demand
- c) same in both cases by Arc method & different by point method of price elasticity of demand
- d) None of these

MTP Aug 18, May 20

129

If the quantity of blankets demanded increases from 4600 to 5700 in response to a decrease in their price from Rs. 220 to Rs. 190, the price elasticity of demand for blankets is (Use Arc Method)

- a) 0.69
- b) 1.0
- c) 1.46
- d) 2.66

MTP May 20

130

Suppose that at a price of Rs. 300 per month, there are 30,000 subscribers to cable television in Small Town. If Small Town Cablevision raises its price to Rs. 400 per month, the number of subscribers will fall to 20,000. Using the arc elasticity (midpoint) method for calculating the elasticity, what is the price elasticity of demand for cable TV in Small Town?

- a) 1.4
- b) 0.66
- c) 0.75
- d) 2.0

MTP Mar 18, Mar 19

131

(Use Arc Method)

If price of Banana rises from Rs. 30 to Rs. 40 and supply increases from 240 to 300 elasticity of supply is:

- a) 0.7
- b) -0.67
- c) 0.65
- d) 0.77



## Chapter 2 - THEORY OF DEMAND AND SUPPLY

### Notes

MTP Mar 22

132

The Coefficient of Price elasticity of demand between two points on a demand curve is \_\_\_\_\_

- a) Arc elasticity
- b) Point elasticity
- c) Price elasticity
- d) None of these

MTP Mar 18

133

If a good is priced at Rs. 180 p.u. and its price is increased to Rs. 240 p.u. Now suppose quantity demanded previously was 100 units and as a result of price increase, the quantity demanded fell to 80 units. What is the price elasticity? (use Mid Point method)

- a) 0.777
- b) 1.4
- c) 1
- d) 0.8

### Price Elasticity of Demand - Interpretation of Values

ICAI SM

134

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.

ICAI SM

135

The steeper the slope of the demand curve, the \_\_\_\_\_ is the demand.

- a) more elastic
- b) less elastic
- c) Either (a) or (b)
- d) None of the above

MTP Oct 20, SEQ, ICAI SM

136

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.

ICAI SM

137

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.

MTP Mar 18, SEQ, ICAI SM

138

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.

Extra MCQ

139

The numerical value of elasticity of demand for interpretation, can assume any value between \_\_\_\_\_

- a)  $-\infty$  to 0
- b)  $-\infty$  to  $\infty$
- c) 0 to  $\infty$
- d) 1 to  $\infty$



## Chapter 2 - THEORY OF DEMAND AND SUPPLY

MTP Apr 19, MTP Apr 21

140

When the demand curve is parallel to X axis (horizontal) elasticity of demand will be \_\_\_\_

- a) Zero
- b) Infinity
- c) Less than Unity
- d) None of these

MTP Mar 21

141

When  $e = 0$ , elasticity of demand is :

- a) perfectly elastic
- b) unitary elastic
- c) inelastic
- d) perfectly inelastic demand

MTP Mar 21

142

When a small change in price leads to a large change in demand the demand is

- a) inelastic
- b) elastic
- c) stagnant
- d) fixed

MTP June 22

143

Consider the following statements and select the correct answer from the given options.

**Assertion (A):** Demand curve is vertical when elasticity of demand is zero.

**Reason (R):** Marginal utility of a product is increasing

- a) Both (A) and (R) are true and (R) is the correct explanation of (A)
- b) Both (A) and (R) are true and (R) is not the correct explanation of (A)
- c) (A) is true but (R) is false
- d) (A) is false but (R) is true

MTP Apr 19

144

When quantity demanded changes by larger percentage than does price, elasticity is termed as:

- a) Inelastic
- b) Elastic
- c) Perfectly Elastic
- d) Perfectly Inelastic

MTP June 22

145

Which of the following statements is correct?

- a) When the slope of the demand curve is zero, demand is infinitely elastic and when the slope is infinite, elasticity is zero.
- b) When the slope of the demand curve is zero, the elasticity is also zero and when the slope is infinite, elasticity is also infinite.
- c) When the slope of the demand curve is zero, the elasticity is unity and also when the slope is infinite, elasticity is unity.
- d) None of these

MTP June 22

146

The share of the tax borne by seller will be larger

- a) If the demand for the product is less elastic.
- b) If the demand for the product is inelastic.
- c) If the demand for the product has greater elasticity.
- d) If the elasticity of supply of the product is larger.

MTP Mar 22

147

A movement along a curve rather than a shift in the curve can be measured by:-

- a) Cross elasticity of demand
- b) Income elasticity of demand
- c) Price elasticity of demand & Price elasticity of Supply
- d) None of these



## Chapter 2 - THEORY OF DEMAND AND SUPPLY

### Notes

PYQ June 22

148

If the proportionate change in price is greater than the proportionate change in quantity demanded of a commodity, the price elasticity of demand will be

- a) Zero
- b) Inelastic
- c) Elastic
- d) Infinite

### Price Elasticity of Demand - Total Outlay Method

SEQ, ICAI SM

149

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..

ICAI SM

150

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.

ICAI SM

151

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.

Extra MCQ

152

If demand for a good is inelastic, then as per total outlay method \_\_\_\_

- a) Quantity Effect > Price Effect
- b) Quantity Effect = Price Effect
- c) Quantity Effect < Price Effect
- d) (a) or (c)

ICAI SM

153

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.



## Chapter 2 - THEORY OF DEMAND AND SUPPLY

ICAI SM, MTP Mar 22

154 '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

MTP Oct 20, ICAI SM

155 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.

ICAI SM

156 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

MTP Aug 18, May 20, Nov 22, SEQ

157 If increasing air fares increases revenues and decreasing them decreases revenues, then the demand for air travel has a price elasticity of:

- a) Zero
- b) Greater than zero but less than one
- c) One
- d) Greater than one

MTP Mar 18

158 If demand for a good is elastic, an increase in its price will cause total expenditure of the consumer of the good to:

- a) Increase
- b) Decrease
- c) Remain the same
- d) None of the above

A.Q.

159 If the price of a commodity raised by 12% and  $E_d$  is (-) 0.63, the expenditure made on the commodity by a consumer will \_\_\_\_

- a) Decrease
- b) Increase
- c) Remain same
- d) Can't Say

MTP Oct 18

160 If a good has price elasticity greater than one then:

- a) demand is unit elastic and a change in price does not affect sellers' revenue.
- b) demand is elastic and a change in price causes sellers' revenue to change in the opposite direction.
- c) demand is inelastic and a change in price causes sellers' revenue to change in the same direction.
- d) None of the above is correct



## Chapter 2 - THEORY OF DEMAND AND SUPPLY

### Notes

MTP Mar 22

161 When the demand curve is a rectangular hyperbola an increase in the price of the commodity causes the total expenditure of consumers of the commodity to :

- a) Remain unchanged
- b) Increase
- c) Decrease
- d) Any of the above

MTP Mar 22

162 If increasing railway fare increases revenue and decreasing then decrease revenue then the demand for railway travel has a price elasticity of \_\_\_\_\_

- a) Greater than 1
- b) 1
- c) Greater than 0 but less than 1
- d) None of these

MTP Dec 22

163 An increase in the price of a commodity when demand is inelastic causes the total expenditures of consumers of the commodity to

- a) increase
- b) decrease
- c) remain unchanged
- d) any of the above.

PYQ June 22

164 A situation where after a price decrease, more units are sold causing increase in revenue is called as which of the following?

- a) Price effect
- b) Quantity effect
- c) Income effect
- d) Substitution effect

### Determinants of Price Elasticity of Demand

PYQ June 22

165 The demand for the commodity is \_\_\_\_\_ when a consumer is a habitual consumer.

- a) Relative elasticity
- b) Inelastic
- c) Unit elasticity
- d) Perfectly elastic

MTP Mar18, Apr 19, Oct 19, ICAI SM

166 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.

ICAI SM

167 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

ICAI SM

168 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



## Chapter 2 - THEORY OF DEMAND AND SUPPLY

A.Q.	
169	Commodities such as prescribed medicines and salt have ____ and ____ hence, have an ____ demand
a) Several substitutes, elastic b) Several substitutes, inelastic c) No close substitutes, inelastic d) No close substitutes, elastic	

MTP Mar 22	
170	What are the determinant of Price elasticity of demand:
a) Time Period b) Tied Demand c) Price range d) All the above	

MTP Oct 19	
171	Availability of close substitutes makes the demand-
a) Less elastic b) More elastic c) Parallel to X axis d) Parallel to Y axis	

MTP Oct 19	
172	Demand for water is -
a) Elastic b) Inelastic c) Perfectly elastic d) Relatively elastic	

MTP Oct 19	
173	Which of the following goods has inelastic demand-
a) Salt b) Food grains c) Medicines d) All of the above	

MTP Oct 19	
174	Demand for pepsi is elastic because-
a) Its falls under luxuries b) Its consumption can be postponed c) Its substitutes are available in the market d) It is a multiple use product	

MTP Oct 18	
175	If the elasticity of demand for a commodity is perfectly inelastic then which of the following is incorrect?
a) The commodity must be essential to those who purchase it. b) The commodity must have many substitutes. c) The commodity will be purchased regardless of increase in its price. d) The elasticity of demand for this commodity must equal zero.	

ICAI SM	
176	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	

SEQ, MTP Mar 22	
177	Demand for electricity is elastic because ____
a) it is very expensive b) it has a number of close substitutes c) it has alternative uses d) none of the above	

A.Q.	
178	Which of the following groups of goods have inelastic demand?
a) Salt, Smart Phone and Branded Lipstick b) School Uniform, Branded Goggles and Smart Phone c) Salt, School Uniform and Medicine d) Medicine, Branded Sports Shoes and Diamond ring	



## Chapter 2 - THEORY OF DEMAND AND SUPPLY

### Notes

MTP Dec 22, A.Q.

179

During lockdown due to COVID-19, a consumer finds the vegetable vendors selling vegetables in the street have raised the prices of vegetables than usual prices. She will buy \_\_\_\_\_ vegetables than/as her usual demand showing the demand of vegetables is \_\_\_\_\_

- a) more, inelastic demand
- b) less, elastic demand
- c) same, inelastic demand
- d) same, elastic demand

Extra MCQ

180

As a group, a good in generic form may have \_\_\_\_\_ demand, but when we consider its various brands, we say that a particular brand has \_\_\_\_\_ demand

- a) inelastic, elastic
- b) elastic, inelastic
- c) inelastic, inelastic
- d) elastic, elastic

### Income Elasticity of Demand

MTP Aug 18, Apr 19, SEQ, ICAI SM

181

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

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

MTP Aug 18, Oct 19, SEQ, ICAI SM

182

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

ICAI SM

183

Suppose a consumer's income increases from Rs 30,000 to Rs Rs. 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

ICAI SM

184

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.

ICAI SM

185

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.



## Chapter 2 - THEORY OF DEMAND AND SUPPLY

ICAI SM

186

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

ICAI SM

187

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

ICAI SM

188

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

ICAI SM

189

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

MTP Aug 18, May 20, ICAI SM

190

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.

MTP May 20, ICAI SM

191

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.

ICAI SM

192

If consumers always spend 15 percent of their income on food, then the income elasticity of demand for food is \_\_\_\_\_

- a) 1.50
- b) 1.15
- c) 1.00
- d) 0.15

193

- a) Both cities
- b) Good cities
- c) Good cities
- d) Need accu

194

- a) infe
- b) luxu
- c) Nec
- d) can'

195

- a) zero
- b) posi
- c) Neg
- d) non



## Chapter 2 - THEORY OF DEMAND AND SUPPLY

### Notes

#### ICAI SM

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

- 193
- Both goods are normal goods in both cities A and B
  - Good X is a normal good in both cities ; good Y is an inferior good in city A
  - Good X is a normal good in both cities ; good Y is an inferior good in city B
  - Need more information to make an accurate comment

#### MTP Mar 18, SEQ

194 The income of a household rises by 20 per cent, the demand for computer rises by 25 per cent, this means computer (in Economics) is a/an

- inferior good
- luxury good
- Necessity
- can't say

#### SEQ

195 In case of inferior goods, income elasticity is :

- zero
- positive
- Negative
- none

#### SEQ

196 If the income elasticity is greater than one the commodity is

- Necessity
- Luxury
- Inferior goods
- None of these

#### MTP Mar 21

197 For luxuries goods the income elasticity is :

- $e > 1$
- $e < 1$
- $e = 0$
- none of these

#### MTP Nov 22, MTP Mar 19, Oct 20

198 Calculate Income-elasticity for the household when the income of a household rises by 10% the demand for Laptop rises by 20%

- +5
- 5
- +2
- 2

#### Extra MCQ

199 If the income elasticity for a good is \_\_\_\_\_ it shows that good bulks larger in consumer's expenditure as he becomes richer

- less than one
- greater than one
- equal to one
- Zero

#### MTP Oct 19

200 Suppose income elasticity of bread is 0.25, its means that bread is-

- Inferior goods
- Luxury goods
- Normal goods
- Can't say



## Chapter 2 - THEORY OF DEMAND AND SUPPLY

MTP Apr 19

201

If the proportion of income spent on a goods decrease as income rises then income elasticity is:

- a) Greater than one
- b) Less than one
- c) One
- d) Zero

MTP Apr 19

202

Normal goods have:

- a) Positive income elasticity
- b) Negative income elasticity
- c) Fluctuating income elasticity
- d) Zero income elasticity

MTP Mar 19

203

Calculate Income-elasticity for the household when the income of a household rises by 5% and the demand for bajra falls by 2%

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

100% 5M

A car dealer sells new as well as used cars. Sales during the previous year were as follows:

Car Type	Price (Rs)	Qty (in Units)
New	6.50 Lakh	400
Used	60,000	4000

204

During the previous year, other things remaining the same, the real incomes of the customers rose on average by 10%. During the last year sales of new cars increased to 500, but sales of used cars declined to 3,850.

What is the income elasticity of demand for the new as well as used cars? What inference do you draw from these measures of income elasticity?

- a) Income elasticity of new car = +2.50, new car is a normal good. Whereas, Income elasticity of used car is -0.375, used car is inferior good.
- b) Income elasticity of new car = -2.50, new car is a inferior good. Whereas, Income elasticity of used car is +0.375, used car is normal good.
- c) Income elasticity of new car = +1.50, new car is a normal good. Whereas, Income elasticity of used car is -0.50, used car is inferior good.
- d) Income elasticity of new car = -1.50, new car is a inferior good. Whereas, Income elasticity of used car is +0.50, used car is normal good.



## Chapter 2 - THEORY OF DEMAND AND SUPPLY

### Notes

MTP Aug 18

205 Which of the following is incorrect?

- The cross elasticity of demand for two substitutes is positive.
- The income elasticity of demand is the percentage change in quantity demanded of a good due to a change in the price of a substitute.
- The cross elasticity of demand for two complements is negative.
- The price elasticity of demand is always negative, except for Giffen goods.

MTP Mar 18

206 Calculate Income-elasticity for a household when the income of this household rises by 5% and the demand for buttons does not change at all.

- Infinity
- 1
- 5
- Zero

MTP Dec 22

207 Elasticity is greater than unity for

- Luxuries
- Necessaries
- Complementary good
- None of these

MTP Dec 22

208 Income elasticities \_\_\_\_\_ in the short run and long run

- differ
- Same
- Can't say
- Both (a) and (b)

MTP Nov 22

209 A necessity is defined as a good having:

- A positive income elasticity of demand
- A negative income elasticity of demand
- An income elasticity of demand between zero and 1.
- An income elasticity of more than 1.

### Cross Price Elasticity of Demand

ICAI SM

210

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

- 0.25
- 0.25
- 4
- 4

MTP Mar 21, ICAI SM

211

A relative price is

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



## Chapter 2 - THEORY OF DEMAND AND SUPPLY

SEQ, ICAI SM

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

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

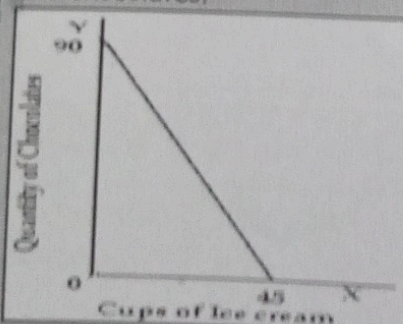
MTP June 22

213 For substitutes, cross elasticity of demand is-

- Positive
- Negative
- Zero
- Always less than one

MTP Oct 20, ICAI SM

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



The prices of these two commodities respectively are:

- Rs. 10 and Rs 20
- Rs 20 and Rs. 10
- Rs. 10 and Rs 5
- Any of the above

MTP May 20, ICAI SM

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

- Positive
- Negative
- Zero
- Can't say

ICAI SM

216 The cross elasticity between personal computers and soft wares is:

- Positive
- Zero
- Negative
- One

ICAI SM

217 The cross elasticity between Bread and DVDs is:

- Positive
- Negative
- Zero
- One

SEQ

218 The elasticity of substitution between two perfect substitutes is:

- zero
- greater than zero
- less than infinity
- infinite

MTP Mar 21, SEQ

219 Cross elasticity of demand between tea and coffee is:

- Positive
- negative
- zero
- infinity

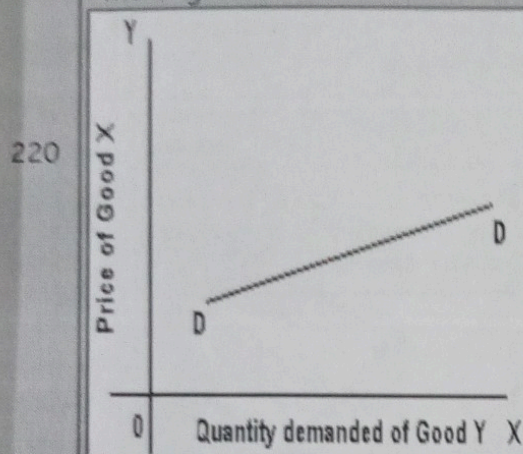


## Chapter 2 - THEORY OF DEMAND AND SUPPLY

### Notes

ICAI SM

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



- Good X and Good Y are perfect complements
- Good X and Good Y are perfect substitutes
- Good X and Good Y are remote substitutes
- Good X and Good Y are close substitutes

Read the following data and answer Questions Number 221-226

XYZ are three commodities where X and Y are complements whereas X and Z are substitutes.

A shopkeeper sells commodity X at Rs. 40 per piece. At this price he is able to sell 100 pieces of X per month.

After some time he decreases the price of X to Rs. 20.

Following the price decrease -

- he is able to sell 150 pieces of X per month,
- demand for Y increases from 25 units to 50 units and
- demand for commodity Z decreases from 150 to 75 units.

SEQ

221 The price elasticity of demand when the price of X decreases from Rs. 40 per piece to Rs. 20 per piece will be equal to: (Use Arc Method)

- 1.5
- 1.0
- 1.66
- 0.6

SEQ

222 The cross elasticity of monthly demand for Y when the price of X decrease from Rs. 40 to Rs. 20 is equal to: (Use Arc Method)

- +1
- 1
- 1.5
- +1.5

SEQ

223 We can say that commodity X in economics is a/an

- luxury good
- inferior Good
- normal Good
- none of the above

SEQ

224 What can be said about price elasticity of demand for X?

- Demand is unit elastic
- Demand is highly elastic
- Demand is perfectly elastic
- Demand is inelastic

SEQ

225 Suppose income of the residents of locality increase by 50% and the quantity of X commodity increases by 20%. What is income elasticity of demand for commodity X?

- 0.6
- 0.4
- 1.25
- 1.35



## Chapter 2 - THEORY OF DEMAND AND SUPPLY

SEQ	
226	The cross-elasticity of Z when the price of X decreases from 40 to 20 is equal to: (Use Arc Method)
a) -0.6 b) +0.6 c) -1 d) +1	

MTP Mar 21	
227	In case of substitute product:
a) demand curve slope upwards, b) demand curve slope downwards c) demand curve is perfectly elastic d) none of these.	

MTP Mar 21	
228	A dealer sells only two brands of Motorcycle- Royal and Hero. It was observed that when the price of royal rises by 10% the demand for Hero increases by 15%. What is the cross elasticity of Hero against the Price of Royal?
a) +1.5 b) -1.5 c) 2.5 d) none of these	

MTP Nov 22, MTP Apr 19	
229	If two goods are totally unrelated, then cross elasticity between them is:
a) Zero b) One c) Infinite d) None of the above	

MTP Mar 19	
230	If two goods are complementary, like pen and ink, then the cross elasticity is:
a) Positive b) Zero c) Negative d) Less than one	

MTP Mar 18, Mar 19	
231	If the goods are perfect substitutes for each other then cross elasticity is
a) Infinite b) One c) Zero d) None of the above	

MTP Mar 22	
232	Between two perfect substitute the elasticity of Substitution is
a) < Zero b) >Zero c) < Infinity d) Infinity	

A.Q.	
233	Goods X and Y being independent goods, the cross price elasticity of demand (ignoring the sign) between them will be-
a) 1 (unit elastic) b) less than 1 c) greater than 1 d) Zero	

MTP Mar 19	
234	If the price of petrol rises by 25% and demand for car falls by 40% then, cross elasticity between petrol and car is:
a) -1.6 b) 1.6 c) -2.6 d) 2.6	

Extra MCQ	
235	If the value of cross-price elasticity between 2 goods is only slightly below zero, then it is a case of
a) Remote substitutes b) Close substitutes c) Weak complements d) Strong complements	



## Chapter 2 - THEORY OF DEMAND AND SUPPLY

### Notes

MTP Oct 18

Read the following data and answer Questions number 236-241

A shopkeeper sells gel pen at Rs. 10 per pen. At this price he can sell 120 per month. After some time, he raises the price to Rs. 15 per pen. Following the price rise:

- Only 60 pens were sold every month
- The number of refills bought were down from 200 to 150.
- The number of ink pen customers bought went up from 90 to 180 per month

MTP Oct 18

236 The price elasticity of demand when gel pen's price increases from Rs.10 per pen to Rs.15 per pen is equal to: (use arc elasticity)

- a) 2.5
- b) 1.0
- c) 1.66
- d) 2.66

MTP Oct 18

237 The cross elasticity of monthly demand for refills when the price of gel pen increase from Rs. 10 to Rs. 15 is equal to: Use arc elasticity

- a) -0.71
- b) +0.25
- c) -0.1
- d) +0.38

MTP Oct 18

238 The cross elasticity of monthly demand for ink pen when the price of gel pen increases from Rs. 10 to Rs. 15 is equal to:

- a) +1.66
- b) -1.05
- c) -2.09
- d) +2.09

MTP Oct 18

239 What can be said about the price elasticity of demand for pen?

- a) It is perfectly elastic
- b) It is elastic
- c) It is perfectly inelastic
- d) It is inelastic

MTP Oct 19, May 20

240 Suppose income of the residents of locality increases by 50% and the quantity of gel pens demanded increases by 20%. What is income elasticity of demand for gel pen?

- a) 0.4
- b) 0.6
- c) 1.25
- d) 1.50

MTP Oct 18

241 We can say that gel pen in economics sense is a/an.

- a) Luxury good
- b) inferior good
- c) Normal good
- d) Nothing can be said.

MTP Oct 18

242 If the quantity demanded of coffee increases by 5% when the price of tea increases by 20%, the cross-price elasticity of demand between tea and coffee is

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



## Chapter 2 - THEORY OF DEMAND AND SUPPLY

ICAI SM

243 The cross price elasticity between two goods X and Y is known to be - 0.8. If the price of good Y rises by 20%, how will the demand for X change?

- a) + 80 %
- b) - 80 %
- c) - 16 %
- d) + 16 %

ICAI SM

244 The price of 1kg of tea is Rs 30. At this price 5kg of tea is demanded. If the price of coffee rises from Rs 25 to Rs 35 per kg, the quantity demanded of tea rises from 5kg to 8kg. Find out the cross price elasticity of tea.

- a) 2.50
- b) -2.50
- c) +1.50
- d) -1.50

ICAI SM

245 The price of 1 kg of sugar is Rs 50. At this price 10 kg is demanded. If the price of tea falls from Rs 30 to Rs 25 per kg, the consumption of sugar rises from 10 kg to 12 kg. Find out the cross price elasticity and comment on its value.

- a) 2.40
- b) -2.40
- c) +1.20
- d) -1.20

MTP Dec 22

246 If the amounts of two commodities purchased both increase or decrease when the price of one change, the cross elasticity of demand between them is

- a) negative
- b) positive
- c) zero
- d) 1.

### Advertisement Elasticity of Demand

PYQ June 22

247 If the advertisement expenditure on X commodity increases by 20% and demand for it increases only by 5%. The advertisement elasticity of demand for X commodity is

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

PYQ June 22

248 Advertising elasticity of demand is typically \_\_\_\_\_

- a) Negative
- b) Positive
- c) Always zero
- d) None of the above

Extra MCQ

249 When the advertisement expenditure on Mimo Mobile Phone was Rs 2,00,000, the company could sell only 20,000 units. The company thought of increasing the sales and thus increased the advertisement expenditure to Rs 3,50,000, leading to an increase in sale by 25,000 units. What is the advertisement elasticity ?

- a) 1.67
- b) 0.33
- c) -0.33
- d) -1.67

### Demand Forecasting

MTP Oct 19, ICAI SM

250 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



## Chapter 2 - THEORY OF DEMAND AND SUPPLY

### Notes

A.Q.	
251	The demand for labour in response to the wage rate is _____ whereas the demand for same labour in response to the price of electronic goods where labour enters as an input is _____
a) Derived Demand, Direct Demand b) Direct Demand, Derived Demand c) Individual Demand, Market Demand d) Company Demand, Industry Demand	

MTP Apr 21	
252	The Delphi process is a technique of:
a) Budget Analysis b) Demand forecasting c) Cost Analysis d) None of these	

MTP Apr 21	
253	Marketing Planning is based on:
a) Demand forecasting b) Demand function c) Demand estimation d) Demand Analysis	

MTP Mar 19	
254	Lesser production of _____ would lead to lesser production in future
a) Public goods b) Consumer goods c) Agricultural goods d) Capital goods	

MTP Mar 21	
255	Demand for factor of production is
a) supplementary demand b) intermediate goods c) derived demand d) complementary demand	

SEQ	
256	The demand for a factor of production is said to be a derived demand because
a) It is a function of the profitability of an enterprise b) It depends on the supply of complementary factors c) Its stems from the demand for the final product d) It arises out of means being scarce in relation to wants	

Extra MCQ	
257	Forecasting of demand is the art and science of predicting the probable demand for a product or a service at some future date on the basis of
a) past behaviour patterns of some related events b) prevailing trends in the present c) (a) & (b) d) none of the above	

Extra MCQ	
258	Forecasting of demand is useful in-
a) efficient production planning & process selection b) budgetary planning c) Cost control d) All of the above	

Extra MCQ	
259	Which of the following statements are incorrect regarding the Scope of Demand Forecasting ?
a) Demand forecasting can be at the international level b) Demand forecasting cannot be done for a small firm in a local area c) Scope of the forecasting task will depend upon the area of operation of the firm in the present as well as what is proposed in future. d) Demand forecasting can be done for a small firm in a local area	



## Chapter 2 - THEORY OF DEMAND AND SUPPLY

Extra MCQ	
260	Which of the following statement is correct ?
a) Long term forecasting is for about two to five years and more. It provides information for major tactical decisions b) Long term forecasting is for about six months or less than one year and is generally useful in strategic decisions c) Long term forecasting is for about two to five years and more. It provides information for major strategic decisions d) None of the above	

### Demand Forecasting - Extra MCQs

Extra MCQ	
261	Under which method of demand forecasting, consumers are given a specified sum of money and asked to spend in a store on goods with varying prices, packages, displays etc.
a) Barometric Method b) Consumer Clinics c) Survey of Buyers' Intentions d) Classical Method	

Extra MCQ	
262	Which of the following refers to forecasting the demand for a particular firm's product
a) Macro-Level Forecasting b) Industry-Level Forecasting c) Long Term Forecasting d) Firm-Level Forecasting	

Extra MCQ	
263	If the demand for a product is independent of the demand for other goods, then it is called _____
a) Firm's demand b) Autonomous Demand c) Derived Demand d) Short Run Demand	

Extra MCQ	
264	Under this method of demand forecasting, a relationship is established between the quantity demanded (dependent variable) and the determinants of demand (independent variables or explanatory variables).
a) Grass Roots approach b) Collective Opinion Method c) Controlled Experiments d) Regression Analysis	

Extra MCQ	
265	_____ refers to demand with its immediate reaction to changes in product price and prices of related commodities
a) Long-Run Demand b) Short-Run Demand c) Derived Demand d) Autonomous Demand	

Extra MCQ	
266	Which of the following statement is true about non-durable goods ?
a) These goods do not quickly wear out b) These goods yield utility over a period of time c) These goods meet only the current demand d) These goods can be consumed more than once	

Extra MCQ	
267	In which of the following method, scientifically chosen sample of potential customers are interviewed
a) Complete enumeration method b) Sample Survey Method c) End-Use Method d) Delphi Technique	



## Chapter 2 - THEORY OF DEMAND AND SUPPLY

### Notes

#### Extra MCQ

268 Which of the following is incorrect regarding the Collective Opinion Method ?

- a) It is also known as sales force opinion method or grass roots approach
- b) This method is subjective as personal opinions can possibly influence the forecast
- c) This method of forecasting could be useful in the long run
- d) This method of forecasting could be useful in the short run

#### Extra MCQ

269 Which method is useful when bulk of sale is made to industrial producers who generally have definite future plans ?

- a) Survey of Buyers' Intention
- b) Grass Roots Approach
- c) Delphi Technique
- d) Regression Analysis

#### Extra MCQ

270 Which method is best suited in circumstances where intractable changes are occurring and the relevant knowledge is distributed ?

- a) Collective Opinion Method
- b) Survey of Buyer's Intention
- c) Barometric Method
- d) Expert Opinion Method

#### Extra MCQ

271 Which of the following is/are the limitation/s of Collective Opinion Method ?

- a) Salesmen may be unaware of the broader economic changes which may have profound impact on future demand
- b) This method is subjective as personal opinions can possibly influence the forecast
- c) Salesmen may not agree to forecast the sales
- d) (a) & (b)

#### Extra MCQ

272 Which method of demand forecasting is also called as Classical Method ?

- a) Collective Opinion Method
- b) Trend Projection Method
- c) Barometric Method
- d) Expert Opinion Method

273 Which of the following is incorrect regarding the Controlled Experiment method of demand forecasting ?

- a) It is also known as market experiment method
- b) The market divisions here must be heterogeneous with regard to income, tastes, etc
- c) Here market studies and experiments are conducted on consumer behaviour under actual, though controlled, market conditions
- d) The market divisions here must be homogeneous with regard to income, tastes, etc

274 Which type of indicator moves up or down ahead of some other event ?

- a) Leading Indicator
- b) Lagging Indicator
- c) Coincidental Indicator
- d) None of the above



## Chapter 2 - THEORY OF DEMAND AND SUPPLY

275	The demand which will ultimately exist as a result of changes in pricing, promotion or product improvement, after enough time is allowed to let the market adjust is called as
a) Short Run Demand b) Derived Demand c) Autonomous Demand d) Long Run Demand	

276	In which of the following method burden of forecasting is put on the customers
a) Expert Opinion Method b) Collective Opinion Method c) Survey of Buyers' Intentions d) None of the above	

277	Under which technique, firms solicit the opinion of specialists through a series of carefully designed questionnaires
a) Expert Opinion Method b) Collective Opinion Method c) Survey of Buyers' Intentions d) None of the above	

278	Which of the following is incorrect regarding producer goods ?
a) data required for estimating demand for producer goods (capital goods) is growth prospects of the user industries b) An increase in the price of a substitutable factor of production, say labour, is likely to increase the demand for capital goods c) An increase in the price of a substitutable factor of production, say labour, is likely to decrease the demand for capital goods d) Higher the profit making prospects, greater will be the inducement to demand capital goods.	

279	Which of the technique is used to find a trend line which best fit the available data
a) Graphical Method of Trend Projection b) Least Squared Method c) Regression Analysis d) Barometric Method	

280	The demand for a commodity that arises because of the demand for some other commodity called 'parent product', is called _____
a) Firm's demand b) Autonomous Demand c) Derived Demand d) Short Run Demand	

281	Durable Goods have _____
a) Repeated Demand b) Replacement Demand c) (a) & (b) d) None of the above	

282	_____ method of forecasting is also called as Delphi Technique
a) Expert Opinion Method b) Collective Opinion Method c) Survey of Buyers' Intentions d) Regression Analysis	

283	Which of the following is incorrect regarding Graphical Method ?
a) It is also known as free hand projection method b) It involves involves plotting of the time series data on a graph paper and fitting a freehand curve to it passing through as many points as possible c) Direction of curve shows the trend d) This method is very reliable	



## Chapter 2 - THEORY OF DEMAND AND SUPPLY

284 Heavy advance orders for capital goods is an example of-

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

285 Which of the following is not a disadvantage of Controlled Experiment Method?

- a) It is expensive as well as time consuming
- b) It is risky because it may lead to unfavourable reactions from dealers, consumers and competitors
- c) It is easy to determine what conditions should be taken as constant and what factors should be regarded as variable demand
- d) It is practically difficult to satisfy the condition of homogeneity of markets

286 The Delphi technique, developed by \_\_\_\_\_

- a) Alfred Marshal at the Rand Corporation of the USA
- b) Olaf Helmer at the Rand Corporation of the USA
- c) AC. Pigou
- d) Adam Smith

### Extra MCQ

287 The objective of advertisement is to

- a) Shift demand Curve to left & Reduce elasticity of demand
- b) Shift demand Curve to right & increase elasticity of demand
- c) Shift demand Curve to left & increase elasticity of demand
- d) Shift demand Curve to right & Reduce elasticity of demand

### Extra MCQs

PYQ June 22

288

The demand for a firm's product when expressed as a percentage of industry demand it signifies the \_\_\_\_\_ of the firm

- a) Product share
- b) Market share
- c) Demand
- d) Supply

289

Ram and Sons are going for heavy advertisement campaign to enhance their sales. When analysed it was realized that the expenditure on advertisement by the company has gone up from Rs. 2,00,000 to Rs. 3,00,000 and the sales of this product increased from 10 lakh units to 20 lakh units. What is the advertising elasticity of demand?

- a) -1
- b) 4
- c) 2
- d) 3

MTP Dec 22

290

What are the determinants of price elasticity of demand

- a) Availability of substitutes
- b) Price range
- c) Position of a Commodity in the Consumer's budget.
- d) All the above

### Notes



## Answer Key - Economics Chapter 2 - Unit 1

1	D	26	C	51	A	76	D	101	D	126	D	151	B	176	B
2	B	27	C	52	C	77	C	102	C	127	C	152	C	177	C
3	D	28	A	53	A	78	C	103	C	128	C	153	A	178	C
4	D	29	A	54	A	79	D	104	A	129	C	154	D	179	C
5	A	30	A	55	B	80	B	105	C	130	A	155	A	180	A
6	C	31	D	56	D	81	A	106	B	131	D	156	B	181	C
7	B	32	B	57	B	82	D	107	B	132	A	157	B	182	C
8	C	33	B	58	C	83	B	108	B	133	A	158	B	183	B
9	B	34	C	59	D	84	B	109	B	134	B	159	B	184	C
10	B	35	B	60	B	85	C	110	C	135	B	160	B	185	D
11	D	36	D	61	D	86	A	111	A	136	A	161	A	186	C
12	C	37	C	62	C	87	B	112	D	137	B	162	C	187	B
13	A	38	A	63	D	88	D	113	D	138	A	163	A	188	B
14	A	39	C	64	D	89	B	114	C	139	C	164	B	189	D
15	C	40	C	65	C	90	D	115	B	140	B	165	B	190	C
16	C	41	A	66	A	91	C	116	B	141	D	166	B	191	C
17	D	42	B	67	A	92	C	117	A	142	B	167	B	192	C
18	A	43	B	68	C	93	B	118	B	143	C	168	C	193	B
19	C	44	A	69	D	94	A	119	C	144	B	169	C	194	B
20	D	45	B	70	A	95	B	120	D	145	A	170	D	195	C
21	D	46	A	71	D	96	B	121	A	146	C	171	B	196	B
22	A	47	A	72	B	97	D	122	D	147	C	172	B	197	A
23	B	48	C	73	D	98	A	123	B	148	B	173	D	198	C
24	B	49	C	74	C	99	B	124	B	149	B	174	C	199	B
25	A	50	D	75	A	100	C	125	C	150	D	175	B	200	C



## Chapter 2 - THEORY OF DEMAND AND SUPPLY

Notes

### Answer Key - Economics Chapter 2 - Unit 1

201	B	216	C	231	A	246	A	261	B	276	C
202	A	217	C	232	D	247	A	262	D	277	A
203	C	218	D	233	D	248	B	263	B	278	C
204	A	219	A	234	A	249	A	264	D	279	B
205	B	220	D	235	C	250	B	265	B	280	C
206	D	221	D	236	C	251	B	266	C	281	B
207	A	222	B	237	A	252	B	267	B	282	A
208	A	223	C	238	A	253	A	268	C	283	D
209	C	224	D	239	B	254	D	269	A	284	B
210	B	225	B	240	A	255	C	270	D	285	C
211	C	226	D	241	C	256	C	271	D	286	B
212	C	227	A	242	B	257	C	272	B	287	D
213	A	228	A	243	C	258	D	273	B	288	B
214	B	229	A	244	C	259	B	274	A	289	C
215	A	230	C	245	D	260	C	275	D	290	D



# Chapter 2 - THEORY OF DEMAND AND SUPPLY

## UNIT 2

### Classification of Wants

ICAI SM	
1	Comforts lie between
a) inferior goods and necessities b) luxuries and inferior goods c) necessities and luxuries d) none of the above	

A.Q.	
2	Luxuries are goods that are
a) Enjoyable and essential b) Enjoyable but not essential c) Essential but not enjoyable d) Neither enjoyable nor essential	

### Basics of Utility

MTP Mar 19, ICAI SM	
3	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.	

A.Q.	
4	The desire for a commodity by a person depends upon the _____ he expects to obtain from it.
a) Utility b) Pleasure c) Taste d) None of these	

A.Q.	
5	People know utility of goods by means of _____
a) price b) introspection c) demand d) desire	

A.Q.	
6	Being _____ utility varies with different persons.
a) absolute b) objective c) subjective d) None of these	

A.Q.	
7	By way of an optimal choice, a consumer tends to
a) save money b) purchase large quantity c) maximize satisfaction d) maximize satisfaction subject to constraints like tastes and preferences	

MTP Nov 22	
8	All desires, tastes and motives of human beings are called _____ in economics.
a) Willingness b) Demand c) Wants d) None of these	

### Cardinal Approach - Law of Diminishing Marginal Utility

SEQ, ICAI SM	
9	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	

ICAI SM	
10	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	



## Chapter 2 - THEORY OF DEMAND AND SUPPLY

### Notes

MTP Oct 19, MTP Aug 18, ICAI SM		A.Q.
11	The second glass of lemonade gives lesser satisfaction to a thirsty boy, this is a clear case of:	16 A falling MU curve illustrates a) The principle of diminishing marginal utility b) The principle of diminishing marginal rate of substitution c) The principle of equi-marginal utility d) Any of the above
a) Law of demand b) Law of diminishing returns c) Law of diminishing marginal utility d) Law of supply		
SEQ		MTP Apr 21
12	Consumer stops purchasing the additional units of the commodity when	17 If $MU_x = 30$ , $P_x = 5$ , $MU_y = 40$ the value of $P_y$ will be a) 10 b) 15 c) 6.67 d) None of these
a) marginal utility starts declining b) marginal utility become zero c) marginal utility is equal to marginal utility of money d) total utility is increasing		
MTP Dec 22, A.Q.		MTP Mar 21
13	At saturation point of TU curve, the slope of TU curve is _____	18 MU from last unit consumed of commodity Y = 50 Units and $MUM = 10$ . Consumer is in equilibrium and consuming commodity y only. Find the Price of Commodity Y— a) 5 b) 10 c) 40 d) None of these
a) 1 b) Infinity c) Zero d) Positive		
A.Q.		MTP Oct 18, Oct 20
14	Condition of equilibrium using utility analysis of demand can be expressed as	19 Marginal utility approach to demand was given by— a) J R Hicks b) Alfred Marshall c) Robbins d) A C Pigou
a) $MU_x/P_x = Q_x$ b) $P_x Q_x = MU_m$ c) $MU_x/P_x = MU_y/P_y = MU_m$ d) $MU_x = MU_m$		
A.Q.		Extra MCQ
15	MU curve will be below X-axis when	20 Which of the following is incorrect relating to Law of Diminishing Marginal Utility ? a) Law may not apply in case of prestigious goods b) Law may not hold in case of hobbies c) Law applies in case of habit forming commodities d) Law may not be operating in cases such as creative art
a) MU is zero b) TU is falling c) MU is negative d) Both (B) and (C)		



## Chapter 2 - THEORY OF DEMAND AND SUPPLY

MTP Oct 19

21	A consumer of two goods X and Y is in equilibrium. Price of good X is Rs. 10 & price of good Y is Rs. 20 respectively. If $MU_x$ is 60 utils, then the $MU_y$ is-
a)	30 utils
b)	120 utils
c)	60 utils
d)	6 utils

MTP Nov 22, MTP Apr 19

22	Cardinal Measurability of utility means:
a)	Utility can be measured
b)	Utility cannot be measured
c)	Utility can be ranked
d)	Utility can be measured in some case

MTP Mar 18

23	Law of diminishing marginal utility may not apply to:
a)	Money
b)	Butter
c)	Pepsi, Coke etc.
d)	Ice cream

MTP Nov 22, MTP June 22

24	Diminishing marginal utility implies that the
a)	marginal utility of a good diminishes over time.
b)	total utility is negative.
c)	last unit of a good consumed will contribute most to the consumer's satisfaction.
d)	first unit of a good consumed will contribute most to the consumer's satisfaction.

MTP June 22

25	Marshallian theory of consumer's behavior is based on
a)	Hypothesis of additive utilities.
b)	Hypothesis of independent utilities.
c)	Both (A) and (B)
d)	Weak ordering

MTP June 22

26	The law of diminishing marginal utility states that
a)	total utility is maximized when a consumer obtain the same amount of utility per unit of each product consumed
b)	beyond some point additional units of a product will yield less and less extra satisfaction to a consumer.
c)	price must be lowered to induce firms to supply more of a product.
d)	it will take larger and larger amounts of resources beyond some point to produce successive units of a product

MTP June 22

27	A consumer is in equilibrium when s/he is deriving _____ satisfaction from the goods.
a)	maximum
b)	possible
c)	maximum possible
d)	None of these

MTP June 22

28	The oldest approach to the theory of demand is _____.
a)	the total utility approach
b)	the cardinal utility approach
c)	the ordinal utility approach
d)	None of these

MTP Mar 22

29	After reaching the saturation point, consumption of additional units of the commodity cause:
a)	Total utility to fall and marginal utility to increase
b)	Total utility and marginal utility both to increase
c)	Total utility to fall and marginal utility to become negative
d)	Total utility to become negative and marginal utility to fall

Read the follow

Number of

0
1
2
3
4
5
6
7
8
9

30	What consum units?
----	--------------------

- a) 3000
- b) 1200
- c) 2000
- d) 1500

31	What consu units?
----	-------------------

- a) 3000
- b) 400
- c) 2000
- d) 1500

32	Which statem
----	--------------

- a) TU incre because /
- b) MU can negative
- c) When m total util
- d) At satia always et



## Chapter 2 - THEORY OF DEMAND AND SUPPLY

Read the following table and answer question number 30-31

Number of products	Total utility	Marginal utility
0	0	-
1	3600	
2	6800	
3	9600	
4	12000	
5	14000	
6	15600	
7	16800	
8	17600	
9	18000	

Notes

MTP Oct 18

30

What is marginal utility when consumption increases from 4 units to 5 units?

- a) 3000
- b) 1200
- c) 2000
- d) 1500

MTP Oct 18

31

What is marginal utility when consumption increases from 8 units to 9 units?

- a) 3000
- b) 400
- c) 2000
- d) 1500

Extra MCQ

32

Which of the following statement is incorrect?

- a) TU increases at a diminishing rate because MU is diminishing
- b) MU can be positive, zero or negative
- c) When marginal utility is zero, the total utility is maximum
- d) At satiation point, a consumer is always at equilibrium.

MTP June 22

33

Law of Equi-marginal Utility can be expressed as-

- a)  $MU_x/P_x = Q_x$
- b)  $P_x Q_x = MU_m$
- c)  $MU_x/P_x = MU_y/P_y = MU_m$
- d)  $MU_x = MU_m$

Extra MCQ

34

According to Marshall, the consumer has diminishing utility for each additional unit of a commodity and therefore, he will be willing to pay

- a) only less for each additional unit
- b) only more for each additional unit
- c) The same for each additional unit
- d) As per the situation

MTP Dec 22

35

Traditional economic theory could not explain choices involving risk because it assumed that

- a) MU always declines
- b) MU first declines and then rises
- c) MU first rises and then declines
- d) MU always increases.



## Chapter 2 : THEORY OF DEMAND AND SUPPLY

PYQ June 22

38

When total utility is diminishing, the marginal utility is

- a) Diminishes
- b) Falls
- c) Negative
- d) Indifferent

### Consumer Equilibrium = Single Commodity

MTP Oct 19

39

If the consumer consumes only one commodity X, he will be in equilibrium when:

- a)  $MU_x > P_x$
- b)  $MU_x < P_x$
- c)  $MU_x = P_x$
- d) None of these

### Consumer Surplus

MTP Apr 21, MTP Oct 18, ICAI SM

38

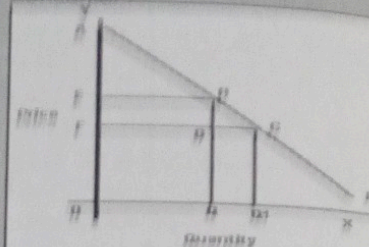
By consumer surplus, economists mean

- a) The area inside the budget line above the price of the commodity
- b) The area between the average revenue and marginal revenue curves.
- c) The difference between the maximum amount a person is willing to pay for a good and its market price.
- d) The difference between the market price and the supply curve

ICAI SM

39

When price falls from E to F, then which of the following statements is true about this consumer?



- a) An increase in consumer surplus by EFCR
- b) An increase in consumer surplus by AER
- c) An increase in consumer surplus by EFGR
- d) None of The above

MTP Nov 22, MTP Aug 18, Mar 19, SEQ

40

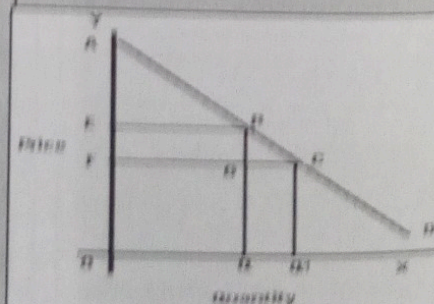
The law of consumer surplus is based on :

- a) Indifferent curve analysis
- b) revealed preference theory
- c) law of substitution
- d) the law of diminishing marginal utility

ICAI SM

41

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



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



## Chapter 2 - THEORY OF DEMAND AND SUPPLY

### Notes

MTP Oct 20, ICAI SM

42

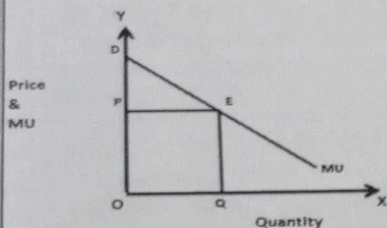
In economics, what a consumer is ready to pay minus what he actually pays, is termed as:

- a) Consumer's equilibrium
- b) Consumer's surplus
- c) Consumer's expenditure
- d) None of the above

A.Q.

In the following diagram, consumer's surplus is shown by

43



- a) OPEQ
- b) ODEQ
- c) PDE
- d) None of these

MTP Mar 21, MTP Mar 22

44

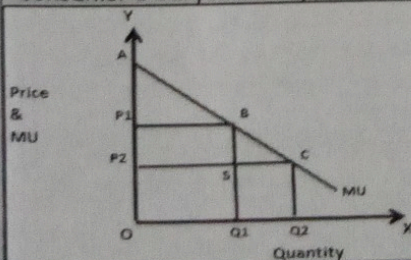
A rise in price will -

- a) increase in consumer surplus
- b) decrease in consumer surplus
- c) no change in consumer surplus
- d) none of these

A.Q.

In following diagram, when price of commodity decreases from  $P_1$  to  $P_2$ , the gain in consumer's surplus is equal to

45



- a)  $AP_1B$
- b)  $AP_2C$
- c)  $P_1P_2CB$
- d) BSC

MTP Mar 18, Mar 19

46

In case of necessities the marginal utilities of the earlier units are large. In such cases the consumer surplus will be:

- a) Infinite
- b) Zero
- c) Marginally positive
- d) Marginally Negative

Extra MCQ

47

Consumer surplus is represented by the \_\_\_\_\_

- a) Area above the demand curve and below the price
- b) Area below the demand curve and above the price
- c) Area on the right of demand curve
- d) None of the above

MTP Mar 19

48

Consumer Surplus is:

- a) What a consumer is ready to pay + what he actually pays
- b) What a consumer is ready to pay - what he actually pays
- c) What he actually pays - what a consumer is ready to pay
- d) None of the above

MTP Oct 18

49

A buyer's willingness to pay is that buyer's:

- a) minimum amount he is willing to pay for a good.
- b) producer surplus.
- c) consumer surplus
- d) maximum amount he is willing to pay for a good

MTP Aug 18

50

Consumer surplus is highest in the case of :

- a) Necessities
- b) Luxuries
- c) Comforts
- d) Conventional necessities



## Chapter 2 - THEORY OF DEMAND AND SUPPLY

MTP Nov 22, MTP June 22	
51	A rise in price of a good _____ consumer surplus.
a) Reduces b) Increases c) Either (A) and (B) d) Doesn't effect	

52	Consider the following statements and select the correct answer from the given options. <b>Assertion (A):</b> Consumer surplus is the difference between the potential price and actual price. <b>Reason (R):</b> There exists an inverse relationship between the price and consumer surplus.
----	--

- a) Both (A) and (R) are true and (R) is the correct explanation of (A)  
 b) Both (A) and (R) are true and (R) is not the correct explanation of (A)  
 c) (A) is true but (R) is false  
 d) (A) is false but (R) is true

Extra MCQ	
53	The slope of TU is _____
a) Increasing b) Decreasing c) Always zero d) None of the above	

MTP Nov 22, MTP Dec 22	
54	The price which a consumer would be willing to pay for a commodity equals to his -.
a) Total utility b) Marginal utility c) Average utility d) Does not have any relation to any of these	

PYQ June 22	
55	Consumer's surplus = what the consumer is ready to pay minus _____?
a) What is actual price of the product b) What is income of the consumer c) What he actually pays d) What is actual surplus	

### Ordinal Approach - Indifference Curve

MTP Oct 18, ICAI SM	
56	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.	

SEQ, ICAI SM	
57	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	

SEQ	
58	The Slope of Indifference Curve indicates
a) Marginal Rate of Substitution of x for y b) Prices of x and y c) Slope of the budget line d) Change in prices	

ICAI SM	
59	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 line cuts the indifference curve	

60

- a) No o  
 maxim  
 b) Consu  
 Good  
 c) Consu  
 Y and  
 d) Consu  
 and m

61

- a) The c  
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 b) The c  
 incom  
 c) The c  
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 d) All th

62

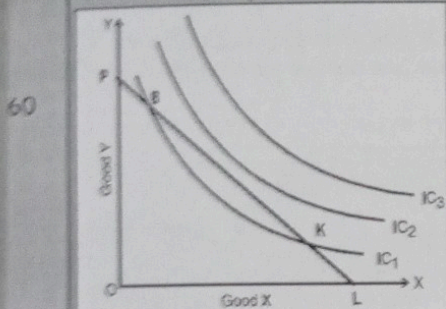
- a) Indif  
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 b) Indif  
 down  
 c) No t  
 each  
 d) All c  
 of I



## Chapter 2 - THEORY OF DEMAND AND SUPPLY

ICAI SM

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



- No advise needed as she is maximizing her utility at B
- Consume more of Good X and less of Good Y
- Consume more of X and and less of Y and reach point K
- Consumer same quantity of Good Y and more of Good X

ICAI SM

61 Which of the following statements is true about this consumer? In the 55 MCQ

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

ICAI SM

62 Which of the following is a property of the indifference curve?

- Indifference curves are convex to the origin
- Indifference curves slope downwards from left to right
- No two indifference curves can cut each other
- All of the above are the properties of Indifference curves.

SEQ

63 The indifference curve approach does not assume:

- Rationality on the parts of consumers
- Ordinal measurement of satisfaction
- Consistent consumption pattern behaviour of consumers
- Cardinal measurement of utility

SEQ

64 Under income effect, consumer

- moves along the original indifference curve
- moves to higher or lower indifference curve
- always purchases higher quantities of both the commodities
- none of the above

SEQ

65 Indifference curve of two perfect substitutes, will be :

- Straight line
- L-shaped
- U-shaped
- C-shaped

Extra MCQ

66 Generally, MRS is falling as \_\_\_\_\_

- Want of a good is satiable so when a consumer has more of it, his intensity of want for it decreases
- Most goods are imperfect substitutes of one another
- Both (a) & (b)
- None of the above

Extra MCQ

67 The indifference curve becomes \_\_\_\_\_ as we move down and to the right.

- Steeper (high sloped)
- flatter (less sloped)
- Parallel to Y axis
- None of the above

Notes



## Chapter 2 - THEORY OF DEMAND AND SUPPLY

MTP Nov 22, A.Q.

68

A consumer's preferences are monotonic if and only if between two bundles the consumer prefers the bundle which has

- a) more of one of the goods
- b) less of at least one of the goods
- c) more of at least one of the goods and less of the other good.
- d) more of at least one of the goods and no less of the other good.

A.Q.

69

Which of the following is incorrect regarding indifference curve approach of consumer's behavior?

- a) Indifference curve analysis assumes utility is merely orderable and not quantitative.
- b) Consumer is capable of comparing the different levels of utilities or satisfactions from different commodities.
- c) Consumer can say by how much one level of satisfaction is higher or lower than other.
- d) None of these

A.Q.

70

According to ordinal approach of consumer's behavior-

- a) Consumer is able to indicate the exact amounts of utilities that he derives from commodity or any combinations of them.
- b) Utility being psychological feeling is not quantifiable.
- c) The consumer is capable of simply comparing the different levels of satisfaction.
- d) Both (B) and (C)

A.Q., MTP June 22

71

Which of the following statements is correct regarding indifference curve?

- a) Two ICs may not intersect each other.
- b) Two ICs may intersect each other
- c) Two ICs are always parallel to each other
- d) None of these

MTP Nov 22, A.Q.

72

Law of diminishing marginal rate of substitution is associated with

- a) Marshall
- b) Hicks
- c) Slutsky
- d) Keynes

A.Q.

73

According to principle of diminishing marginal rate of substitution.

- a) One commodity must be decreased while other is increased
- b) Commodity which is increased has higher marginal significance
- c) Commodity which is decreased has higher marginal significance
- d) Neither qualitative nor quantitative concept of these statements:

- a) Only a is correct
- b) Both a and b are correct
- c) Both a and c are correct
- d) All are correct



## Chapter 2 - THEORY OF DEMAND AND SUPPLY

Notes

MTP Mar 21

74 When goods are complementary the indifference curve is :

- a) is a straight line
- b) is convex to the origin
- c) consist of two straight line with a right angle bent.
- d) none of these

MTP Oct 19

75 The slope of indifference curve is given by-

- a) Budget line
- b) Marginal rate of transformation
- c) Marginal rate of substitution
- d) None of these

MTP MAR 18, Apr 19

76 Which is not the assumption of Indifference curve Analysis?

- a) The consumer is rational and possesses full information about all the aspects of economic environment
- b) The consumer is not capable of ranking all combinations
- c) If consumer prefers combination A to B, and B to C, then he must prefer combination A to C
- d) If combination A has more commodities than combination B, then A must be preferred to B.

MTP Apr 19

77 Indifference curve is convex to the origin due to:

- a) Falling MRS
- b) Rising MRS
- c) Constant MRS
- d) None of the above

MTP Mar 18, MTP Apr 19

78 Which of the following statement is false?

- a) An indifference curve is concave to the origin
- b) An indifference curve is convex to the origin
- c) A higher indifference curve is better than a lower indifferent curve
- d) An indifference curve is a curve which represents all those combinations of two goods which give same satisfaction to the consumer

MTP Mar 19

79 Indifference Curve analysis is based on

- a) Ordinal utility
- b) Cardinal utility
- c) Marginal utility
- d) None of the above

MTP Mar 19

80 When two goods are perfect substitutes of each other then

- a) MRS is falling
- b) MRS is rising
- c) MRS is constant
- d) None of the above

MTP Mar 19

81 \_\_\_\_\_ depicts complete picture of consumer tastes and preferences.

- a) Budget line
- b) Average cost curve
- c) Indifference map
- d) Marginal revenue curve



## Chapter 2 - THEORY OF DEMAND AND SUPPLY

MTP Oct 18

82

Which of the following is not a property of the indifference curve?

- a) Indifference curves are convex to the origin
- b) Indifference curves slope downwards from left to right
- c) No two indifference curves can cut each other
- d) None of the above

Extra MCQ

83

Which of the following is not a property of the indifference curve?

- a) Indifference curves slope downward to the right
- b) Indifference curves slope downward to the right
- c) Indifference curves may or may not intersect each other
- d) Indifference curve will not touch either axes

MTP Mar 22

84

When two goods are perfect substitute for each other:

- a) Indifference curve for these two goods are straight parallel line with a constant slope along the curve
- b) Indifference curve has a constant MRS
- c) Concave to the Origin
- d) Both (a) and (b)

MTP Dec 22

85

The substitution effect for a fall in the price of a commodity (*ceteris paribus*) is given by

- a) a movement up a given indifference curve
- b) a movement from a higher to a lower indifference curve
- c) a movement down a given indifference curve
- d) any of the above.

MTP Nov 22

Match the following

LIST-I

- (a) Two perfect substitute goods
- (b) Two perfect complementary goods
- (c) Indifference curve is always
- (d) Higher IC gives higher level of satisfaction

LIST - II

- 1. Linear indifference curve
- 2. Monotonic preference
- 3. L-Shape Indifference curve
- 4. Convex to the origin

Codes:

	a	b	c	d
(a)	1	2	3	4
(b)	3	1	4	2
(c)	1	3	4	2
(d)	1	3	2	4

PYQ June 22

87

The indifference curve for two perfect complementary goods is \_\_\_\_\_

- a) Slopes downward
- b) L-shaped
- c) U-shaped
- d) Straight line



## Chapter 2 - THEORY OF DEMAND AND SUPPLY

### Notes

#### Budget Line

ICAI SM

88 A point below the budget line of a consumer

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

ICAI SM

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

- The budget line would not shift.
- The new budget line must be parallel to the old budget line.
- The budget line must be shifting to the left
- 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.

A.Q.

90 Budget line or price line is downward sloping because \_\_\_\_

- There is inverse relationship between the price and demand of a commodity.
- If a consumer wants to buy more of one good, he has to buy less of other good at given money income.
- If a consumer wants to buy more of one goods, he has to buy less of other goods as his money income falls.
- None of these

A.Q.

91

While drawing budget line of a consumer consuming Nachos chips and Pepsi, if the quantity of Nachos taken on Y-axis and quantity of Pepsi on X-axis. The slope of budget line will be-  
[Where,  $P_p$  - Price of Pepsi,  $P_N$  - Price of Nachos &  $M$  - Money income of consumer]

a)  $\frac{P_p}{P_N}$

b)  $\frac{P_N}{P_p}$

c)  $\frac{M}{P_N}$

d)  $\frac{M}{P_p}$

Extra MCQ

92

We can write the budget constraint for two goods X and Y as -

a)  $P_x.Q_x + P_y.Q_y \leq B$

b)  $P_x.Q_x + P_y.Q_y < B$

c)  $P_x.Q_x + P_y.Q_y > B$

d)  $P_x.Q_x + P_y.Q_y = B$

MTP Oct 19

93

The slope of consumer's budget line is -

- Positive and constant
- Negative and decreasing
- Negative and constant
- Positive and increasing



## Chapter 2 - THEORY OF DEMAND AND SUPPLY

MTP Dec 22	
94	A consumer who is below the personal budget line (rather than on it)
a) Is not spending all personal income b) Is spending all personal income c) may or may not be spending all personal income d) Is in equilibrium.	

MTP Dec 22	
95	Shift in the budget line when prices are constant are due to
a) Change in income b) Change in demand c) Change in utility d) None of these	

MTP Nov 22	
96	The other name of the Budget line is:
a) Demand line b) Price line c) Supply line d) None of the above	

### Consumer Equilibrium - Ordinal Approach

SEQ	
97	The consumer is in equilibrium when the following condition is satisfied
a) $\frac{MU_x}{MU_y} > \frac{P_x}{P_y}$ b) $\frac{MU_x}{MU_y} < \frac{P_x}{P_y}$ c) $\frac{MU_x}{MU_y} = \frac{P_x}{P_y}$ d) None of the above	

MTP Apr 19, Mar 21	
98	The Consumer is in equilibrium when:
a) the budget line is tangent to the indifference curve b) marginal rate of substitution of one good for another must be equal to the price ratio of the two goods c) either a or b d) none of these	

MTP Oct 19	
99	The consumer is in equilibrium at a point where the budget line
a) Is above an indifference curve b) Is below an indifference curve c) Is tangent to an indifference curve d) Cuts an indifference curve	

MTP Mar 19	
100	When the consumer is in equilibrium his price line is — to indifference curve
a) Parallel b) At right angle c) Diagonally opposite d) Tangent	

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## Chapter 2 - THEORY OF DEMAND AND SUPPLY

### Answer Key - Economics Chapter 2 - Unit 2

Notes

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



## Chapter 2 - THEORY OF DEMAND AND SUPPLY

### UNIT 3

#### Basics of Supply

ICAI SM

1

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

ICAI SM

2

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

ICAI SM

3

Supply is a \_\_\_\_ concept

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

A.Q.

4

Supply and stock are \_\_\_\_

- a) same things
- b) different
- c) having no comparison
- d) Both (B) and (C)

#### Determinants of Supply

ICAI SM

5

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.

ICAI SM

6

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

ICAI SM

7

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.

MTP Mar 22

8

Behavior of Supply depends upon:

- a) Phenomenon Considered
- b) Degree of possible adjustment in supply
- c) Time Period under Consideration
- d) All the above



## Chapter 2 - THEORY OF DEMAND AND SUPPLY

### Notes

ICAI SM

- 9 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?

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

### Law of Supply

MTP Mar 21

- 10 The relationship between price and quantity supplied in law of supply is:

- proportionate
- homogenous
- inverse
- direct

MTP May 20

- 11 Which of the following statements is correct?

- The Law of Demand states positive relationship between price and quantity demanded.
- The Law of Supply states positive relationship between price and quantity supplied.
- As per the Law of diminishing returns as the consumption of any commodity is increased, the average returns start diminishing.
- None of the above

MTP Apr 19

- 12 Supply of a good and its price have

- Negative relationship
- Inverse relationship
- No relationship
- Positive relationship

MTP Mar 22

- 13 Suppose we are drawing a supply curve of a farmer which of the following will not be held constant. :

- Price of Inputs
- Weather Conditions
- Technology
- The price of the Commodity under consideration

### Changes in Supply

ICAI SM

- 14 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?

- Supply curve will shift to the left.
- Supply curve will shift to the right.
- Supply will not shift, but the quantity of cars produced per month will decrease.
- Supply will not shift, but the quantity of cars produced per month will increase.

ICAI SM

- 15 Contraction of supply is the result of :

- Decrease in the number of producers.
- Decrease in the price of the good concerned.
- Increase in the prices of other goods.
- Decrease in the outlay of sellers.



## Chapter 2 - THEORY OF DEMAND AND SUPPLY

ICAI SM

16

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

ICAI SM

17

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

ICAI SM

18

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

ICAI SM

19

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

ICAI SM

20

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

MTP Oct 19, ICAI SM

21

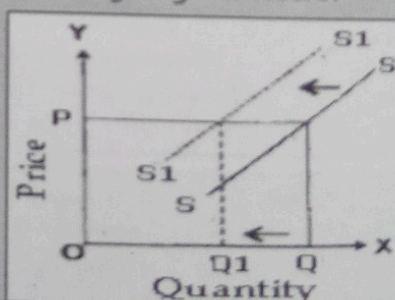
The supply curve shifts to the right because of \_\_\_\_\_

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

ICAI SM

22

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



## Chapter 2 - THEORY OF DEMAND AND SUPPLY

### Notes

SEQ	
23	<p>Yesterday, seller A supplied 400 units of a good X at Rs. 10 per unit. Today, seller A supplies the same quantity of units at Rs. 5 per unit. Based on this evidence, seller A has experienced a (an)</p> <p>a) Decrease in supply. b) Increase in supply. c) Increase in the quantity supplied. d) Decrease in the quantity supplied</p>

A.Q.	
24	<p>If there is decrease in quantity supplied of a commodity, there will be-</p> <p>a) Upward movement on same supply curve b) Rightward shift in supply curve c) Downward movement on same supply curve d) Leftward shift in supply curve</p>

MTP Apr 19	
25	<p>An expansion in the supply of a good is caused by a:</p> <p>a) Rise in the price of good b) Fall in the prices of other goods c) Fall in the prices of factors of production d) All of the above</p>

Extra MCQ	
26	<p>Government provided subsidy on production of Good X, it will lead to</p> <p>a) Increase in Supply b) Increase in Quantity Supplied c) Decrease in Supply d) Decrease in Quantity Supplied</p>

Extra MCQ	
27	<p>A decrease in the anticipated future price of a good or service, will lead to</p> <p>a) Decrease in Supply today b) Decrease in Quantity Supplied today c) Increase in Supply today d) Increase in Quantity Supplied today</p>

### Elasticity of Supply

ICAI SM	
28	<p>Which of the following statements about price elasticity of supply is correct?</p> <p>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</p>

ICAI SM	
29	<p>A supply curve parallel to Y axis implies that the elasticity of supply is :</p> <p>a) Zero b) Infinity c) Equal to one d) Greater than zero but less than infinity</p>

MTP Aug 18, Mar 22, SEQ, ICAI SM	
30	<p>Elasticity of supply refers to the degree of responsiveness of supply of a good to changes in its:</p> <p>a) Demand. b) Price. c) Cost of production. d) State of technology</p>



## Chapter 2 - THEORY OF DEMAND AND SUPPLY

MTP Oct 18, Mar 19, ICAI SM

31

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.

ICAI SM

32

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

ICAI SM

33

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

ICAI SM

34

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

ICAI SM

35

Elasticity of supply is zero means

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

ICAI SM

36

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

ICAI SM

37

If the change in 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

MTP Oct 20, ICAI SM

38

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

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

Extra MCQ

39

The supply function is given as:  $-55 + 15p$ . Find elasticity of supply using point method, if price = Rs 20

- a) -2
- b) 1.56
- c) 1.22
- d) 1.82



## Chapter 2 - THEORY OF DEMAND AND SUPPLY

### Notes

ICAI SM

40

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

- Horizontal straight line parallel to the quantity axis
- Steeply rising with elasticity less than one
- Vertical straight line parallel to Y axis
- A perfectly elastic supply curve

MTP Aug 18, SEQ

41

If a fisherman must sell all of his daily catch before it spoils for whatever price he is offered, once the fish are caught the fisherman's price elasticity of supply for fresh fish is \_\_\_\_

- zero.
- infinite.
- one.
- unable to be determined from this information.

A.Q.

42

Relationship between slope of supply curve and elasticity of supply can be defined as -

- Product of slope of supply curve and ratio of quantity supply to price
- Elasticity of supply is equal to the slope of supply curve.
- Product of reciprocal of slope of supply curve and ratio of price to quantity supplied
- Elasticity of supply is equal to reciprocal of slope of supply curve.

A.Q.

43

A new technique of production reduces the marginal cost of producing paper. How will this affect the supply curve of writing material like notebook, register & notepad etc?

- Upward movement on same supply curve
- Downward movement on same supply curve
- Leftward shift in supply curve
- Rightward shift in supply curve

MTP Apr 21

44

When price of a good rises from Rs. 20 to Rs. 30 the producer supplies 20 percent more the Price elasticity of supply is

- 0.5
- 0.4
- 1
- None of these

MTP Mar 21

45

The producer reduces supply from 100 units to 50 units. When the price falls from Rs 20 to Rs 10, the price elasticity of supply will be :

- 1
- 2
- 5
- none of these

MTP Oct 19

46

If price of automobiles increases by 10% and supply increases by 25%. The elasticity of supply is-

- 2.5
- 0.4
- 2.5
- 0.4



MTP Oct 19, MTP Aug 18, ICAI SM

47 The supply curve for perishable commodities is-

- a) elastic
- b) inelastic
- c) perfectly elastic
- d) perfectly inelastic

MTP Apr 19

48 Which of the following has the lowest price elasticity of supply?

- a) Luxury
- b) Necessities
- c) Salt
- d) Perishable goods

MTP Oct 18

49 If the price of apples rises from Rs. 30 per quarter kg. to Rs. 40 quarter per kg and the supply increases from 240 kg to 300 kg. Elasticity of supply is:

- a) 0.77
- b) 0.67
- c) (-) 0.67
- d) (-) .77

Extra MCQ

50 To improve price elasticity of supply an organisation can

- a) Improve the technology used
- b) Increase production capacity
- c) Expand storage space for stock while making sure that products can last long while stored
- d) All of the above

MTP June 22

51 Slope of supply curve is 0.6, calculate elasticity of supply when initial price is \$ 30 per unit & initial qty is 100 units.

- a) 0.5
- b) 5.55
- c) (-) 0.5
- d) (-) 0.18

ICAI SM

52 If price of commodity X increases from Rs 2,000 to Rs 2,100 per unit and consequently the quantity supplied rises from 2,500 units to 3,000 units. Calculate the elasticity of supply.

- a) 5
- b) 4
- c) 3
- d) 1

Extra MCQ

53 The supply curve shows \_\_\_\_

- a) the highest quantity willingly supplied by the suppliers at each price and
- b) the minimum price which will induce suppliers to offer the various quantities for sale
- c) the highest price which will induce suppliers to offer the various quantities for sale
- d) Both (a) & (b)

PYQ June 22, MTP Dec 22

54 A vertical supply curve parallel to the Y-axis exhibits that the elasticity of supply is

- a) Zero
- b) Infinite
- c) Elastic
- d) Inelastic



## Chapter 2 - THEORY OF DEMAND AND SUPPLY

### Notes

MTP Dec 22

55 Elasticity of supply at any point on a supply curve passing through origin point making angle of 35 degree with X-axis is \_\_\_\_

- a) Greater than one
- b) Less than one
- c) Equal to one
- d) Any of the above

PYQ June 22

56 When elasticity is measured at a given point on supply curve, it is called as which of the following ?

- a) Unit elasticity
- b) Point elasticity
- c) Supply elasticity
- d) Limited elasticity

PYQ June 22

57 If price of sugar increases from Rs. 8,000/- to 10,000/- per tone & due to that quantity supplied of sugar increases from 2000 to 2500 tones. Elasticity of supply will be \_\_\_\_

- a) (-) 1
- b) 1
- c) (-) 0.4
- d) 0.4

### Determinants of Price Elasticity of Supply

58 The longer the period of time to adjust with price,

- a) The Greater elasticity of supply
- b) The Lower elasticity of supply
- c) No change in elasticity of supply
- d) None of the above

59 Supply will be \_\_\_\_ if firms are not working to full capacity

- a) Inelastic
- b) Perfectly Inelastic
- c) Elastic
- d) Any of the above

60 Supply is \_\_\_\_ when there is large number of producers and there is high degree of competition

- a) Less elastic
- b) More elastic
- c) Perfectly inelastic
- d) Any of the above

61 Products that involve more complex production processes or require relatively longer time to produce exhibit

- a) Greater elasticity of supply
- b) Lower elasticity of supply
- c) Zero elasticity of supply
- d) None of the above

62 Commodities which can be easily and inexpensively stored without losing value may have

- a) Inelastic supply
- b) Perfectly Inelastic supply
- c) Elastic supply
- d) Any of the above

63 If the labour employed is scarce or are required to be highly skilled and specific and if they require longer training period, then elasticity of supply will be

- a) High
- b) Low
- c) Zero
- d) Infinite

64 If factors of production used in production of commodity are commonly available & can be easily substituted, then price elasticity of supply will be \_\_\_\_

- a) High
- b) Low
- c) Zero
- d) Infinite



## Chapter 2 - THEORY OF DEMAND AND SUPPLY

### Market Equilibrium

MTP Oct 19, ICAI SM

65 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

MTP Aug 18, May 20

66 When a market is in equilibrium:

- a) No shortages exist.
- b) Quantity demanded equals quantity supplied.
- c) A price is established that clears the market.
- d) All of the above are correct.

MTP June 22

67 The market demand curve for a perfectly competitive industry is:  $Q_d = 12 - 2P$  and the market supply curve is:  $Q_s = 3 + P$ . The market will be in equilibrium if

- a)  $P = 6$  and  $Q = 9$
- b)  $P = 5$  and  $Q = 2$
- c)  $P = 4$  and  $Q = 4$
- d)  $P = 3$  and  $Q = 6$

### Social Efficiency

Extra MCQ

68 \_\_\_\_\_ represents the net gains to society from all exchanges that are made in a particular market

- a) Market Equilibrium
- b) Consumer welfare
- c) Social Efficiency
- d) None of the above

Extra MCQ

69 Social efficiency consists of two components \_\_\_\_\_

- a) Price Effect & Income Effect
- b) Demand & Supply
- c) consumer surplus & producer surplus
- d) None of the above

Extra MCQ

70 \_\_\_\_\_ is the benefit derived by sellers from the sale of a unit above and beyond their cost of producing that unit. This occurs when the price they receive in the market is more than the minimum price at which they would be prepared to supply

- a) Consumer surplus
- b) Producer surplus
- c) Consumer Welfare
- d) (a) or (c)

Extra MCQ

71 \_\_\_\_\_ is represented by the area above the supply curve and below the price line

- a) Consumer surplus
- b) Producer surplus
- c) Consumer Welfare
- d) (a) or (c)

### Extra Questions

MTP Nov 22, ICAI SM

72 A rational person does not act unless \_\_\_\_\_

- a) the action is ethical.
- b) the action produces marginal costs that exceed marginal benefits.
- c) the action produces marginal benefits that exceed marginal costs.
- d) the action makes money for the person.



## Chapter 2 - THEORY OF DEMAND AND SUPPLY

### Notes

A.Q.	
73	Elasticity of demand and supply are _____ concepts
a) Relative b) Absolute c) Both (A) and (B) d) Neither (A) and (B)	

A.Q.	
74	Law of demand is a qualitative concept where as price elasticity of demand is _____
a) also qualitative concept b) Quantitative concept c) Quantitative and qualitative concept d) Neither qualitative nor quantitative concept	

MTP Mar 22	
75	A theory is :
a) An assumption b) A hypothesis c) A validated hypothesis d) None of these	

MTP Mar 22	
76	"Supply creates its own demand" statement is given by _____
a) Marshall b) J B Say c) Ricardo d) Kuznets	

### Answer Key - Economics Chapter 2 - Unit 3

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



## Chapter 3 - THEORY OF PRODUCTION AND COST

### Unit 1

#### Basics of Production

ICAI SM

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.

ICAI SM

2 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.

MTP Aug 18, SEQ

3 Production may be defined as an act of \_\_\_\_

- a) creating utility
- b) earning profit
- c) destroying utility
- d) providing services

MTP Oct 18 Apr 19 Oct 20

4 Which of the following is considered production in Economics?

- a) Teaching Economics to CA students in class.
- b) Singing a song before friends
- c) Flying kite for pleasure
- d) Teaching concept of Economics to friends in a library.

#### Factors of Production - Land

SEQ, ICAI SM

5 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.

PYQ June 22

6 'Land is heterogeneous' implies which of the following?

- a) Two lands are alike
- b) Two lands are not alike
- c) Two lands are fixed
- d) Two lands are mobile

#### Factors of Production - Labour

MTP Mar 19

7 Which of the following is not the characteristic of Labour?

- a) Labour is highly 'Perishable' in the sense that a day's labour lost cannot be completely recovered
- b) Labour is inseparable from the labourer himself
- c) Labour has a strong bargaining power
- d) The supply of labour and wage rate are directly related in the initial stages

#### Factors of Production - Capital

ICAI SM

8 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.

#### Notes



## Chapter 3 - THEORY OF PRODUCTION AND COST

MTP Apr 19

9 Capital is a :

- a) Stock concept
- b) Flow Concept
- c) Both (a) and (b)
- d) None of the above

MTP Apr 19

10 Which of the following is not included in the stages of capital formation?

- a) Savings
- b) Mobilisation of Income
- c) Mobilisation of saving
- d) Investment

MTP Mar 19

11 Which of the following statements is incorrect?

- a) The services of doctors, lawyers, teachers etc. are termed as production
- b) Man cannot create matter
- c) Accumulation of capital does not depend solely on income
- d) None of the above

### Factors of Production - Entrepreneur

MTP Apr 19, ICAI SM

12 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.

MTP May 20, MTP Mar 22, ICAI SM

13 Most important function of entrepreneur is to \_\_\_\_

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

Extra MCQ

14 An entrepreneur \_\_\_\_\_ foreseeable risks such as fire, theft, etc. as these can be insured against

- a) needs to bear
- b) need not bear
- c) (a) or (b)
- d) None of the above

MTP Nov 22

15 Which is not the function of an entrepreneur?

- a) Initiating a business enterprise and resource co-ordination
- b) Risk bearing or uncertainty bearing
- c) Innovation
- d) Mobilisation of savings

### Enterprise Objectives & Problems

A.Q.

16 Which one of the following is not a national objective of an enterprise?

- a) To provide fair deal to the employees at different levels.
- b) To remove inequality of opportunities & provide fair opportunity to all to work and to progress.
- c) To produce according to national priorities.
- d) To help the country become self reliant & avoid dependence on other nations.

A.Q.

17 An enterprise has social objectives as-

- a) It has to make profit from the society.
- b) It lives in society & it cannot grow unless it meets the needs of the society.
- c) It has a separate legal identity.
- d) None of these



## Chapter 3 - THEORY OF PRODUCTION AND COST

### Notes

A.Q.	
18	Human objectives of an enterprise are-
<ul style="list-style-type: none"> <li>a) To provide fair deal to the employees at different levels.</li> <li>b) To develop new skills and abilities and provide a work climate in which they will grow mature.</li> <li>c) Only (A)</li> <li>d) Both (A) and (B)</li> </ul>	

A.Q.	
19	Which of the following is not a problem of an enterprise?
<ul style="list-style-type: none"> <li>a) Problem relating to location &amp; size.</li> <li>b) Problem of making huge profit.</li> <li>c) Problem relating to finance.</li> <li>d) Problem relating to organizational structure.</li> </ul>	

MTP Dec 22, A.Q.	
20	After identifying the market, the enterprise has to make decision regarding 4 Ps. Which one of the following is not one of these 4 Ps.
<ul style="list-style-type: none"> <li>a) Promotion</li> <li>b) Place</li> <li>c) People</li> <li>d) Product</li> </ul>	

### Production Function

ICAI SM	
21	Which of the following is the best definition of "production function"?
<ul style="list-style-type: none"> <li>a) The relationship between market price and quantity supplied.</li> <li>b) The relationship between the firm's total revenue and the cost of production.</li> <li>c) The relationship between the quantities of inputs needed to produce a given level of output.</li> <li>d) The relationship between the quantity of inputs and the firm's marginal cost of production.</li> </ul>	

SEQ	
22	A firm's production function:
<ul style="list-style-type: none"> <li>a) Shows how much output and the level of input required for the firm to maximize profits</li> <li>b) Establishes the minimum level of output that can be produced using the available resources</li> <li>c) Shows the maximum output that can be produced with a given amount of inputs with available technology</li> <li>d) Shows labour force which is employed</li> </ul>	

ICAI SM	
23	What is a production function?
<ul style="list-style-type: none"> <li>a) Technical relationship between physical inputs and physical output.</li> <li>b) Relationship between fixed factors of production and variable factors of production.</li> <li>c) Relationship between a factor of production and the utility created by it.</li> <li>d) Relationship between quantity of output produced and time taken to produce the output</li> </ul>	

ICAI SM	
24	The production function:
<ul style="list-style-type: none"> <li>a) Is the relationship between the quantity of inputs used and the resulting quantity of product.</li> <li>b) Tells us the maximum attainable output from a given combination of inputs.</li> <li>c) Expresses the technological relationship between inputs and output of a product.</li> <li>d) All the above</li> </ul>	

25	The production function is a relationship between a given combination of inputs and:
<ul style="list-style-type: none"> <li>a) another combination that yields the same output.</li> <li>b) the highest resulting output</li> <li>c) the increase in output generated by one-unit increase in one output.</li> <li>d) all levels of output that can be generated by those inputs.</li> </ul>	



## Chapter 3 - THEORY OF PRODUCTION AND COST

MTP Mar 22

26 What are the main assumption of Production Function:

- Relationship between inputs and output exists for a specific period of time
- There is a given state of the art in production Technology.
- Input consideration Included in a particular function output resulting from their utilization is at the maximum level.
- All the above

### Short Run Vs Long Run

ICAI SM

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

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

ICAI SM

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

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

SEQ, ICAI SM

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

- up to six months from now.
- up to five years from now.
- as long as all inputs are fixed.
- as long as at least one input is fixed

MTP Mar 21, ICAI SM

30 Laws of production does not include \_\_\_\_\_

- returns to scale.
- law of diminishing returns to a factor.
- law of variable proportions.
- least cost combination of factors.

ICAI SM

31 A fixed input is defined as

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

A.Q.

32 In the long run which factor of production is fixed?

- Labour
- Capital
- Building
- None of these



## Chapter 3 - THEORY OF PRODUCTION AND COST

### Notes

MTP Oct 19

33 Long run production function related to-

- a) Returns to a factor
- b) Returns to scale
- c) Both a and b
- d) None of these

### Law of Variable Proportions

ICAI SM

34 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.

MTP Mar 18, ICAI SM

35 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.

ICAI SM

36 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

ICAI SM

37 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.

MTP Oct 19, ICAI SM

38 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 39-41

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



## Chapter 3 - THEORY OF PRODUCTION AND COST

MTP Mar 18, ICAI SM

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

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

MTP Mar 18, ICAI SM

40 What is the marginal product of the third hour of labour?

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

MTP Mar 18, ICAI SM

41 What is the average product of the first three hours of labour?

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

ICAI SM

42 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.

MTP Aug 18, ICAI SM

43 The average product of labour is maximized when marginal product of labour:

- a) equals the average product of labour.
- b) equals zero.
- c) is maximized.
- d) none of the above

ICAI SM

44 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 economically profitability in monetary terms.
- d) the technology is given and stable.

ICAI SM

The production process described below exhibits

	Number of Workers	Output
45	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

ICAI SM

46 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



## Chapter 3 - THEORY OF PRODUCTION AND COST

Notes

ICAI SM

47 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.

ICAI SM

48 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.

ICAI SM, MTP Mar 21

49 Marginal product, mathematically, is the slope of the

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

ICAI SM

50 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

ICAI SM

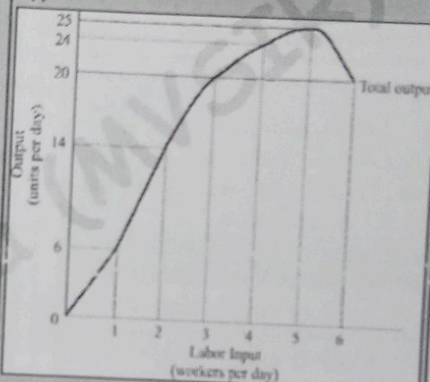
51

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

ICAI SM

Use the following diagram to answer the question given below it



52

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

ICAI SM

53

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.



## Chapter 3 - THEORY OF PRODUCTION AND COST

A.Q.	
54	Law of diminishing returns to scale is relevant to_
a) Short period b) Long period c) Market period d) None of these	

A.Q.	
55	In second stage of the Law of Variable Proportion-
a) MP diminishes & AP increases b) AP diminishes but MP increases c) Both MP& AP diminish d) Both MP& AP increase	

A.Q.	
56	Match List I with List II and choose the correct answer using the codes given below

### LIST I

A	MP is larger than AP
B	MP is equal to AP
C	MP is smaller than AP

### LIST 2

I.	AP is at its maximum
II.	AP is falling
III.	AP is rising

Codes:	a	b	c
(A)	I	II	III
(B)	III	I	II
(C)	II	III	I
(D)	III	II	I

MTP Apr 21	
57	Production function in short run is called:
a) Production possibility frontier b) Return to Scale c) Laws of variable d) None of these	

A.Q.	
58	Which one of the following is not an assumption of law of variable proportion?
a) Technology of production remains unchanged. b) Only physical inputs & output are considered. c) All units of variable factors are different. d) There must be some inputs whose quantity is kept fixed	

Extra MCQ	
59	Stage 2 of law of variable proportion ends when ____
a) AP is maximum b) TP is maximum c) MP is zero d) Both (b) & (c)	

MTP Mar 21	
60	The stages in law of variable proportion is :
a) 1 b) 2 c) 3 d) 4	

MTP Mar 21	
61	The producer's demand for a factor of production is governed by the ____ of that factor
a) price b) marginal productivity c) availability d) Profitability	

MTP Mar 21	
62	In case of diminishing return to a factor:
a) marginal product diminishes b) total product increase at increasing rate c) total product increases at diminishing rate d) both a and c	



## Chapter 3 - THEORY OF PRODUCTION AND COST

### Notes

MTP Mar 21

63 Negative return sets in at the stage when :

- a) MP is negative
- b) MP is diminishing
- c) MP is rising
- d) none of these

MTP Oct 19

64 In the third phase of Law of variable proportions, MP becomes-

- a) Zero
- b) Negative
- c) Positive
- d) None of these

MTP Oct 19

65 Law of variable proportion is related to-

- a) Short-run
- b) Long-run
- c) Both a and b
- d) Very short run

MTP Oct 19

66 When Marginal product is zero, then Total product is -

- a) Zero
- b) Falling
- c) Rising
- d) Maximum

MTP Oct 19

67 When total product is 200 units and units of variable factor are 8, average product will be

- a) 25
- b) 1600
- c) 96
- d) 60

MTP Apr 19

68 In Law of negative returns (Third stage of Law of variable proportions)

- a) Total Product declines, MP is positive
- b) Total Product declines, MP is Zero
- c) Total Product declines, MP is negative
- d) Total Product is constant, MP is constant

MTP Apr 19

69 When is TP maximum

- a) When AP becomes Zero
- b) When MP becomes Zero
- c) At the intersecting point of AP and MP
- d) When MP is highest

MTP Apr 19

70 When marginal product is negative, then total product is:

- a) Maximum
- b) Decreasing
- c) Constant
- d) None of the above

MTP Mar 19

71 The Law of variable proportions examines the Production function with:

- a) One factor variable and only one factor fixed
- b) One factor variable keeping quantities of other factors fixed
- c) All factors variable
- d) None of the above

MTP Mar 19

72 When is average product at its maximum point?

- a) When AP intersects MP
- b) When AP intersects TP
- c) When MP is highest
- d) At the point of inflexion



## Chapter 3 - THEORY OF PRODUCTION AND COST

Extra MCQ

73

Which of the following stage(s) of Law of Variable Proportion are known as "economic non-sense" or "economic absurdity"

- a) Stage 1
- b) Stage 2
- c) Stage 3
- d) Both (a) & (c)

MTP Aug 18

Read table & answer questions 74-78

Labour Input	Output	Average Product	Marginal Product
0	0	-	-
2			25
4	90		
6	120		
8	140		
10		14	
12		10	

MTP Aug 18

74

At a labour of 2, output is:

- a) 25
- b) 30
- c) 50
- d) 75

MTP Aug 18

75

At a labour input of 4, output per worker is:

- a) 20
- b) 22.5
- c) 45
- d) 90

MTP Aug 18

76

At a labour input of 6, the marginal product of labour is:

- a) 120
- b) 30
- c) 15
- d) 10

MTP Aug 18

77

Output per worker is maximized at a labour input of:

- a) 2
- b) 4
- c) 6
- d) 8

MTP Aug 18

78

The firm's output is at a short run maximum at a labour input of:

- a) 6
- b) 10
- c) 12
- d) 2

MTP Aug 18

79

The law of diminishing returns:

- a) States that beyond some level of a variable input, the average product of that variable input begins to increase steadily.
- b) Assumes that there is technological improvement over time.
- c) States that beyond some level of a variable input, the marginal product of that variable begins to decrease steadily.
- d) Informs a firm whether or not to use a factor input.

MTP Mar 18

80

At the point of inflexion, the marginal product is

- a) Increasing
- b) Decreasing
- c) Maximum
- d) Negative



## Chapter 3 - THEORY OF PRODUCTION AND COST

### Notes

MTP Nov 22, MTP June 22

81 "Returns to a factor" refers to the effect on total output of changes in

- a) One factor only
- b) Various inputs separately
- c) All the inputs simultaneously
- d) None of the above

MTP June 22

82 The law of diminishing returns only applies in cases where

- a) There is increasing scarcity of factors of production
- b) The price of extra unit of a factor is increasing
- c) There is atleast one fixed factor of production
- d) Capital is a variable input

MTP Mar 22

83 When the average product of labour is maximized the marginal product of labour:

- a) Equal zero
- b) is maximized
- c) Equal APL
- d) None of these

MTP Mar 22

84 A rational producer will always produce in which stage of law of variable proportion:

- a) Stage I
- b) Stage II
- c) Stage III
- d) None of these

MTP Mar 22

85 The law of variable proportions come into being when \_\_\_\_\_

- a) There are only two variable factors
- b) There is a fixed factor and a variable factor
- c) All factors are variable
- d) Variable factors yield less.

### Returns to Scale

MTP Mar 19, ICAI SM

86 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%.

ICAI SM

87 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.

MTP Aug 18, SEQ

You are given the following data:

Output	Total Cost
0	0
1	15
2	30
3	45
4	60
5	75

The above data is an example of:

- a) Constant returns to scale.
- b) Decreasing returns to scale.
- c) Increasing returns to scale.
- d) Globalization.



## Chapter 3 - THEORY OF PRODUCTION AND COST

SEQ	
89	If all inputs are trebled and the resultant output is doubled, this is a case of:
a) constant returns to scale b) Increasing returns to scale c) diminishing returns to scale d) negative returns to scale	

A.Q.	
90	If all inputs are increased in the same proportion, then it is the case of  1. Short run production function 2. Long run production function 3. Law of Variable Proportion 4. Law of Returns to Scale
a) 1 & 2 only b) 2 & 3 only c) 1 & 4 only d) 2 & 4 only	

A.Q.	
91	"Returns to Scale" refers to the effect on total output of changes in
a) a factor b) various inputs separately c) all the inputs simultaneously d) None of these	

MTP Apr 21	
92	Linear homogeneous function means:
a) Input and output increases by same proportions. b) Input increases by some proportions and output increase more than proportionately c) Input increase by some proportion and output less than the proportionately d) None of these	

MTP Mar 18, Mar 19, Apr 19, May 20	
93	If as a result of 50 per cent increase in all inputs, the output rises by 75 per cent, this is a case of:
a) increasing returns of a factor b) increasing returns to scale c) constant returns to a factor d) constant returns to scale	

MTP Aug 18	
94	If one unit of labour and one unit of capital give 200 units of output, two units of labour and two units of capital give 400 units of output and 5 units of labour and five units of capital give 1000 units of output then this is a case of
a) Constant returns of scale b) Increasing returns to scale c) Decreasing returns to scale d) None of these	

MTP Mar 22	
95	If both factor prices and quantity moves in the same direction then it is called _____
a) Decreasing Cost Industry b) Increasing Cost Industry c) Constant Cost Industry d) None of these	

MTP Mar 22	
96	Increasing return to scale applies to:
a) Long run b) Short run c) Either (a) or (b) d) None of these	



## Chapter 3 - THEORY OF PRODUCTION AND COST

### Cobb Douglas Production Function

A.Q.

97 The Cobb-Douglas homogeneous production function given as:  
 $Q = L^{1/2}K^{1/2}$  exhibits-

- a) Constant returns to scale
- b) Decreasing returns to scale
- c) Increasing returns to scale
- d) All of the above at various level of output

A.Q.

98 Cobb-Douglas function  
 When, P = Actual output  
 L = Labour  
 C = Capital  
 b = No. of units of labour  
 k = Exponent of labour  
 j = Exponent of capital  
 is represented as-

- a)  $P = bL^jC^k$
- b)  $P = bL^{1/j}C^{1/k}$
- c)  $P = bL^kC^j$
- d)  $P = 1/bL^kC^j$

MTP Apr 21

99 Suppose production function is given by:  $Q\sqrt{LK} = 15$   
 what type of return does it exhibit?

- a) Constant return
- b) Increasing return
- c) Decreasing return
- d) None of these

MTP Mar 21

100 In the Cobb Douglas function the change in output due to increase in one additional unit of an input is called?

- a) elasticity
- b) return to scale
- c) total product
- d) marginal revenue

MTP June 22

101 A factor of production is said to be superior if its expenditure elasticity

- a) is negative
- b) lies in unit interval
- c) exceeds unity
- d) is zero

MTP June 22

102 Production function:  
 $Q = 4L^{1/2}K^{2/3}$

- a) increasing returns to scale
- b) decreasing returns to scale
- c) constant returns to scale
- d) increasing returns to a factor

MTP Nov 22

103 In the Cobb-Douglas production function given as:  
 $Q = A \cdot L^a \cdot K^{1-a}$ ; the share of labour in total production is

- a) a
- b) 1 - a
- c) A
- d) aL

### Production Optimisation

ICAI SM

104 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.

MTP Aug 18, May 21, SEQ

105 An isoquant slopes :

- a) downward to the left
- b) downward to the right
- c) upward to the left
- d) upward to the right

Notes



# Chapter 3 - THEORY OF PRODUCTION AND COST

MTP Nov 22, A.Q.

106 **Assertion (A):** An iso-cost line is a straight line.  
**Reason (R):** The market rate of exchange between the two inputs is constant.

- a) (A) is true and (R) is false
- b) Both (A) and (R) are true & (R) is the correct explanation of (A)
- c) Both (A) and (R) are true & (R) is not the correct explanation of (A)
- d) (A) is false and (R) is true

A.Q.

The schedule given below representing the combinations of two variable inputs (Labour & Capital) for two Isoquants of output 100 and 200 respectively

IQ1			
Combina tion	Outp ut	Cap ital	Lab our
I	100	90	10
II	100	60	20
III	100	40	30
IV	100	30	40

107

IQ2			
Combina tion	Outp ut	Cap ital	Lab our
I	200	85	5
II	200	70	10
III	200	60	15
IV	200	55	20

On the basis of above schedule, which of the following statement is true?

- a) IQ<sub>1</sub> & IQ<sub>2</sub> are parallel to each other.
- b) IQ<sub>1</sub> & IQ<sub>2</sub> are non parallel & intersecting to each other.
- c) IQ<sub>1</sub> & IQ<sub>2</sub> are neither parallel nor intersecting each other.
- d) Can't say

MTP Nov 22, SEQ

108 The producer is in equilibrium at a point where the cost line is:

- a) above the isoquant
- b) below the isoquant
- c) cutting the isoquant
- d) tangent to isoquant

109 Isoquant word is made up of two words i.e., Iso & Quant. Where quant means quantity or output then Iso means:-

- a) Maximum
- b) Equal
- c) Minimum
- d) None of these

A.Q.

110 Isoquant curve is convex to the origin due to diminishing MRTS. If X-axis is labour (L) axis & Y-axis is Capital (K) axis then MRTS = ?

- a)  $\frac{\Delta L}{\Delta K}$
- b)  $\frac{\Delta K}{\Delta L}$
- c)  $\frac{1}{\Delta K}$
- d) (A) & (B)

MTP Apr 21

111 Which of the Statement is correct: -

- a) Isoquant slopes downwards from left to right
- b) No two Isoquant can intersect each other
- c) Isoquants are convex to the origin
- d) All the above

MTP Apr 21

112 The slope of Isocost line is

- a) w/r
- b) r/w
- c) r x w
- d) None of these



# Chapter 3 = THEORY OF PRODUCTION AND COST

Notes

MTP June 22

113 Which of the following is correct regarding the slope of iso-cost lines  
slope of iso-cost line can change due to  
1. change in factor(s) price(s)  
2. change in total outlay or total cost.

- a) 1 only
- b) 2 only
- c) 1 & 2 both
- d) None of these

MTP June 22

114 Isoquant word is made up of two words i.e., iso & quant. Where iso means equal then quant means-

- a) Quantity sold
- b) Output
- c) Quantity demanded
- d) Quantity supplied

MTP Mar 22

115 Isoquant are also called:

- a) Equal product curves
- b) Production Indifference curves
- c) ISO product curves
- d) All of the above

MTP Mar 22

116 Which describes production function in the production between the maximum amount of output can be produced and the input required to make that output:

- a) Samuelson
- b) Muthus
- c) Hicks
- d) None of these

MTP Sep 22

117 Within the relevant range, isoquants

- a) are negatively sloped
- b) are convex to the origin
- c) cannot cross
- d) are all of the above.



# Chapter 3 - THEORY OF PRODUCTION AND COST

## Answer Key - Economics Chapter 3 - Unit 1

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



## Chapter 3 - THEORY OF PRODUCTION AND COST

### Unit 2

#### Cost Concepts

MTP Aug 18, SEQ, ICAI SM

1 Which of the following is an example of "explicit cost"?

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

ICAI SM

2 Which of the following is an example of an "implicit cost"?

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

ICAI SM

3 Implicit cost can be defined as

- 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.
- 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.
- 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.
- Money payments which the self-owned and employed resources earn in their best use and therefore entered into book of accounts

MTP May 20, ICAI SM

4 Economic costs of production differ from accounting costs of production because

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

Suppose that a sole proprietorship is earning total revenues of Rs. 10,00,000 and is incurring explicit costs of Rs. 7,50,000. The owner could work for another company for Rs.3,00,000 a year

SEQ

5 What will be the implicit cost of the firm?

- Rs. 3,00,000
- Rs. 2,50,000
- Rs. 7,50,000
- insufficient data

SEQ

6 The above mentioned firm is earning:

- Accounting profit of Rs. 2,50,000.
- Economic loss of Rs. 50,000
- Both a and b are correct.
- None of the above is correct.

SEQ

7 Suppose in the above mentioned question, the owner had invested Rs. 500,000 by withdrawing from his saving accounts on which he was earning 5% interest per annum, the economic profit or loss is

- economic profit of Rs. 75,000
- economic loss of Rs. 75,000
- economic profit of Rs. 2,50,000
- economic loss of Rs. 2,50,000

### Notes



## Chapter 3 - THEORY OF PRODUCTION AND COST

SEQ	
8	If the total cost of manufacturing commodity 'X' is Rs. 1,50,000. Out of this implicit cost is Rs. 80,000 what will be explicit cost:
a) Rs. 95,000 b) Rs. 1,25,000 c) Rs. 80,000 d) Rs. 70,000	

MTP Dec 22, A.Q.	
9	Cost incurred which has 'no relevance' to future planning is called
a) Marginal Cost b) Sunk Cost c) Book Cost d) Average Cost	

SEQ, ICAI SM	
10	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	

MTP Apr 21	
11	Which of the following is a variable cost in the short run?
a) Rent b) Wages c) Internal payments on borrowed financial capital d) None of these	

MTP Apr 21	
12	Normal profit is part of :
a) Implicit Costs b) Average Cost c) Explicit Cost d) None of these	

MTP Apr 21	
13	Relative price of goods reflects their:
a) Opportunity Cost b) Fixed Cost c) Average Cost d) None of these	

MTP Mar 21	
14	The Interest on own capital is:
a) implicit cost b) future cost c) explicit cost d) past cost	

MTP Mar 18, Apr 19, Oct 20	
15	Suppose that an owner is earning total revenue of Rs. 1, 00,000 and is incurring explicit cost of Rs. 60,000. If the owner could work for another company for Rs. 30,000 a year, we would conclude that:
a) The firm is earning economic profit or Rs. 10,000 b) The firm is earning accounting profit or Rs. 40,000 c) The firm is earning economic profit of Rs. 40,000 d) Both (a) and (b)	

MTP Aug 18, May 20	
16	Suppose that a sole proprietorship is earning total revenues of Rs. 1,00,000 and is incurring explicit costs of Rs. 75,000. If the owner could work for another company for Rs. 30,000 a year, we would conclude that :
a) The firm is incurring an economic loss. b) Implicit costs are Rs. 25,000. c) The total economic costs are Rs. 1,00,000. d) The individual is earning an economic profit of Rs. 25,000.	



## Chapter 3 - THEORY OF PRODUCTION AND COST

### Notes

MTP Aug 18, May 20

17 If there are implicit costs of production:

- a) economic profit will be equal to accounting profit.
- b) economic profit will be less than accounting profit.
- c) economic profits will be zero.
- d) economic profit will be more than accounting profit

MTP Oct 19

18 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

MTP Oct 19

19 Economic costs includes-

- a) Accounting costs
- b) Implicit costs
- c) Both a and b
- d) None of above

MTP Oct 19

20 Example of Fixed cost is-

- a) Electricity bill
- b) Interest on loans
- c) Expenses on raw material
- d) Wages of daily workers

MTP Oct 19

21 Example of variable cost is -

- a) Salary of permanent staff
- b) Rent of premises
- c) License fees
- d) Wages

MTP Apr 19

22 Variable cost includes the cost of

- a) Buying land and building
- b) Hire charges of machinery
- c) Insurance premium
- d) Material bought

MTP Nov 22, MTP Mar 19, Apr 19

23 \_\_\_\_\_ is an implicit cost of production

- a) Wages of the labour
- b) Charges for electricity
- c) Interest on owned money capital
- d) Payment for raw material

MTP Mar 19

24 Accounting profit is equal to:

- a) Total Revenue - Total variable cost
- b) Total Revenue - Total direct cost
- c) Total Revenue - Total Cost
- d) Total Revenue - Total Explicit cost and Total Implicit Cost

MTP Mar 19

25 Economic cost means

- a) Accounting cost + Implicit cost
- b) Accounting cost + Marginal cost
- c) Cash cost + Opportunity cost
- d) Implicit cost

MTP Oct 18

26 Which of the following is correct?

- a) Firms that earn accounting profits are economically profitable.
- b) Opportunity cost plus accounting cost equals economic cost.
- c) When a firm's demand curve slopes down marginal revenue will rise as output rises.
- d) Firms increase profits by selling more output than their rivals.



## Chapter 3 - THEORY OF PRODUCTION AND COST

MTP Mar 18

27 Suraj is a high school senior thinking about becoming an economic research assistant, Shyam just graduated from college with an economic degree and is looking for a job as an economic research assistant. For whom is the college tuition an opportunity cost?

- a) Suraj
- b) Shyam
- c) Both Suraj and Shyam
- d) Neither Suraj nor Shyam

MTP Oct 18

**Read the following paragraph and answer questions 28-31**

Nicole owns a small pottery factory. She can make 1,000 pieces of pottery per year and sell them for Rs. 100 each. It costs Nicole Rs. 20,000 for the raw materials to produce the 1,000 pieces of pottery. She has invested Rs. 1,00,000 in her factory and equipment: Rs. 50,000 from her savings and Rs. 50,000 borrowed at 10 percent. (Assume that she could have loaned her money out at 10 per cent too.) Nicole can work at a completing pottery factory for Rs. 40,000 per year.

MTP Oct 18

28 The accounting cost at Nicole's pottery factory is:

- a) Rs.25,000
- b) Rs.50,000
- c) Rs.80,000
- d) Rs.75,000

MTP Oct 18

29 The economic cost at Nicole's factory is:

- a) Rs.75,000
- b) Rs.70,000
- c) Rs.80,000
- d) Rs.30,000

MTP Oct 18

30 The accounting profit at Nicole's pottery factory is:

- a) Rs.30,000
- b) Rs.50,000
- c) Rs.80,000
- d) Rs.75,000

MTP Oct 18

31 The economic profit at Nicole's factory is:

- a) Rs. 75,000
- b) Rs. 35,000
- c) Rs. 80,000
- d) Rs. 30,000

MTP Oct 18

32 A buyer's willingness to pay is that buyer's:

- a) product cost
- b) physical cost
- c) real cost
- d) opportunity cost

MTP Aug 18

33 The cost that firm incurs in hiring or purchasing any factor of production is referred to as \_\_\_\_\_

- a) Explicit cost
- b) Implicit cost
- c) Variable cost
- d) Fixed cost

MTP Mar 18

34 Gopal inherited 1 acre of land from his father in 1960. Today the value of that land is Rs. 90 lakh per acre. What is the opportunity cost of Gopal for keeping that land? His father paid Rs. 50,000 for this land.

- a) Nothing, since the land was inherited
- b) Rs. 50,000 which his father paid
- c) Rs. 90 lakh, since the amount Gopal is getting now if he sells it
- d) Both (b) and (c)



## Chapter 3 - THEORY OF PRODUCTION AND COST

MTP Mar 22

35

Which of the following is not part of the opportunity cost of going on holiday?

- a) The money you spent on a theatre show
- b) The money you could have made if you had stayed at home and worked
- c) The money you spent on airline tickets
- d) The money you spent on food

MTP Dec 22

36

Accounting costs are

- a) Implicit cost
- b) Explicit Costs
- c) Economics Costs
- d) None of these

MTP Nov 22

37

Opportunity cost is

- a) A cost that cannot be avoided.
- b) The cost incurred in the past before we make a decision about what to do in the future.
- c) That which we forego or give up when we make a choice or a decision.
- d) The additional benefit of buying an additional unit of a product.

PYQ June 22

38

Total economic costs = explicit costs + Implicit cost + \_\_\_\_\_

- a) Super normal profit
- b) Super normal loss
- c) Normal profit
- d) Economic profit

### Cost Functions

ICAI SM, MTP Apr 21

39

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.

### Short Run Total Costs

ICAI SM

40

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

MTP Mar 18, Mar 19, ICAI SM

41

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.

ICAI SM, MTP Mar 21

42

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)  $TC = TVC - TFC$

MTP Oct 18, SEQ, ICAI SM

43

Which cost increases continuously with the increase in production?

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

### Notes



## Chapter 3 - THEORY OF PRODUCTION AND COST

MTP Mar 22, ICAI SM

44

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

- 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.
- 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.
- 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.
- In the short run, a firm's fixed cost cannot be escaped even when production is stopped.

MTP Nov 22

45

Given  $TC = 2000 + 15Q - 6Q^2 + Q^3$ , How much is TFC at  $Q = 2000$ ?

- 2000
- 975
- 30,000
- Can't be determined

MTP May 20, ICAI SM

46

Which of the following statements is correct?

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

A.Q.

47

The area of a rectangle formed by drawing perpendiculars on both axis from a point on AFC curve is equal to \_\_\_\_

- Total cost
- Marginal cost
- Average cost
- Total fixed cost

MTP Apr 21

48

The Shape of TC Curve of the monopolist is \_\_\_\_

- U Shape
- S Shape
- Inverse S Shape
- None of these

MTP Apr 21

49

A mfg. company has  $TFC = 120$  lakhs,  $TVC = 100Q + 7Q^2 + 0.25Q^3$  Calculate the MC?

- $100 + 14Q + 0.75Q^2$
- $120 + 7Q^2 + 0.25Q^3$
- $100 + 7Q^2 + 0.25Q^3$
- 107.25

Extra MCQ

50

If  $TC = 50 + 20Q + 3Q^3$ , Then  $MC = ?$

- 73
- $50 + 20Q + 9Q^3$
- $70 + 9Q^2$
- $20 + 9Q^2$



## Chapter 3 - THEORY OF PRODUCTION AND COST

### Notes

MTP Apr 19, ICAI SM

51 The vertical difference between TVC and TC is equal to-

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

MTP Oct 19

52 The total cost of producing 30 units of output is Rs. 300. If average fixed cost at this level of output is Rs. 7, then the total variable cost will be -

- a) Rs. 160
- b) Rs. 140
- c) Rs. 90
- d) Rs. 120

MTP Oct 19

53 Total costs is the vertical summation of -

- a) TFC and TVC
- b) AFC and AVC
- c) TVC and AVC
- d) None of these

MTP Mar 22

54 How do the TVC curve behaves when the law of diminishing return begins to operate-

- a) Rise at a decreasing rate
- b) Fall at an increasing rate
- c) Fall at a decreasing rate
- d) Rise at an increasing rate

MTP Oct 19

55 TVC can be calculate as-

- a)  $AVC/Q$
- b)  $TC - TFC$
- c)  $AC - AFC$
- d) None of these

Extra MCQ

56 The total cost of producing 50 units of output is Rs. 500. If average variable cost at this level of output is Rs. 8, then the total fixed cost will be -

- a) 400
- b) 100
- c) 600
- d) 20

### Short Run Average Costs

SEQ, ICAI SM, MTP Mar 19

57 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.

MTP Apr 21, SEQ, ICAI SM

58 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.

MTP Nov 22

59 Which one of the following cost curve is not in U-shape?

- a) AC
- b) MC
- c) AFC
- d) AVC



# Chapter 3 - THEORY OF PRODUCTION AND COST

Use the following data to answer questions 60-62

Output (Q)	Total Cost (TC) [In Rs.]
0	240
1	330
2	410
3	480
4	540
5	610
6	690

SEQ, ICAI SM

60

The average fixed cost of 2 units of output is :

- a) Rs. 80
- b) Rs. 85
- c) Rs. 120
- d) Rs. 205

SEQ, ICAI SM

61

The marginal cost of the sixth unit of output is :

- a) Rs. 133
- b) Rs. 75
- c) Rs. 80
- d) Rs. 450

SEQ, ICAI SM

62

Diminishing marginal returns start to occur between units:

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

ICAI SM

63

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)  $AFC = ATC - AVC$ .

MTP Mar 19, Oct 20, ICAI SM

64

A firm producing 7 units of output has an average total cost of Rs. 150 and has to pay Rs. 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) Rs. 200
- b) Rs. 50
- c) Rs. 300
- d) Rs. 100

MTP Apr 19, ICAI SM

65

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

- a) Rs. 280
- b) Rs. 60
- c) Rs. 120
- d) Rs. 1400

SEQ, ICAI SM

66

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

- a) Rs. 60
- b) Rs. 30
- c) Rs. 40
- d) Rs. 20



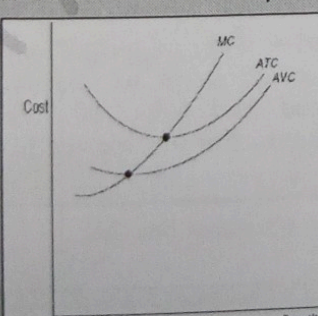
## Chapter 3 - THEORY OF PRODUCTION AND COST

### Notes

ICAI SM	
67	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.	

ICAI SM	
68	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	

MTP Oct 19, A.Q.	
69	Which one of the following cost curve is rectangular hyperbola in shape?
a) TFC b) MC c) AFC d) AVC	

ICAI SM	
70	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.

A.Q.	
71	The areas of all rectangles formed by drawing perpendiculars on both axis from different points on AFC curve are ____
a) same b) different c) (A) or (B) d) can't be determined	

Extra MCQ	
72	The behaviour of average total cost curve depends upon the behaviour of ____
a) AVC curve b) AFC curve c) MC Curve d) Both (a) & (b)	

MTP Nov 22, A.Q.	
73	Consider the following statements about the relationship between cost and production 1. When AP rises, AVC falls 2. When AP reaches at maximum, AVC is minimum 3. When AP falls, AVC rises Which of the above statements is correct?
a) 1 & 2 b) 3 only c) 1, 2 & 3 d) 2 & 3	

MTP Mar 18	
74	Suppose the short run cost function can be written as $TC = 250 + 10Q$ . Average Fixed cost equals:
a) $250/Q$ b) 250 c) 10 d) $250/Q + 10$	



## Chapter 3 - THEORY OF PRODUCTION AND COST

MTP Dec 22, A.Q.

75	U Shaped average cost curve is based on
a) Law of variance proportions b) Law of increasing cost c) Law of decreasing cost d) None of these	

PYQ June 22

76	Which cost decreases continuously with increase in production?
a) Average fixed cost b) Average variable cost c) Marginal cost d) Average total cost	

### Marginal Costs

MTP May 20, SEQ, ICAI SM

77	Diminishing marginal returns implies:
a) decreasing average variable costs. b) decreasing marginal costs. c) increasing marginal costs. d) decreasing average fixed costs.	

ICAI SM, MTP Mar 19, MTP Mar 22

78	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	

ICAI SM

79	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	

MTP Apr 19, ICAI SM, SEQ

80	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.	

81	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.

MTP Aug 18, ICAI SM

82	A firm's average total cost is Rs. 300 at 5 units of output and Rs. 320 at 6 units of output. The marginal cost of producing the 6 <sup>th</sup> unit is
----	--

- a) Rs. 20
- b) Rs. 120
- c) Rs. 320
- d) Rs. 420

83	A firm's average variable cost is Rs. 200 at 4 units of output and Rs. 230 at 5 units of output. Total Fixed Cost = Rs 100. The marginal cost of producing the 5 <sup>th</sup> unit is ?
----	--

- a) Rs. 30
- b) Rs. 350
- c) Rs. 230
- d) Rs. 130

ICAI SM

84	Marginal cost changes due to changes in ____
----	--

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



# Chapter 3 - THEORY OF PRODUCTION AND COST

## Notes

### Extra MCQ

85

Marginal Cost is the slope of \_\_\_\_\_

- a) Total Cost
- b) Total Fixed Cost
- c) Total Variable Cost
- d) Both (a) & (c)

### A.Q.

Match the following and choose the correct answer using the codes given below

#### Average Cost

A	AC horizontal
B	AC rises
C	AC falls
D	AC falls first & then rises

#### Marginal Cost

I.	MC will rise at a greater rate
II.	MC falls but at a higher rate
III.	MC falls at higher rate & then rises at higher rate
IV.	MC will coincide with it

86

#### Codes:

	a	b	c	d
(A)	IV	II	I	III
(B)	IV	I	II	III
(C)	I	II	III	IV
(D)	II	III	IV	I

### A.Q.

87

Marginal cost is less than the Average Cost when Average Cost falls with

- a) an increase in output
- b) a decrease in output
- c) constant output
- d) None of these

### A.Q.

88

Which of the following is not a formula for marginal cost?

- a)  $MC_N = TC_N - TC_{N-1}$
- b)  $MC = \frac{\Delta TC}{\Delta Q}$
- c)  $MC_N = TVC_N - TVC_{N-1}$
- d)  $MC_N = TFC_N - TFC_{N-1}$

### MTP Dec 22, A.Q.

89

Which of the following is incorrect formula?

- a)  $TC = AC \times Q$
- b)  $\sum MC = TC$
- c)  $\sum MC = TVC$
- d)  $\sum MC + TFC = TC$

### MTP Apr 19

90

If firm's average cost curve is falling then marginal curve must be:

- a) Falling
- b) Rising
- c) Below average cost curve
- d) None of the above



## Chapter 3 - THEORY OF PRODUCTION AND COST

MTP Apr 19

91 Which of the following is correct?

- a) Marginal cost is always less than the average cost.
- b) Marginal cost is always more than the average cost.
- c) Marginal cost is always equal to the average cost at its minimum point.
- d) Marginal cost is always equal to the average cost

MTP Apr 19

92 When average cost curve is rising then, marginal cost

- a) Must be decreasing
- b) Must be above the average cost curve
- c) Must be constant
- d) Must be equal to average cost

MTP Aug 18, Mar 19

93 The MC curve cuts the AVC and ATC curves

- a) At its falling point
- b) At its minimum Point
- c) At its rising point
- d) At different points

94 The marginal cost for a firm of producing the 9th unit of output is Rs. 20. Average cost at the same level of output is Rs. 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

MTP Dec 22

95 Short run marginal cost of the firm will be increasing when

- a) average cost is decreasing
- b) total cost is increasing
- c) Average fixed cost is decreasing
- d) None of these

### Long Run Average Costs

SEQ, ICAI SM

96 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.

ICAI SM

97 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.

ICAI SM

98 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

MTP Apr 19, SEQ

99 The LAC curve

- a) Falls when the LMC curve falls
- b) Rises when the LMC curve rises
- c) Goes through the lowest point of the LMC curve
- d) Falls when  $LMC < LAC$  and rises when  $LMC > LAC$



## Chapter 3 - THEORY OF PRODUCTION AND COST

### Notes

ICAI SM, MTP Mar 22

100 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

Extra MCQ

101 Short run average cost (SAC) curve is also known as \_\_\_\_

- a) Planning curve
- b) Envelope curve
- c) Plant Curve
- d) Both (a) & (b)

Extra MCQ

102 Empirical evidence shows modern firms face \_\_\_\_ LAC curve, which implies that initially when output is increased due to increase in size of plant, per unit cost falls rapidly due to economies of scale. The LAC curve does not increase even after a sufficiently large scale of output as it continues to enjoy economies of scale.

- a) U-shaped
- b) Boat shaped
- c) L-shaped
- d) Both (a) & (b)

SEQ

103 Which is the other name that is given to the long run average cost curve?

- a) profit curve
- b) planning curve
- c) demand curve
- d) indifference curve

MTP Oct 19, Mar 21

104 Long run average cost (LAC) is :

- a) u shaped
- b) is also called envelope curve
- c) both a and b
- d) none of these

MTP June 22

105 Which of the following is correct regarding long run cost?  
1. It is least cost of producing each level of output  
2. LAC curve is envelope of SAC curves.  
3. LAC is U-shaped

- a) 1 & 2 only
- b) 2 & 3 only
- c) 1 & 3 only
- d) 1, 2 & 3

ICAI SM

106 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.

MTP Dec 22

107 The reason behind the upward sloping portion of the long run cost curve is

- a) economy of scale
- b) diseconomy of scale
- c) diminishing marginal rate of substitution
- d) None of these



## Chapter 3 - THEORY OF PRODUCTION AND COST

### Economies & Diseconomies of Scale

ICAI SM

108 Decentralisation of decision making & mechanisation of managerial functions enhance efficiency & productivity of managers. It is a case of \_\_\_\_

- a) Internal economies of scale
- b) Internal diseconomies of scale
- c) External economies of scale
- d) External diseconomies of scale

ICAI, MTP May 20, Apr 21

109 If a very small factory were to expand its scale of operations in the long run it is likely that it would initially experience:

- a) Constant returns to scale
- b) Diseconomies of scale
- c) Economies of scale
- d) None of these

A.Q.

110 Diminishing returns are due to \_\_\_\_ and increasing returns are due to \_\_\_\_

- a) Internal diseconomies, Internal economies
- b) Internal economies, Internal diseconomies
- c) External diseconomies, Internal economies
- d) Internal diseconomies, external economies

MTP Mar 21

111 Certain benefit an Industry gets when it expands its scale of production is known as:

- a) Internal economies
- b) diseconomies
- c) external economies
- d) Profit

MTP June 22

112 Economies and diseconomies of scale explain why the

- a) short run average fixed cost curve declines so long as output increases.
- b) marginal cost curve must intersect the minimum point the firm's average variable cost curve.
- c) long run average cost curve is typically U-shaped.
- d) short run average total cost curve is U-shaped.

MTP June 22

113 Which one of the following is not an internal economies of scale?

- a) Technical economies
- b) Financial economies
- c) Economies due to localization of industries
- d) Marketing economies

### Extra MCQs

MTP Mar 21

114 The distinction between selling cost and production cost was made by:

- a) Chamberlin
- b) Sweezy
- c) Mrs Joan Robinson
- d) None of these



# Chapter 3 - THEORY OF PRODUCTION AND COST

## Answer Key - Economics Chapter 3 - Unit 2

Notes

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



## Chapter 4 - MEANING AND TYPES OF MARKETS

### UNIT 1

#### Basics

ICAI SM

1

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

ICAI SM

2

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

MTP Mar 21, SEQ

3

The opportunity cost of a good is

- a) the time lost in finding it
- b) the quantity of other goods sacrificed to get another unit of that good
- c) the expenditure on the good
- d) the loss of interest in using saving

MTP Mar 19

4

Economic goods are goods which:

- a) Cannot be increased in quantity
- b) Obey the law of Micro Economics
- c) Are limited in supply and are scarce
- d) Are limited to man-made goods.

MTP June 22

5

In economics, we are concerned with

- a) Value in use only
- b) Exchange value only
- c) Both value in use and exchange value
- d) None of the above

MTP June 22

6

Exchange value is determined in

- a) the monopoly market
- b) the oligopoly market
- c) in the market where exchange of goods and services takes place
- d) None of these

MTP June 22

7

Price of goods express their

- a) Value in use
- b) Exchange value
- c) Economic value
- d) Both (B) and (C)

MTP Nov 22

8

Value in exchange is also known as

- a) Value in use
- b) Economic value
- c) Both (a) and (b)
- d) None of these

MTP Nov 22

9

Which one of the following features of the term market is incorrect?

- a) Market is the collection of buyers and sellers with the potential to trade.
- b) A market need not be a formal.
- c) A market need not to be held in a particular place.
- d) A market must be formal or to be held in a particular place.

MTP Nov 22

10

The study of demand and supply model is useful in explaining

- a) How government works
- b) How markets work
- c) How consumers behave
- d) None of these

#### Notes



## Chapter 4 - MEANING AND TYPES OF MARKETS

PYQ MTP 22

11 A market is a network of dealings between which of the following ?

- a) Dealers and wholesalers
- b) Buyers and sellers
- c) Owners and channel partners
- d) Sales man and competitors

### Classification of Markets

MTP Oct 19, ICAI SM

12 In a very short period market:

- a) the supply is fixed
- b) the demand is fixed
- c) demand and supply are fixed
- d) none of the above

ICAI SM, MTP Mar 22

13 Time element was conceived by

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

MTP Oct 21, ICAI SM

14 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

MTP May 20, ICAI SM

15 Secular period is also known as

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

MTP May 20, ICAI SM

16 Stock exchange market is an example of

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

MTP May 20, ICAI SM

17 The market for the ultimate consumers is known as

- a) whole sale market
- b) regulated market
- c) unregulated market
- d) retail market

ICAI SM

18 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.

MTP June 22

19 In economics, generally the classification of the markets is made on the basis of

- a) Time
- b) Geographic area
- c) Volume of business
- d) All of these

Extra MCQ

20 \_\_\_\_\_ allocate productive resources to producers

- a) Retail Market
- b) Product Market
- c) Factor Market
- d) Both (a) & (b)

MTP Dec 22

21 On the basis of nature of transaction the market is classified into

- a) Regulated and Unregulated market
- b) Wholesale and Retail market
- c) Spot and future Market
- d) None of these



## Chapter 4 - MEANING AND TYPES OF MARKETS

### Notes

PYQ June 22

22

When commodities are sold in small quantities are called as which of the following?

- a) Wholesale market
- b) Regulated market
- c) Spot market
- d) Retail market

PYQ June 22

23

Very short period market is suitable for which of the following products?

- a) Gold and silver
- b) Vegetable and fruits
- c) Bricks and sand
- d) Supply of capital

### Concepts of TR, MR, AR

ICAI SM

24

Assume that when price is Rs. 20, the quantity demanded is 9 units, and when price is Rs. 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) Rs. 20
- b) Rs. 19
- c) Rs. 10
- d) Rs. 1

ICAI SM

25

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.

ICAI SM

26

Average revenue curve is also known as

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

ICAI SM

27

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.

ICAI SM

28

Total revenue =

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

ICAI SM

29

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

ICAI SM

30

AR can be symbolically written as:

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



## Chapter 4 - MEANING AND TYPES OF MARKETS

ICAI SM	
31	AR is also known as:
a) Price b) income c) Revenue d) none of the above	

ICAI SM	
32	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	

ICAI SM	
33	When $e > 1$ then MR is
a) zero b) negative c) Positive d) one	

MTP May 20, ICAI SM	
34	When $e = 1$ then MR is
a) Positive b) zero c) One d) negative	

MTP May 20, ICAI SM	
35	When $e < 1$ then MR is
a) Negative b) zero c) Positive d) one	

ICAI SM	
36	Assume that when Price is Rs.10, the quantity demanded is 5 units and when Price is Rs. 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) Rs.5 b) Rs.4 c) Rs.2 d) Rs.3	

ICAI SM	
37	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.	

MTP Nov 22, MTP Apr 19, SEQ	
38	Relationship between AR, MR and Price elasticity of demand is
a) $MR = AR + [e - 1/e]$ b) $MR = AR \times [e - 1/e]$ c) $AR = MR \times [e - 1/e]$ d) $MR = AR \times [e/e - 1]$	

MTP Oct 18, SEQ	
39	If a seller realizes Rs. 10,000 after selling 100 units and Rs. 14,000 after selling 120 units. What is the marginal revenue here?
a) Rs. 4000 b) Rs. 450 c) Rs. 200 d) Rs. 100	

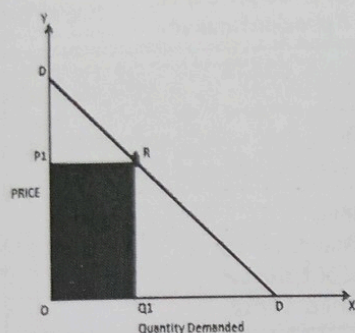


## Chapter 4 - MEANING AND TYPES OF MARKETS

### Notes

A.Q.

In the below figure, if DD is the demand curve and R is a given point on it then the area of shaded portion  $OP_1RQ_1$  is \_\_\_\_\_



40

- a) Total Revenue (TR)
- b) Marginal Revenue (MR)
- c) Total Cost (TC)
- d) None of these

A.Q.

41 If the price of a product is Rs.20/unit and its price elasticity of demand is (-) 0.25. Its MR will be \_\_\_\_\_

- a) 60
- b) 100
- c) - 60
- d) None of these

A.Q.

42 If the price elasticity of demand of a product is (-) 3, what should be the price of the product for its MR to be Rs. 20?

- a) Rs. 10/unit
- b) Rs. 20/unit
- c) Rs. 30/unit
- d) Rs. 40/unit

A.Q.

43 If a product has elastic demand, its marginal revenue (MR) will be \_\_\_\_\_. (Given that the price of the product is Rs.5/unit)

- a) Positive
- b) Zero
- c) Negative
- d) can't be determined

A.Q.

44 For an imperfectly competitive firm

- a) Total revenue curve is straight upsloping line because a firm's sales are independent of product price.
- b) The marginal revenue curve lies above the demand curve because any reduction in price applies to all units sold.
- c) The marginal revenue curve lies below the demand curve because any reduction in price applies to all units sold.
- d) Marginal revenue curve lies below the demand curve because any reduction in price applies to only extra unit sold.

MTP Mar 21

45 When the output increases from 20 to 30 units and TR increases from Rs 400 to Rs 500 then MR is

- a) 20
- b) 10
- c) 15
- d) none of these



## Chapter 4 - MEANING AND TYPES OF MARKETS

MTP Oct 18, Oct 21

46 Marginal revenue will be negative if elasticity of demand is

- a) Less than one
- b) More than one
- c) Equal to one
- d) Equal to Zero

Use the following data to answer questions 47-49

Quantity (Q)	Price (P)
1	40
2	30
3	20
4	10

MTP Oct 21

47 The total revenue of third unit is

- a) 35
- b) 40
- c) 60
- d) 30

MTP Oct 21

48 The average revenue of second unit is-

- a) 40
- b) 45
- c) 20
- d) 30

MTP Oct 21

49 The marginal revenue of fourth unit is-

- a) -20
- b) 25
- c) 30
- d) 40

MTP May 20

50 Marginal product, mathematically, is the slope of the

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

MTP Aug 18

51 Which is the other name that is given to the demand curve?

- a) Profit curve
- b) Average Revenue curve
- c) Average Cost Curve
- d) Indifference Curve

MTP Mar 19

52 Assume that when price is Rs. 40 quantity demanded is 9 units, and when price is Rs. 38, 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) Rs. 20
- b) Rs. 40
- c) Rs. 38
- d) Rs. 1

MTP June 22, MTP Nov 22

53 When total revenue is increasing

- a) Marginal revenue may be either positive or negative.
- b) The demand curve is relatively inelastic.
- c) Marginal revenue is positive.
- d) Marginal revenue is negative.

MTP June 22

54 Total revenue along with Total cost helps to determine

- a) Profit maximizing output
- b) Profit/unit
- c) Price/unit
- d) Total revenue



## Chapter 4 - MEANING AND TYPES OF MARKETS

MTP Dec 22	
55	Total Revenue is maximise when marginal revenue is _____
a) 1 b) 0 c) High d) None of these	

PYQ June 22	
56	Assume that at price Rs. 100 /- per unit, the quantity demanded is 900 units. When price falls to Rs. 90 /- the quantity demanded increases to 1000 units. Compute the marginal revenue.
a) 0 b) Rs. 10 c) Rs. 90 d) Rs. 100	

PYQ June 22	
57	Which of the following statement is not correct ?
a) Marginal revenue is the revenue of an additional unit sold of a commodity b) Total revenue is obtained by multiplying the total number of units sold with the price per unit of a commodity c) Average revenue is the revenue earned per unit of an output d) Total revenue is the sum total of average revenue	

PYQ June 22	
58	Another name of demand curve is
a) MR-curve b) AR-curve c) TR-curve d) MC-curve	

### Behavioral Principles

MTP May 20, ICAI SM	
59	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	

ICAI SM	
60	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	

MTP Oct 19, Oct 21, SEQ, ICAI SM, MTP Mar 18, Apr 19	
61	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.	

### Notes



## Chapter 4 - MEANING AND TYPES OF MARKETS

ICAI SM

62

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?

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

MTP Mar 19, ICAI SM

63

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

- produce where marginal revenue equals marginal cost if it is operating in the short run.
- produce where marginal revenue equals marginal cost if it is operating in the long run.
- shutdown, since it will lose nothing in that case.
- shutdown, since it cannot even cover its variable costs if it stays in business.

MTP Mar 19, SEQ

64

At shut down point :

- Price is equal to AVC
- Total revenue is equal to TVC
- Total loss of the firm is equal to TFC
- All of the above

MTP Aug 18, May 20

65

"I am making a loss, but with the rent I have to pay, I can't afford to shut down at this point of time." If this entrepreneur is attempting to maximize profits or minimize losses, his behavior in the short run is:

- Rational, if the firm is covering its variable cost
- Rational, if the firm is covering its fixed cost
- Irrational, since plant closing is necessary to eliminate losses
- Irrational, since fixed costs are eliminated if a firm shuts down

MTP Nov 22, MTP June 22

66

If a firm's total revenue is not enough to make good even the \_\_\_\_\_, it is better for firm to shut down.

- Total fixed cost
- Marginal cost
- Average fixed cost
- Total variable cost

MTP Mar 18, Aug 18, Oct 21

67

In the long run any firm will eventually leave the industry if

- Price does not at least cover average total cost.
- Price does not equal marginal cost.
- Economies of scale are being reaped.
- Price is greater than long run average cost

Extra MCQ

68

On the upper portion of the demand curve, the value of marginal revenue will be \_\_\_\_\_

- Negative
- Zero
- Positive
- Any of the above



## Chapter 4 - MEANING AND TYPES OF MARKETS

Notes

MTP Nov 22

69

In the long-run, some firms will exit the market if the price of the good offered for sale is less than:

- a) marginal revenue.
- b) marginal cost.
- c) average total cost.
- d) average revenue.

PYQ June 22

70

It will be profitable for a firm to expand output till which of the following condition ?

- a) Marginal revenue is greater than marginal cost
- b) Marginal revenue is less than marginal cost
- c) Marginal cost is greater than marginal revenue
- d) Marginal revenue is equal to marginal cost

Notes

### Answer Key - Economics Chapter 4 - Unit 1

1	A	11	B	21	C	31	A	41	C	51	B	61	B
2	C	12	A	22	D	32	B	42	C	52	A	62	D
3	B	13	B	23	B	33	C	43	A	53	C	63	D
4	C	14	B	24	C	34	B	44	C	54	A	64	D
5	B	15	C	25	C	35	A	45	B	55	B	65	A
6	C	16	B	26	B	36	C	46	A	56	A	66	D
7	D	17	D	27	D	37	B	47	C	57	D	67	A
8	B	18	B	28	A	38	B	48	D	58	B	68	C
9	D	19	D	29	B	39	C	49	A	59	D	69	C
10	B	20	C	30	C	40	A	50	A	60	B	70	D



## Chapter 4 - MEANING AND TYPES OF MARKETS

### UNIT 2

#### Determination of Prices

ICAI SM

In the table below what will be equilibrium market price?

Price (Rs.)	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

- 1
- a) Rs. 2
  - b) Rs. 3
  - c) Rs. 4
  - d) Rs. 5

SEQ, ICAI SM

2 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

MTP Oct 21, ICAI SM

3

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

MTP Oct 21, ICAI SM

4

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.

MTP Oct 21, ICAI SM

5

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.



## Chapter 4 - MEANING AND TYPES OF MARKETS

### Notes

MTP Oct 21, ICAI SM

6 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

A.Q.

7 At a particular price level, there are no forces tending to move it either up or down

1. The firm is in equilibrium
2. The price in equilibrium
3. The equilibrium price of the firm
4. The equilibrium price & quantity of the firm

- a) 1 & 4 only
- b) 1, 2 & 4 only
- c) 3 & 1 only
- d) 4 only

MTP Mar 21

8 A rise in supply and demand in equal proportion will result in

- a) increase in equilibrium price and decrease in equilibrium quantity
- b) decrease in equilibrium price and increase in equilibrium quantity
- c) no change in equilibrium price and increase in equilibrium quantity
- d) increase in equilibrium price and no change in equilibrium quantity

MTP May 20

9 If good growing conditions increases the supply of strawberries and hot weather increases the demand for strawberries, the quantity of strawberries bought

- a) increases and the price might rise, fall or not change.
- b) does not change but the price rises.
- c) does not change but the price falls.
- d) increases and the price rises

MTP Aug 18

10 Which of the following situation does not lead to an increase in equilibrium price?

- a) An increase in demand, without a change in supply
- b) A decrease in supply accompanied by an increase in demand
- c) A decrease in supply without a change in demand
- d) An increase in supply accompanied by a decrease in demand

MTP Oct 18

11 A drought in India leads to unusually low level of wheat production. This would lead to a rise in price of wheat and fall in the quantity of wheat demanded due to:

- a) excess demand at the original price.
- b) excess supply at the original price.
- c) the supply curve shifting to the right.
- d) the demand curve shifting to the left



## Chapter 4 - MEANING AND TYPES OF MARKETS

MTP Aug 18

12 Suppose consumer tastes shift toward the consumption of apples. Which of the following statements is an accurate description of the impact of this event on the market for apples?

- There is an increase in the quantity demanded of apples and in the supply for apples
- There is an increase in the demand and supply of apples.
- There is an increase in the demand for apples and a decrease in the supply of apples.
- There is an increase in the demand for apples and an increase in the quantity supplied.

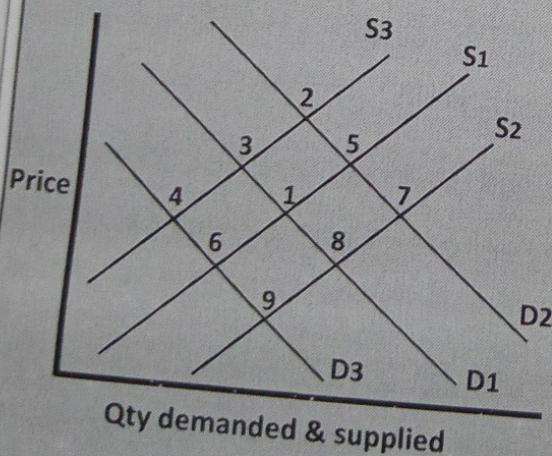
MTP June 22

13 When demand increases and supply decreases,

- the equilibrium price and quantity both rise
- the equilibrium price and quantity both fall
- the equilibrium price rises but nothing certain can be said about the change in equilibrium quantity.
- the equilibrium quantity rises but nothing certain can be said about the change in equilibrium price.

ICAI SM

Refer the below graph for questions 14 - 17



ICAI SM

14 Assume X is a normal good. Holding everything else constant, assume that income rises and the price of a factor of production also increases.

- Point 3
- Point 5
- Point 8
- Point 2

ICAI SM

15 We are analyzing the market for good Z. The price of a complement good, good Y, declines. At the same time, there is technological advance in the production of good Z.

- Point 6
- Point 7
- Point 3
- Point 1

ICAI SM

16 Heavy rains in Maharashtra during 2005 and 2006 caused havoc with the rice crop.

- Point 9
- Point 3
- Point 4
- Point 5

ICAI SM

17 Assume that consumers expect the prices of new cars to significantly increase next year.

- Point 5
- Point 6
- Point 1
- Point 2



## Chapter 4 - MEANING AND TYPES OF MARKETS

### Answer Key - Economics Chapter 4 - Unit 2

Notes

1	C	5	C	9	A	13	C
2	C	6	C	10	D	14	D
3	D	7	D	11	A	15	B
4	D	8	C	12	D	16	B
						17	A



# Chapter 4 - MEANING AND TYPES OF MARKETS

## UNIT 3

### Perfect Competition

MTP Oct 19, ICAI SM

1	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	

SEQ, ICAI SM

2	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	

ICAI SM

3	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) $AC = AR$	

MTP Oct 18, ICAI SM, SEQ

4	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) Marginal Revenue = Price	

MTP Mar 18

5	In a perfectly competitive firm, MC curve above AVC is the _____ Curve of the firm
a) Average cost b) Marginal revenue c) Demand d) Supply	

ICAI SM

6	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

ICAI SM

7	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.

MTP Aug 18, ICAI SM

8	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 Rs. 20 lakhs.
- d) The individual firm is unable to affect market price through its output decisions.



## Chapter 4 - MEANING AND TYPES OF MARKETS

### Notes

Extra MCQ	
9	In _____ market, price being given, a firm decides only about the output.
a) Monopoly b) Monopolistic competition c) Oligopoly d) Perfect competition	

MTP Mar 19, Apr 19, MTP Mar 22, ICAI SM	
10	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	

ICAI SM	
11	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	

ICAI SM	
12	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	

ICAI SM	
13	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	

ICAI SM	
14	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.	

SEQ	
15	Which of the following statement is incorrect?
a) Even monopolist can earn losses b) Firms in a perfectly competitive market are price-takers c) It is always beneficial for a firm in the perfectly competitive market to discriminate prices d) Economic laws are less exact than the laws of physical sciences	

MTP Oct 21, ICAI SM, MTP Oct 21	
16	When _____, we know that the firms are earning just normal profits
a) $AC = AR$ b) $MC = MR$ c) $MC = AC$ d) $AR = MR$	



## Chapter 4 - MEANING AND TYPES OF MARKETS

MTP Mar 18, Oct 18, ICAI SM

17 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)  $AR = MR$

MTP Nov 22, MTP Apr 19, Oct 21

18 An economy achieves "productive efficiency" when :

- a) The best quality goods are produced
- b) The highly skillful resources in the country are fully employed
- c) All resources are utilized and goods and services are produced at least cost
- d) None of the above

ICAI SM

19 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)  $MC = AC$
- c)  $MC = AR$
- d)  $AR = MR$

MTP May 20, ICAI SM

20 Agricultural goods markets depict characteristics close to

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

ICAI SM

21 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.

ICAI SM

22 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

ICAI SM

23 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

ICAI SM

24 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



## Chapter 4 - MEANING AND TYPES OF MARKETS

### Notes

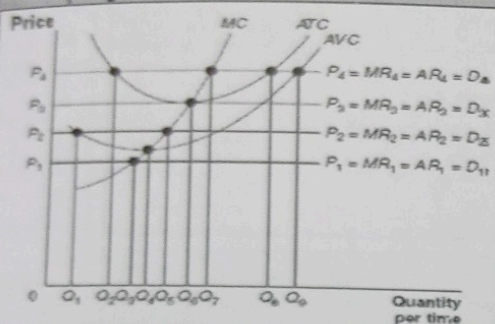
ICAI SM

25 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

ICAI SM

26 At price  $P_1$ , the firm in the figure would produce



- a) Zero output
- b) Q3.
- c) Q5.
- d) Q6

MTP May 20, ICAI SM

27 If the average cost is higher than the average revenue then the firm incurs \_\_\_\_

- a) Normal profit
- b) Abnormal profit
- c) Loss
- d) No profit, no loss

MTP Apr 21, ICAI SM

28 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.

ICAI SM, MTP Oct 21, Mar 21

29 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

ICAI SM

30 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

SEQ

31 Under \_\_\_\_ market condition, firms make normal profits in the long run.

- a) Perfect Competition
- b) Monopoly
- c) Oligopoly
- d) None of the above

Extra MCQ

32 \_\_\_\_ type of market is regarded as a myth by many.

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



# Chapter 4 - MEANING AND TYPES OF MARKETS

MTP Mar 18, Oct 18, SEQ

33 When the perfectly competitive firm and industry are in long run equilibrium then:

- a)  $P = MR = SAC = LAC$
- b)  $P = MR = SMC = LMC$
- c)  $P = MR =$  Lowest point on the LAC curve
- d) All of the above

MTP Apr 19, SEQ

34 In perfect competition the firm's \_\_\_\_\_ above AVC has the identical shape of the firm's supply curve

- a) Marginal revenue curve
- b) Marginal cost curve
- c) Average cost curve
- d) None of the above

MTP Mar 21

35 Under perfect competition the supply curve is derived from:

- a) MC curve
- b) AC curve
- c) TC Curve
- d) none of these.

SEQ

36 Under the perfect competition a firm will be in Equilibrium when:

- a)  $MC = MR$
- b) MC cuts the MR from below
- c) MC is rising when it cuts the MR
- d) All of the above

SEQ

37 A perfectly competitive firm has control over

- a) price
- b) production as well as price
- c) production, price and consumers
- d) none of the above

MTP Oct 21, MTP Mar 22, SEQ

38 Full capacity is utilized only when there is

- a) Monopoly
- b) Perfect competition
- c) Price discrimination
- d) Oligopoly

ICAI SM

39 Under perfect competition, in the long run, there will be no \_\_\_\_\_.

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

MTP Aug 18, SEQ

40 If a competitive firm doubles its output, its total revenue:

- a) doubles.
- b) more than doubles.
- c) less than doubles.
- d) cannot be determined because the price of the good may rise or fall

MTP Oct 18, SEQ

41 In the short run if a perfectly competitive firm finds itself operating at a loss, it will:

- a) Reduce the size of its plant to lower fixed costs.
- b) Raise the price of its product.
- c) Shutdown.
- d) Continue to operate as long as it covers its variable cost

A.Q.

42 For a competitive firm, long period normal price will

- a) Equal AC and MC of production
- b) Equal MC of production only
- c) Equal TC of production only
- d) None of these



## Chapter 4 - MEANING AND TYPES OF MARKETS

A competitive firm sells as much as of its product it chooses at a market price of Rs. 100 per unit. Its fixed cost is Rs. 300 and its variable costs (in rupees) for different levels of production are shown in the following table. Use Table to answer questions 43-46

Qty.	Variable Cost	Fixed Cost	Total Cost	Average Variable Cost	Average Total Cost	Marginal Cost
0	0	-	-	-	-	-
5	270					
10	490					
15	720					
20	1000					
25	1370					
30	1870					
35	2540					
40	3420					
45	4550					
50	5970					

43

When production is 35 units, the average variable cost is:

- a) Rs. 7.25
- b) Rs. 72.25
- c) Rs. 72.57
- d) Rs. 85.50

44

In the table marginal cost per unit that corresponds to 25 units of production is

- a) Rs. 3.50
- b) Rs. 74
- c) Rs. 450
- d) Rs. 370

45

To maximize output, the firm should produce

- a) 30
- b) 35
- c) 45
- d) 50

46

If the market price drops from Rs. 100 to Rs. 74, the firm short run response should be: \_\_\_\_\_

- a) Continue to produce the same number of units as before the drop in price
- b) Produce 10 units
- c) Produce 20 units
- d) Produce 25 units

MTP Nov 22, A.Q.

47

An industry comprised of a very large number of sellers producing a standardized product is known as

- a) Monopolistic competition
- b) Oligopoly
- c) Pure monopoly
- d) Pure competition



## Chapter 4 - MEANING AND TYPES OF MARKETS

Use following table to answer questions 48-51

A firm operating in perfect competition sells as much as of its products as it chooses at a market price of Rs. 100 per unit. Its Fixed cost is Rs. 300 and its Variable cost for different levels of production are shown in the above table.

Quantity	Variable Cost	Fixed Cost	Total Cost	AVC	ATC	MC
0	0					
5	25					
10	470					
15	700					
20	980					
25	1350					
30	1850					
35	2520					
40	3400					
45	4530					
50	5950					

MTP Aug 18, Apr 19

48

When production is 40 units, the average cost is:

- a) Rs. 4.40
- b) Rs. 7.50
- c) Rs. 85
- d) Rs. 92.50

MTP Aug 18, Apr 19

49

In the table, marginal cost per unit that corresponds to 40 units of production is:

- a) Rs. 22
- b) Rs. 85
- c) Rs. 176
- d) Rs. 880

MTP Aug 18, Apr 19

50

To maximize profit the firm should produce:

- a) 15 units
- b) 30 units
- c) 35 units
- d) 50 units

MTP Aug, 18 Apr 19

51

If the market price drops from Rs. 100 to Rs. 56 per unit, the firm's short run response should be

- a) Shut down
- b) Produce 5 units
- c) Produce 20 units
- d) Continue to produce the same number of units as before the drop in price

A.Q.

52

For a purely competitive firm total revenue

- a) is price times quantity sold.
- b) increases by a constant absolute amount as output expands.
- c) graphs as a straight upsloping line from the origin.
- d) has all of the above characteristics.



## Chapter 4 - MEANING AND TYPES OF MARKETS

### Notes

MTP Dec 22, A.Q.

53 A purely competitive seller's average revenue curve coincides with

- a) its marginal revenue curve only
- b) its demand curve only
- c) both its demand & marginal revenue curves
- d) Neither demand nor marginal revenue curve

A.Q.

54 A firm reaches a break-even point (normal profit position) where,

- a) Marginal revenue curve cuts the horizontal axis.
- b) Marginal cost curve intersects the average variable cost curve.
- c) Total revenue equals total variable cost.
- d) Total revenue and total cost are equal.

MTP Apr 21

55 Raw materials and other factors of production is not monopolised, and labour is not unionised in which form of market structure:

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

MTP Apr 21

56 Wild Animals had destroyed the entire crops of a farmer what effect it will have on the price in perfect competition:

- a) Price will remain constant
- b) Price will decrease
- c) Price will increase
- d) None of these

MTP Mar 21

57 The condition for pure competition to be fulfilled are -

- a) large numbers of buyers and sellers
- b) products are homogeneous
- c) firms are free from entry and exit from the market
- d) all the above

MTP May 20, ICAI SM

58 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

MTP Oct 21, Mar 21

59 In which type of market buyers have no preference between different sellers and between different units of commodity offered for sale?

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

MTP Mar 21

60 Foreign Exchange market is an example of -

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



## Chapter 4 - MEANING AND TYPES OF MARKETS

MTP Mar 21

61 Break even point indicate which of the following ?

- a)  $TR = TC$
- b)  $TR > TC$
- c)  $TR = TVC$
- d) none of these

MTP Aug 18

62 Which of the following market situations explains marginal cost equal to price for attaining equilibrium?

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

MTP Oct 18, Oct 21

63 Price taker firms :

- a) Advertise to increase the demand for their products.
- b) Do not advertise because most advertising is harmful for the society.
- c) Do not advertise because they can sell as much as they want at the current price.
- d) Who advertise will get more profits than those who do not

MTP Nov 22, MTP Oct 18 May 20

64 Excess capacity is not found under \_\_\_\_

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

MTP Mar 19

65 In perfect competition utilization of resources is

- a) Partial
- b) Moderate
- c) Full
- d) Over

MTP Mar 18, MTP Mar 19

66 In the long run, normal profits are included in the \_\_\_\_ curve.

- a) LAC
- b) LMC
- c) AFC
- d) SAC

MTP Aug 18, Mar 19, MTP Oct 18

67 Which of the following statements is correct?

- a) Monopolist can earn only profits
- b) Firms in a perfectly competitive market are price maker
- c) Industry in a perfectly competitive market is a price taker
- d) AR curve and demand curve are same

MTP Apr 19

68 Under which market structure, the control of firm over price is nil?

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

MTP Mar 19

69 A condition needed for a perfectly competitive industry to exist is that:

- a) Buyers are able to influence the price of the commodity
- b) Any units of commodity are considered by buyers to be different
- c) Buyer discriminates in their purchases based on non-price factors.
- d) There are no obstacles to the free mobility of resources



## Chapter 4 - MEANING AND TYPES OF MARKETS

### Notes

MTP Mar 18	
70	Shares traded in the stock market depict characteristics close to ____
a) Perfect competition b) Oligopoly c) Monopolistic Competition d) Monopoly	

MTP Oct 18	
71	A competitive firm maximizes profit at the output level where:
a) Price equals marginal cost. b) The slope of the firm's profit function is equal to zero. c) Marginal revenue equals marginal cost. d) All of the above.	

MTP Oct 18	
72	Which of the following is correct?
a) If marginal revenue is positive and falling, total revenue will rise at a decreasing rate. b) Total revenue is equal to price times the quantity sold. c) Under perfect competition, total revenue is equal to marginal revenue times the quantity sold. d) All of the above	

A.Q.	
73	When a firm is maximizing profit it will necessarily be
a) Maximizing profit per unit of output. b) Maximizing the difference between total revenue and total cost. c) Minimizing total cost d) Maximizing total revenue	

MTP Apr 19	
74	A firm under perfect competition will be making minimum losses (in the short run) at a point where:
a) $MC > MR$ b) $MR > MC$ c) $MC = MR$ d) $AC = AR$	

Extra MCQ	
75	Precious metals (gold, silver, platinum) approach the condition of ____
a) Perfect competition b) Oligopoly c) Monopolistic Competition d) Monopoly	

MTP Mar 21	
76	When average cost is equal to average revenue of a firm, it gets ____
a) sub normal profit b) normal profit c) abnormal profit d) super profit	

Extra MCQ	
77	Demand curve of perfect competition market as a whole is ____
a) Downward sloping b) Upward sloping c) Horizontal d) Vertical	

MTP June 22	
78	Marginal revenue is equal to the price under
a) Monopoly market structure b) Oligopoly form of market c) Monopolistically competitive market d) Perfect competition	



# Chapter 4 - MEANING AND TYPES OF MARKETS

MTP June 22

79 Short run supply curve of a perfectly competitive firm is \_\_\_\_

- a) That portion of the short run marginal cost curve that is above the average variable cost curve
- b) That portion of the short run marginal cost curve that is above the average total cost curve
- c) That portion of short run average total cost curve that is above the average variable cost curve
- d) None of the above is correct.

MTP Mar 22

80 In the Short run level of output the firm at the optimum will be:

- a) Minimizing total losses
- b) Maximizing total profit
- c) Either maximizing total profit or minimizing total losses
- d) None of these

MTP Mar 22

81 Supply Schedule in a purely competitive firm in the short run is determined by :

- a) Marginal revenue
- b) Average revenue
- c) Marginal cost curve
- d) None of these

Extra MCQ

82 In the short run, a perfect competitive firm can-

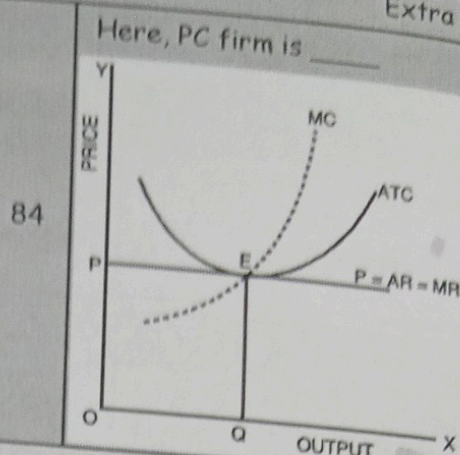
- a) Earn normal profit
- b) Earn super-normal profit
- c) Incur Losses
- d) Any of the above

MTP Mar 21

83 When firm is in long run equilibrium in perfect competition, which of following is not true -

- a)  $AC = MR$
- b)  $TR = TC$
- c) firm will earn supernormal profit
- d) None of these

Extra MCQ



- a) Incurring Losses
- b) Earning super-normal profit
- c) Earning normal profit
- d) Any of the above

MTP Dec 22

85 At the best, or optimum, short-run level of output, the firm will be

- a) maximizing total profits
- b) minimizing total losses
- c) either maximizing total profits or minimizing total losses
- d) maximizing profits per unit.

PYQ June 22

86 Which of the following product market is close to perfect competition ?

- a) Mobile phones
- b) Car
- c) Utensils
- d) Agricultural product

## Monopolistic Competition

ICAI SM

87 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



## Chapter 4 - MEANING AND TYPES OF MARKETS

### Notes

#### Extra MCQ

88	In case of Monopolistic Competition, the less differentiated the product is from its competitors, the ____ demand curve will be
a) Less elastic b) More elastic c) More steeper d) None of the above	

#### ICAI SM, SEQ

89	The structure of the toothpaste industry in India is best described as
a) perfectly competitive. b) monopolistic. c) monopolistically competitive. d) oligopolistic	

#### ICAI SM

90	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.	

#### ICAI SM

91	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	

#### ICAI SM

92	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.	

#### A.Q.

93	Monopolistic competition has features of
a) Monopoly but not competition b) Monopoly and competition with features of competition predominating c) Monopoly and competition with features of monopoly predominating d) None of the above	

#### MTP Nov 22, A.Q.

94	The monopolistically competitive seller's demand curve will become more elastic, the
a) more significant the barriers to entering the industry. b) greater the degree of product differentiation. c) larger the number of competitors. d) smaller the number of competitors	

#### MTP Apr 21

95	Shampoo manufactures is an example of :
a) Perfect Competition b) Monopolistic Competition c) Monopoly d) None of these	



## Chapter 4 - MEANING AND TYPES OF MARKETS

MTP Apr 21		MTP Mar 21	
96	The dilemma faced by a Monopolistic is setting ____.	101	Average revenue curve is more elastic under monopolistic competition than monopoly due to
a) Price b) Output c) Both a and b d) Either a or b		a) low degree of governmental control b) lack of close substitute c) availability of close substitute d) none of these	
MTP Apr 21		MTP Oct 21	
97	Monopolistic Competition theory architect was :	102	A Monopolistic Competitive firm advertises :
a) Roden b) Marx c) J R Hicks d) Chamberlin		a) Because it has no control over price of its product. b) To lower its cost of production c) To increase its sales and profits d) Because it cannot raise price of its product	
MTP Apr 21		PYQ June 22, MTP Apr 19	
98	Which markets form has features of selling cost :	103	Product differentiation is the most important feature of:
a) Oligopoly b) Monopolistic Competition c) Monopoly d) None of these		a) Monopolistic Competition b) Monopoly c) Oligopoly d) Perfect Competition	
MTP Mar 21		MTP Mar 19	
99	Which is not the characteristics of monopolistic competition:	104	Soap industry is an example of:
a) Large number of sellers b) homogeneous Product c) freedom of entry and exit d) non price discrimination		a) Oligopoly b) Perfect competition c) Monopolistic competition d) Monopoly	
MTP Mar 21		MTP Mar 19	
100	The Price elasticity for Monopolistic Firm is :	105	Excess Capacity is the essential characteristic of the firm in the market form of:
a) $e > 1$ b) $e < 1$ c) $e = 1$ d) none of these		a) Monopoly b) Perfect competition c) Monopolistic competition d) Oligopoly	



## Chapter 4 - MEANING AND TYPES OF MARKETS

### Notes

MTP Oct 18

106 Under which market condition, though the firms earn normal profits in the long run, there is always excess capacity with them

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

MTP Aug 18

107 The sale of branded articles is common in a situation of \_\_\_\_\_

- a) Excess capacity
- b) Monopolistic competition
- c) Monopoly
- d) Pure competition

MTP Oct 19, ICAI SM

108 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

ICAI SM

109 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

SEQ

110 In short run, a firm in monopolistic competition

- a) always earns profits
- b) incurs losses
- c) earns normal profit only
- d) may earn normal profit, supernormal profit or incur losses

MTP Mar 21

111 Demand Curve in the monopolistic competition is -

- a) infinitely elastic
- b) downward sloping and highly inelastic
- c) downward sloping and more elastic demand curve.
- d) none of these.

MTP Nov 22, MTP June 22

112 Which of the following is a differentiated product?

- a) A hamburger
- b) A shirt
- c) An automobile
- d) All of the above

MTP Mar 22

113 In a monopolistically competitive market:

- a) Firm face a perfectly elastic demand for its product
- b) Does not face a perfectly elastic demand for its product
- c) Cannot be determined
- d) None of these

MTP Dec 22

114 When the industry is in long-run equilibrium, the monopolistic competitor will produce at the lowest point on its LAC curve,

- a) always
- b) never
- c) sometimes
- d) cannot say.

MTP Dec 22

115 Which of the following is true at equilibrium in monopolistic competition?

- a) Price is greater than marginal cost
- b) Price is greater than marginal revenue
- c) Both (A) and (B)
- d) Price is equal to marginal revenue



## Chapter 4 - MEANING AND TYPES OF MARKETS

PYQ June 22	
116	High price competition is observed in which type of following markets?
a) Monopoly b) Monopolistic competition c) Duopoly d) Oligopoly	

### Monopoly

MTP Mar 18, Apr 19, ICAI SM	
117	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	

ICAI SM	
118	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	

ICAI SM	
119	Under monopoly, the degree of control over price is
a) none b) some c) very considerable d) none of the above	

MTP May 20, ICAI SM	
120	The firm and the industry are one and the same in _____
a) Perfect competition b) Monopolistic competition c) Duopoly d) Monopoly	

ICAI SM	
121	Naturally monopoly arises 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	

ICAI SM	
122	The demand curve of a monopoly firm will be
a) Upward sloping b) Downward sloping c) Horizontal d) Vertical	

ICAI SM	
123	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	

MTP Oct 18, SEQ	
124	In monopoly, the relationship between average and marginal revenue curves is as follows:
a) AR curve lies above the MR curve b) AR curve coincides with the MR curve c) AR curve lies below the MR curve d) AR curve is parallel to the MR curve	

MTP Oct 21, MTP Apr 21, SEQ	
125	New firms are barred from entering the market in
a) Perfect competition b) Oligopoly c) Monopolistic competition d) Monopoly	



## Chapter 4 - MEANING AND TYPES OF MARKETS

### Notes

MTP Aug 18, SEQ

126 Which of the following statements about price and marginal cost in competitive and monopolized markets is true?

- In competitive markets, price equals marginal cost; in monopolized markets, price equals marginal cost.
- In competitive markets, price exceeds marginal cost; in monopolized markets, price exceeds marginal cost.
- In competitive markets, price equals marginal cost; in monopolized markets, price exceeds marginal cost.
- In competitive markets, price exceeds marginal cost; in monopolized markets, price equals marginal cost.

MTP Dec 22, SEQ

127 In long run equilibrium, the pure monopolist can make pure profits because of

- Blocked entry
- The high price he charges
- The low LAC costs
- Advertising

SEQ

128 In the case of monopoly:

- MR curve cannot be defined
- AR curve cannot be defined
- the short run supply curve cannot be defined
- none of the above

A.Q.

129 With respect to the pure monopolist's demand curve it can be said that

- The stronger the barrier to entry, the more elastic is the monopolist's demand curve.
- Price exceeds marginal revenue at all outputs greater than 1.
- Demand is perfectly inelastic.
- Marginal revenue equals price at all outputs

A.Q.

130 If a monopolist could perfectly discriminate the which of the following statements would be true?

- Every increment of the goods would be priced separately so as to capture the entire consumer surplus.
- Every increment of the goods would be priced evenly.
- Every increment of the goods would be priced higher than the previous one.
- Every increment of the goods would be priced lower than the previous one.

A.Q.

Which of the following is not correct?

- Monopoly form of market organization may be the result of increasing returns to scale
- Monopoly form of market organization may be the result of patent or govt. decision
- Monopoly form of market or organization may be the result of control over the supply of raw materials
- Monopoly form of market or organization may be the result of control over the demand of raw materials

- 1 only
- 2 only
- 1 & 3 only
- 4 only

MTP Apr 21

132 AR is different from MR under

- Monopoly
- Monopolistic competition
- Perfect Competition
- Both a and b



## Chapter 4 - MEANING AND TYPES OF MARKETS

A.Q.

133

Because the monopolist's demand curve is down sloping

- a) Marginal revenue equals price.
- b) Price must be lowered to sell more output.
- c) The elasticity coefficient will increase as price lowered.
- d) Its supply curve will also be downsloping.

MTP Apr 21

134

Unique supply curve in monopoly is not due to \_\_\_\_\_

- a)  $P > MC$
- b)  $P < MC$
- c)  $P = MC$
- d) None of these

MTP Apr 21

135

Cross elasticity of Product in Monopoly is:

- a) Zero  
b) High  
c) Infinity  
d) None of these

MTP Mar 22

136

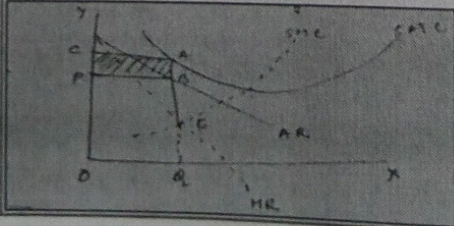
Cross elasticity of demand for the monopolist's product or any other product is \_\_\_\_\_

- a) Zero
- b) Very small
- c) High
- d) Either (a) or (b)

MTP Apr 21

137

In the following diagram the Monopolist is incurring \_\_\_\_



- a) Losses
- b) Profit
- c) Super normal profit
- d) None of these

MTP Apr 21

138

In the absence of competition  
the monopolist:

- a) The monopolist need not produce at the optimal level
- b) Produce at the optimal level
- c) Either a or b
- d) None of these

MTP Mar 21

139

Dynamic fare charged by Indian railways is an example of :

- a) pure monopoly
- b) discriminating monopoly
- c) perfect competition
- d) none of these

MTP Mar 21

140

The firm and industry are same in :

- a) duopoly
- b) monopoly
- c) perfect competition
- d) none of these

MTP Mar 21

141

The shape of TR curve of the monopolist is :

- a) u shaped
- b) inverted u shaped
- c) downward sloping
- d) none of these

MTP Apr 19

142

In the long run under which market a firm may earn super normal profits?

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



## Chapter 4 - MEANING AND TYPES OF MARKETS

### Notes

MTP Mar 18, Apr 19

143 A monopolist is able to maximize his profits when:

- a) His output is maximum
- b) He charges high price
- c) His average cost is minimum
- d) His marginal cost is equal to marginal revenue

MTP Mar 19

144 MR curve under Monopoly lies between AR and Y - axis because, the rate of decline of the MR is

- a) Just half of the rate of decline of AR
- b) Just equal to the rate of decline of AR
- c) Just triple the rate of decline of the average revenue
- d) Just double the rate of decline of the average revenue

MTP Aug 18

145 A monopolist who is selling in two markets in which demand is not identical will be unable to maximize his profits unless he

- a) Sells below costs of production in both markets
- b) Practices price discrimination.
- c) Equates the volume of sales in both markets.
- d) Equates marginal costs with marginal revenue in one market only

MTP Nov 22, MTP Oct 18

146 Monopolies are allocatively inefficient because:

- a) They restrict the output to keep the price higher than under perfect competition.
- b) They charge a price higher than the marginal cost.
- c) Both (a) and (b) are correct.
- d) Both (a) and (b) are incorrect

MTP Nov 22, MTP May 20, ICAI SM

147 Price discrimination will be profitable only if the elasticity of demand in different sub-markets is:

- a) Uniform
- b) different
- c) Less
- d) zero

ICAI SM

148 Price discrimination is one of the features of \_\_\_\_\_

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

MTP May 20, ICAI SM

149 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
- c) third degree of price discrimination
- d) none of the above

MTP May 20, ICAI SM

150 Under \_\_\_\_\_ the monopolist will fix a price which will take away the entire consumers' surplus

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

ICAI SM

151 Price discrimination is related to

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



## Chapter 4 - MEANING AND TYPES OF MARKETS

ICAI SM, MTP Mar 21, Mar 18, SEQ

152 Price Discrimination cannot persist under the following market form:

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

ICAI SM

153 Price varies by attributes such as location or by Customer Segment is \_\_\_\_ degree of Price Discrimination.

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

SEQ

154 Price discrimination is a situation when a producer

- a) Charges different prices in different markets
- b) Charges same price
- c) Charges many prices
- d) All of the above

Extra MCQ

155 Family pack of soaps or biscuits tends to cost less per kg than smaller packs. It is case of \_\_\_\_

- a) First degree of price discrimination
- b) Second degree of price discrimination
- c) Third degree of price discrimination
- d) Fourth degree of price discrimination

SEQ

156 The demand curve facing an industrial firm under monopoly is

- a) horizontal straight line
- b) indeterminate
- c) downward sloping
- d) upward sloping

A.Q.

Which of the following is an essential condition for price discrimination?

Choose the correct answer using the codes given below:

1. Existence of two or more than two markets
2. Full control over the supply
3. Communication between buyers in different sectors of the monopolist's market
4. Existence of different elasticity of demand in different markets.
5. No possibility of reselling a commodity at a higher price in another market.

- a) 1, 2, 3 & 4
- b) 2, 3, 4 & 5
- c) 3, 4 & 5
- d) 1, 2, 4 & 5

MTP Mar 19

158 Price discrimination occurs when:

- a) Producer sells a specific commodity or service to different buyers for the same price
- b) Producer sells specific commodity or service to different buyers at two or more different prices due to difference in cost
- c) Producer sells a specific commodity or service to different buyers at two or more different prices for reasons not associate with difference in cost
- d) Producer under perfect competition sells different goods to consumers at different prices

Extra MCQ

159 \_\_\_\_ classified three degrees of price discrimination

- a) Alfred Marshall
- b) Prof. Pigou
- c) Hicks & Allen
- d) Adam Smith



## Chapter 4 - MEANING AND TYPES OF MARKETS

Notes

MTP Mar 21

160 Price discrimination is possible when

- seller should have some control over the supply of the Product
- price elasticity of the product should be different in different submarket
- seller should be able to divide his market into two or more submarket
- All of these

MTP June 22

161 Consider the following statements and select the correct answer from the given options.

**Assertion (A):** Although a monopolist can charge any price he likes, but does not charge a higher price than his equilibrium price.

**Reason (R):** Higher price means fall in total revenue.

- Both (A) and (R) are true and (R) is the correct explanation of (A)
- Both (A) and (R) are true and (R) is not the correct explanation of (A)
- (A) is true but (R) is false
- (A) is false but (R) is true

MTP June 22

162 Marginal Revenue of a monopoly firm is less than the price because

- Demand curve has a positive slope.
- Demand curve has a negative slope.
- Monopolist incurs losses.
- Monopolist is in equilibrium.

MTP Mar 22

163 If the monopolist incur losses in the short run then in the long run:

- It will stay in the business
- Go out of business
- Will break even
- Any of the above is possible

MTP Mar 22

164 A cartel which is market sharing will reach the monopoly situation:

- Always when the product is homogenous
- Always when the product is differentiated
- Sometime
- None of these

MTP Oct 19

165 A monopolist is a-

- Price maker
- Price -taker
- Price adjuster
- None of the above

MTP Mar 22

166 The price elasticity for demand for monopolist's product is :

- $<1$
- $>1$
- $=0$
- None of these

MTP Dec 22

167 In the short run, the monopolist

- breaks even,
- incurs a loss,
- makes a profit
- any of the above.

MTP Nov 22

168 A monopolized market is in long run equilibrium when

- Zero economic profit is earned by the monopolist
- Production takes place where price is equal to long run MC and AC
- Production takes place where long run MC is equal to MR and price is not below the long run average cost.
- All of the above are correct

Notes



## Chapter 4 - MEANING AND TYPES OF MARKETS

MTP Nov 22

169 All the following are the features of monopoly except

- a) There is a single seller
- b) The firm is a price taker
- c) The firm produces a unique product
- d) The existence of some advertising

Extra MCQ

170 Price under monopoly is higher than price under \_\_\_\_\_

- a) Perfect competition
- b) Monopolistic competition
- c) Oligopoly
- d) All of the above

PYQ June 22

171 Under monopoly market conditions, MR is \_\_\_\_\_ than the AR.

- a) Less
- b) Greater
- c) Equal
- d) Variable

### Oligopoly

ICAI SM

172 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

MTP Oct 19, Oct 21, SEQ, ICAI SM

173 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.

ICAI SM

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

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
Pestystuff	7.4
Others	29.8

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

SEQ, ICAI SM

175 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.



## Chapter 4 - MEANING AND TYPES OF MARKETS

Notes

SEQ, ICAI SM

176 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

SEQ, MTP Oct 18, ICAI SM

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

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

ICAI SM

178 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
- c) an oligopoly
- d) perfectly competitive

MTP Oct 21, ICAI SM

179 Pure oligopoly is based on the \_\_\_\_ product

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

ICAI SM

180 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

MTP Oct 21, ICAI SM

181 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

SEQ

182 If oligopolists engage in collusion and successfully form a cartel, the market outcome is

- a) The same as if it were served by a monopoly
- b) The same as if it were served by competitive firms
- c) Efficient because cooperation improves efficiency
- d) Known as Nash equilibrium

MTP Apr 21

183 Reliance Jio can be described as part of which form to market structure :

- a) Oligopoly
- b) Monopoly
- c) Duopoly
- d) Perfect Competition

MTP Apr 21

184 Cartels can be formed in which form of market:

- a) Perfect competition
- b) Monopoly
- c) Oligopoly
- d) None of these

ICAI SM, MTP Mar 21

185 The concept of price rigidity in Sweezy's model is related to which market form:

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

Notes



## Chapter 4 - MEANING AND TYPES OF MARKETS

MTP Mar 21	
186	The price in collusive oligopoly is decided by:
a) firm b) price leader c) industry d) none of these	

MTP Oct 19	
187	Homogeneous product are sold under-
a) Collusive oligopoly b) Non-collusive oligopoly c) Perfect oligopoly d) Imperfect oligopoly	

MTP Oct 18	
188	Which one of the following is the best example of agreement between oligopolists?
a) GATT b) OPEC c) WTO d) UNIDO	

MTP Aug 18	
189	In which of the following market system, there, are few sellers in the market in the market selling similar or differentiated product?
a) Perfect Competition b) Monopoly c) Oligopoly d) Monopsony	

ICAI SM	
190	Oligopolistic industries are characterized by:
a) a few dominant firms and substantial barriers to entry. b) a few large firms and no entry c) a large number of small firms and no entry barriers. d) one dominant firm and low entry barriers.	

MTP Mar 18	
191	Kinked demand curve in oligopoly market explains:
a) Price and output determination b) Existence of very few firms in the market c) Price rigidity d) Price leadership	

MTP June 22	
192	Oligopolistic industries
a) are characterized by a relatively large number of small firms. b) may produce either standardized or differentiated products. c) always produce differentiated products. d) always produce stan products.	

MTP Mar 22	
193	The concept of price rigidity in market is explained in which form of market:
a) Monopolistic Market b) Perfect Competition c) Oligopoly d) Monopoly	

MTP Dec 22	
194	In the kinked demand curve models, the oligopolists
a) Recognize their interdependence b) Do not collude c) Tend to keep prices constant d) All of the above	

MTP Dec 22	
195	Telecom Industry is an example of
a) Monopoly b) Perfect Competition c) Oligopoly d) Monopolistic competition	



## Chapter 4 - MEANING AND TYPES OF MARKETS

### Notes

MTP Nov 22

- 196 A point of 'Kink' in the kinked demand curve indicates
- Price rigidity
  - Quantity rigidity
  - Price flexibility
  - Quantity flexibility

- I & II are correct
- II & III are correct
- III & IV are correct
- I & IV are correct

MTP Nov 22

- 197 If a firm sells its output on a market that is characterized by few sellers and many buyers and limited long run resource mobility, then the firm is

- A monopolist
- An oligopolist
- A perfect competitor
- A monopolistic competitor

PYQ June 22

- 198 Price rigidity concept is related to \_\_\_\_\_

- Duopoly
- Monopoly
- Oligopoly
- Monopolistic competition

PYQ June 22

- 199 Pure oligopoly occurs when \_\_\_\_\_

- The product is homogeneous
- The product is differentiated
- The industry is dominated by one large firm
- The absence of price leadership

PYQ June 22

- 200 The elasticity of demand on the upper segment of a kinked demand curve will be \_\_\_\_\_

- Infinite
- Equal to one
- Greater than one
- Less than one

### Other Forms of Market

MTP Oct 19, Apr 21, ICAI SM

- 201 Combination of Monopoly Market and Monopsony Market is called as:

- Duopoly Market
- Oligopoly Market
- Bilateral Monopoly Market
- Monopolistic Market



## Chapter 4 - MEANING AND TYPES OF MARKETS

### Extra Questions

A.Q.

202 Imperfect competition arises when

- a) There is imperfect rivalry among competitors
- b) There are unexplainable imperfections in the market
- c) Competition does not exist
- d) Product variation, ignorance of consumers and distance & transportation costs lead to Imperfection in the competitive market which operates on certain assumptions.

A.Q.

Match List I with List II and choose the correct answer using the codes given below.

#### LIST I

A	Perfect competition
B	Imperfect competition
C	Oligopoly
D	Monopoly

#### LIST 2

I.	Differentiated product
II.	Homogeneous or differentiated products
III.	Homogenous product
IV.	Sharply differentiated products

Codes:	a	b	c	d
(A)	I	II	III	IV
(B)	III	I	II	IV
(C)	IV	III	II	I
(D)	I	IV	III	II

A.Q.

Marginal cost is equal to marginal revenue, average cost is equal to average revenue, average revenue is equal to marginal revenue and average cost is equal to marginal cost. This is the condition of-

- 204
1. Long period equilibrium for a firm under oligopoly
  2. Short period equilibrium for a firm under oligopoly
  3. Long period equilibrium for a firm under perfect competition
  4. Long period equilibrium for a firm under perfect competition
  5. Short period equilibrium for a firm under perfect competition

- a) 1 & 5 only
- b) 3 & 4 only
- c) 3 & 1 only
- d) 2 only

A.Q.

Price is

#### LIST I

a	Highest
b	Second highest
c	Third highest
d	Fourth highest

#### LIST 2

i.	Monopoly
ii.	Oligopoly
iii.	Monopolistic Competition
iv.	Perfect Competition

- 205
- a) i-d, ii-c, iii-b, iv-a
  - b) i-a, ii-b, iii-c, iv-d
  - c) i-d, ii-a, iii-c, iv-b
  - d) i-a, ii-c, iii-b, iv-d



## Chapter 4 - MEANING AND TYPES OF MARKETS

Notes

MTP Apr 21	
206	Which of the following statement is correct?
a) An industry consists of many firms. b) Price rigidity is an important feature of monopoly. c) Under perfect competition factors of production do not move freely d) Selling cost are possible under perfect competition.	

MTP Apr 21	
207	Cinema Halls, Telephone bills etc. are following
a) Differential Pricing b) Full cost pricing c) Marginal Cost Pricing d) None of these	

MTP Mar 21	
208	The Government offer minimum assured price to the farmers to purchase their output is called:
a) market Price b) support Price c) equilibrium Price d) ceiling Price	

MTP Apr 19	
209	In Imperfect competition:
a) Excess capacity always exists b) Excess capacity never exists c) Excess capacity may or may not exist d) None of the above	

MTP June 22	
210	If the market demand curve for a commodity has a negative slope then the market structure must be:
a) Perfect competition b) Monopoly c) Imperfect competition d) The market structure cannot be determined as the information is insufficient	

A.Q.	
211	Demand curve is
	<b>LIST I</b>
	i. Horizontal
	ii. Kinked
	iii. Downward sloping
	<b>LIST 2</b>
	a Monopoly
	b Oligopoly
	c Perfect Competition
	a) i-c, ii-a, iii-b b) i-c, ii-b, iii-a c) i-a, ii-b, iii-c d) i-b, ii-a, iii-c



## Chapter 4 - MEANING AND TYPES OF MARKETS

The following Table provides cost and price information for a firm called Comfy Cushions (CC). The firm produces and sells cushions using a fixed amount of capital equipment but can change the level of inputs such as labour and materials. Read the Table and answer questions 212-218

Production (Q)	Price per unit (P)	Total Cost (TC)	Average Total Cost (ATC)	Marginal Cost (MC)	Total Revenue (TR)	Marginal Revenue (per unit) (MR)
0	250	500				
1	240	730				
2	230	870				
3	220	950				
4	210	1010				
5	200	1090				
6	190	1230				
7	180	1470				
8	170	1850				
9	160	2410				

MTP Mar 18

212

What is the value of fixed cost incurred by CC?

- a) Rs. 252
- b) Rs. 730
- c) Rs. 500
- d) cannot be determined

MTP Mar 18

214

What is the marginal revenue (per unit) when production increase from 7 units to 8 units?

- a) 160
- b) 140
- c) 120
- d) 100

MTP Mar 18

213

What is the average total cost when 5 units are produced?

- a) Rs. 218
- b) Rs. 1090
- c) Rs. 730
- d) Rs. 210

MTP Mar 18

215

What is the marginal cost when production increase from 3 to 4 units?

- a) 140
- b) 80
- c) 60
- d) 240



## Chapter 4 - MEANING AND TYPES OF MARKETS

### Notes

MTP Mar 18	
216	To maximize its profit or minimize its loss, what level of production should CC choose?
a) 7 units b) 6 units c) 4 units d) 8 units	

MTP Mar 18	
217	At the profit maximizing level, what price should be charged?
a) Rs. 190 b) Rs. 200 c) Rs. 210 d) Rs. 220	

MTP Mar 18	
218	Calculate CC's maximum profit or minimum loss.
a) Loss of Rs. 100 b) Loss of Rs. 60 c) Profit of Rs. 90 d) Loss of Rs. 90	

Extra MCQ	
219	This type of oligopoly tends to process raw process raw materials or produce intermediate goods that are used as inputs by other industries
a) Open Oligopoly b) Collusive Oligopoly c) Pure Oligopoly d) Full Oligopoly	

Extra MCQ	
220	In _____ the market will be conspicuous by the absence of price leadership
a) Close Oligopoly b) Collusive Oligopoly c) Partial Oligopoly d) Full Oligopoly	

MTP Nov 22	
221	The buyers in the market include
a) Consumers b) Businesses c) Government d) All of the above	

PYQ June 22	
222	Which of the following is a correct statement?
a) Firms have to incur a good deal of costs on advertising and other sales promotion measures in oligopoly market b) A monopolist always earns supernormal profit c) Identical products are not found in a competitive market d) Close substitutes are available under monopoly	

223	Total profits are maximized when
a) TR equals TC b) The TR curve and the TC curve are parallel c) TC exceeds TR d) TR exceeds TC	



# Chapter 4 - MEANING AND TYPES OF MARKETS

## Answer Key - Economics Chapter 4 - Unit 3

1	D	26	A	51	C	76	B	101	C	126	C
2	A	27	C	52	D	77	A	102	C	127	A
3	B	28	D	53	C	78	D	103	A	128	C
4	C	29	C	54	D	79	A	104	C	129	B
5	D	30	D	55	B	80	C	105	C	130	A
6	C	31	A	56	A	81	C	106	D	131	D
7	C	32	A	57	D	82	D	107	B	132	D
8	D	33	D	58	C	83	C	108	A	133	B
9	D	34	B	59	B	84	C	109	B	134	A
10	B	35	A	60	A	85	C	110	D	135	A
11	D	36	D	61	A	86	D	111	C	136	D
12	B	37	D	62	A	87	D	112	D	137	A
13	D	38	B	63	C	88	B	113	B	138	A
14	C	39	B	64	C	89	C	114	B	139	B
15	C	40	A	65	C	90	A	115	C	140	B
16	A	41	D	66	A	91	C	116	B	141	B
17	B	42	A	67	D	92	C	117	A	142	D
18	C	43	C	68	A	93	B	118	D	143	D
19	C	44	B	69	D	94	C	119	C	144	D
20	A	45	A	70	A	95	B	120	D	145	B
21	C	46	D	71	D	96	D	121	D	146	C
22	D	47	D	72	D	97	D	122	B	147	B
23	D	48	D	73	B	98	B	123	C	148	B
24	D	49	C	74	C	99	B	124	A	149	C
25	B	50	B	75	A	100	A	125	D	150	A



## Chapter 4 - MEANING AND TYPES OF MARKETS

**Answer Key - Economics Chapter 4 - Unit 3**

## Notes

151	D	161	A	171	A	181	D	191	C	201	C	211	B
152	A	162	B	172	C	182	A	192	B	202	D	212	C
153	C	163	D	173	B	183	A	193	C	203	B	213	A
154	A	164	C	174	C	184	C	194	D	204	B	214	D
155	B	165	A	175	B	185	A	195	C	205	D	215	C
156	C	166	A	176	A	186	B	196	A	206	A	216	B
157	D	167	D	177	D	187	C	197	B	207	A	217	A
158	C	168	C	178	C	188	B	198	C	208	B	218	D
159	B	169	B	179	B	189	C	199	A	209	A	219	C
160	D	170	D	180	C	190	A	200	C	210	D	220	D
												221	D
												222	A
												223	B



## Chapter 5 - BUSINESS CYCLES

### Basics

MTP Oct 19, Oct 20, ICAI SM

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

MTP Oct 20, Mar 21, ICAI SM

2 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.

### Phases of Business Cycles

MTP Apr 19, Apr 21, Nov 22, ICAI SM

3 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

ICAI SM

4 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

MTP May 20, ICAI SM

5 The lowest point in the business cycle is referred to as the

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

MTP Mar 18

6 During 1920s, UK saw rapid growth in GDP, production levels and living standards. The economic growth also caused an unprecedented rise in stock market values. This is an example of:

- a) Boom
- b) Recession
- c) Contraction
- d) Trough

A.Q.

7 Cost of living increases when business cycle is \_\_\_\_

- a) at peak
- b) contracting
- c) expanding
- d) at lowest point

MTP Oct 20, Apr 21, ICAI SM

8 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.

MTP Aug 18, Mar 19, SEQ

9 When aggregate economic activity is increasing, the economy is said to be in

- a) an expansion.
- b) a contraction.
- c) a peak.
- d) a turning point

### Notes



## Chapter 5 - BUSINESS CYCLES

A.Q.	
10	During an upturn in the business cycle the negative output gap does not become much more negative than it was. This is because of the fact that:  a) Capacity increases because of the rise in investment. b) Expenditure decreases because of the rise in the interest rate. c) The government lowers the taxes during an upturn. d) Labour productivity decreases during upturn.
A.Q.	
11	During business cycles the opposite of a trough is ____  a) an inflation b) a hyperinflation c) a trend d) a peak
MTP Mar 18 May 20, ICAI SM	
12	A significant decline in general economic activity extending over a period of time is  a) business cycle b) contraction phase c) Recession d) recovery
ICAI SM	
13	During recession, the unemployment rate ____ and output ____  a) Rises; falls b) Rises; rises c) Falls; rises d) Falls; falls.
MTP May 20, ICAI SM	
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
MTP May 20, Mar 18, ICAI SM	
15	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
MTP Apr 21	
16	A rise in sale of which type of good is expected in the case of recession:  a) Luxury b) Necessity c) Inferior d) Normal
ICAI SM	
17	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



## Chapter 5 - BUSINESS CYCLES

### Notes

MTP Apr 19, Oct 20, ICAI SM	
18	Peaks and troughs of the business cycle are known collectively as
a) Volatility. b) Turning points. c) Equilibrium points. d) Real business cycle events	

MTP June 22	
19	Peak is the _____ stage of expansion.
a) Later b) Earlier c) Either (A) or (B) d) None of the above	

MTP June 22	
20	During business cycles the opposite of a peak is _____.
a) an inflation b) a hyperinflation c) a trend d) a trough	

MTP Nov 22, MTP June 22	
21	Decrease in input demand _____.
a) Doesn't affect inputs prices b) Pushes inputs prices up c) Pulls inputs prices down d) Either (B) or (C)	

PYQ June 22	
22	Expansion phase of business cycle depicts characteristics except _____
a) Consumer spending on goods and services tend to rise b) Business confidence tends to rise c) Interest rates and profits tend to rise d) Unemployment tends to rise	

PYQ June 22	
23	A typical feature of depression is _____ in the interest rate.
a) Rise b) Constant c) Fall d) Infinity	

PYQ June 22	
24	Which of the following statement is correct for a business cycle?
a) A typical feature of depression is the rise in the interest rate b) A typical feature of depression is the constant interest rate c) Recession is the severe form of depression d) Depression is the severe form of recession	

PYQ June 22	
25	Actual demand stagnates in which of the following stage of a business cycle?
a) Expansion b) Peak c) Contraction d) Recovery	

PYQ June 22	
26	In which stage of the business cycle involuntary unemployment is almost zero?
a) Expansion b) Peak c) Contraction d) Recovery	

Extra MCQ	
27	The _____ causes recovery of economy & acts as a turning point from depression to expansion
a) Increase of unemployment b) Decrease of employment c) spurring of investment d) decrease of investment	



## Chapter 5 - BUSINESS CYCLES

### Characteristics of Business Cycles

MTP May 20, ICAI SM

28

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.

ICAI SM

29

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.

ICAI SM

30

Business cycle generally originate 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.

ICAI SM

31

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

A.Q.

32

Which of the following statements is correct regarding business cycles?

- a) Business cycles always affect all sectors uniformly.
- b) Business cycles may affect all sectors uniformly.
- c) Business cycles do not affect all sectors uniformly.
- d) None of these

A.Q.

33

\_\_\_ sector is more prone to the adverse effects of the business cycle

- a) Agriculture
- b) Service
- c) Industrial
- d) Can't say

MTP Oct 20

34

Which of the following statements is correct?

- a) Business cycles occur periodically although they do not exhibit the same regularity.
- b) Business cycles have distinct phases of expansion, peak, contraction and trough.
- c) Business cycles generally originate in free market economies
- d) All of the above



## Chapter 5 - BUSINESS CYCLES

### Notes

MTP Mar 18

35 Which of the following statements is false with respect to Business Cycles:

- a) They occur periodically.
- b) They generally originate in free market economies.
- c) They are international in character.
- d) They do not affect capitalist economies.

MTP Nov 22, MTP June 22

36 Different business cycles \_\_\_\_\_ in duration and intensity.

- a) differ
- b) similar
- c) consistent
- d) Can't say

MTP June 22

37 Repercussions of business cycles get \_\_\_\_\_ felt on nearly all economic variables.

- a) alternatively
- b) simultaneously
- c) one by one
- d) All of the above

MTP June 22

38 Which of the following statements is correct regarding business cycles?

- a) Business cycles are contagious and international in character.
- b) Business cycles begin in one country and spread to other countries through trade relations.
- c) Business cycles have serious consequences on well being of the societies.
- d) All of the above

PYQ June 22

39 Which of the following is not correct about the business cycles ?

- a) Business cycles have distinct phase of expansion, peak, contraction and trough
- b) Business cycles generally originate in capitalist economies
- c) Business cycles are contagious and are internal in character
- d) All sectors of the economy are adversely affected in equal proportion

PYQ June 22

40 Which of the following statement is correct ?

- a) No economy follows a perfectly timed cycle
- b) Economy follows a perfectly timed cycle
- c) Most of the economy follows a perfectly timed cycle
- d) Capitalist economy follow a perfectly timed cycle

### Indicators of Business Cycles

MTP May 20

41 Economists use changes in a variety of activities to measure the business cycle and to predict where the economy is headed towards. is called-

- a) Leading indicators
- b) Indicators
- c) Lagging Indicators
- d) None of these



## Chapter 5 - BUSINESS CYCLES

MTP May 20, ICAI SM

42 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

MTP Dec 22, MTP Mar 22

43 The Turning point of business cycle is predicted by :

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

MTP Mar 22

44 Variable that change after real output change are:

- a) Leading Indicator
- b) Lagging Indicator
- c) Concurrent Indicator
- d) None of these

ICAI SM

45 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

MTP May 20, ICAI SM

46 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

MTP Apr 19, ICAI SM

47 Leading economic indicators

- a) are used to forecast probable changes 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

MTP Aug 18, Oct 22, ICAI SM

48 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

MTP Apr 22, ICAI SM

49 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

MTP Mar 19, SEC

50 Which of the following is not a variable in the index of leading indicators?

- a) New consumer goods orders
- b) Delayed deliveries
- c) New building permits
- d) Prime rate

AQ

51 An important indicator of a nation's well being is \_\_\_\_\_

- a) Gross Domestic Product (GDP)
- b) Gross National Product (GNP)
- c) Gross National Income (GNI)
- d) Growth rate of GDP or GNP



## Chapter 5 - BUSINESS CYCLES

### Notes

A.Q.

52 Match List I with List II and choose the correct answer using the codes given below.

#### LIST I

- |    |                      |
|----|----------------------|
| a. | Leading indicator    |
| b. | Lagging indicator    |
| c. | Coincident indicator |

#### LIST 2

- |      |                        |
|------|------------------------|
| I.   | Industrial production  |
| II.  | Changes in stock price |
| III. | Corporate profit       |

**Codes:**

	a	b	c
(A)	I	II	III
(B)	II	III	I
(C)	III	II	I
(D)	I	III	II

A.Q.

53 The government and industry try to predict the business cycle by using indicators. These are:

- a) variable that can explain the growth of production capacity.
- b) Variables that precede the actual movements in expenditure and production.
- c) The expenditure categories of consumption, investment and exports.
- d) Domestic and foreign indications relating to the business cycle and the tendency

MTP May 20

54 A indicator which occur simultaneously with the business cycle movements is-

- a) Lagging indicator
- b) Coincident indicator
- c) Leading indicator
- d) None of these

PYQ June 22

55 Which of the following is an example of a leading indicator ?

- a) Changes in stock prices
- b) Changes in unemployment rate
- c) Changes in GDP
- d) Change in commercial lending activity

PYQ June 22

56 Coincident economic indicators are also called as which of the following?

- a) Leading indicators
- b) Concurrent indicators
- c) Headed indicators
- d) Capacity indicators

PYQ June 22

57 Those variables that change after the real output changes are called as \_\_\_\_\_

- a) Lagging indicators
- b) Leading indicators
- c) Concurrent indicators
- d) Coincident indicators



## Chapter 5 - BUSINESS CYCLES

### Causes of Business Cycles

MTP Oct 20, ICAI SM

58 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

MTP Apr 21

59 Innovation theory is propounded by:

- a) Schumpeter
- b) Nicholas Kaldor
- c) Keynes
- d) None of these

MTP May 20, Apr 21, ICAI SM

60 According to \_\_\_\_\_ trade cycles occur due to onset of innovations.

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

MTP Mar 21

61 What are the internal causes of business cycle?

- a) fluctuations in effective demand.
- b) macroeconomic policies
- c) money supply
- d) All the above

MTP Dec 22, MTP Apr 21, ICAI SM

62 According to Keynes, Economic fluctuations in activities are due to-

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

MTP Apr 21, Oct 20, Oct 18, ICAI SM

63 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

MTP Dec 22, A.Q.

64 According to British economist J. M. Keynes \_\_\_\_\_ was the main cause of massive decline in income and employment during Great Depression of 1930.

- a) Lower aggregate expenditure in the economy.
- b) Banking crises and low money supply.
- c) Overdebtiness.
- d) Lower profits & pessimism

MTP Oct 20, May 20, Mar 21

65 According to Hawtrey trade cycle is a \_\_\_\_\_

- a) monetary Phenomenon
- b) unplanned Phenomenon
- c) fiscal Phenomenon
- d) all the above



## Chapter 5 - BUSINESS CYCLES

Notes

A.Q.

Trade/Business cycles occur due to

### LIST I

- |      |  |
|------|--|
| i.   | Changes in money supply                    |
| ii.  | Innovations take place in the system       |
| iii. | Waves of optimism or pessimism             |
| iv.  | Fluctuations in aggregate effective demand |

### LIST 2

- |   |            |
|---|------------|
| a | Schumpeter |
| b | Keynes     |
| c | Hawtrey    |
| d | AC Pigou   |

- 66
- a) i-d, ii-c, iii-b, iv-a  
b) i-a, ii-b, iii-c, iv-d  
c) i-d, ii-a, iii-c, iv-b  
d) i-c, ii-a, iii-d, iv-b

MTP Dec 22, A.Q.

67 Post war reconstruction

- a) will push the economy to slow down because of excess external debts.  
b) will cause pickup in economic activities as the reconstruction pushes up effective demand & in turn employment and income.  
c) can cause boom or recession depending upon the policies for reconstruction adopted by govt.  
d) None of these

MTP Mar 22

68 Fluctuation in Economic activities are due to :

- a) Change in money supply  
b) Profitability  
c) Fluctuation in aggregate demand  
d) None of these

MTP Nov 22, A.Q.

69

In order to influence spending on the goods and services in the short run, monetary policy is directed at directly influencing

- a) Unemployment rate  
b) Inflation rate  
c) Interest rate  
d) Economic growth rate

MTP Apr 21, MTP Mar 22

70

Modern business activities are based on the anticipations of business community and are affected by waves of optimism or pessimism.

- a) Pigou  
b) Schumpeter  
c) Hawtrey  
d) Keynes

MTP Oct 18, Oct 20

71

Which of the following is the external cause of Business Cycles?

- a) Fluctuations in Effective Demand  
b) Fluctuations in Investment  
c) Variations in government spending  
d) War

MTP Mar 18

72

Who expressed the view that fluctuations in investments are the prime cause of business cycles?

- a) Hawtrey  
b) Pigou  
c) Schumpeter  
d) Keynes

MTP June 22

73

Which one of the following is not an internal cause of business cycles?

- a) Money supply  
b) Technology shocks  
c) Psychological factors  
d) Fluctuations in investment

Notes

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5.9



## Chapter 5 - BUSINESS CYCLES

ICAI SM

74 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.

A.Q.

75

Suppose in an economy the population growth rate remained 6% during last 5 years while the economic growth rate during the same period was just 3%. What will be the consequences of it? Select the right option from the options given below.

- a) Lesser savings → Lower investment → Low income & employment → Low effective demand → Overall slowdown in economic activities
- b) More consumption expenditure → more demand → more production → more employment & income → Overall boom in economic activities
- c) Increase in labour supply → Lower wage rate → Low income → Low savings & investments → Low production → Overall slowdown in economic activities
- d) None of the above

MTP June 22

76 Nicholas Kaldor propounded

- a) Noeholas theory
- b) Kaldor Theory
- c) Cobweb theory
- d) Cobb-douglas theory

### Extra Questions

MTP Oct 08

77 Which of the following is not an example of business cycle?

- a) During 1920s, UK saw rapid growth in gross domestic product, production levels and living standards.
- b) Due to bursting of Information Technology bubble stock markets crashed and countries began feeling of down turn in their economies.
- c) The Sub-prime crisis led to chain effect and it had worldwide impact.
- d) The cycle business has seen a slowdown in growth over a period of time

A.Q.

78 Cyclical business refers to

- a) The business where demand fluctuates seasonally.
- b) The business which keep on changing their product.
- c) The business whose fortunes are closely related to the rate of economic growth.
- d) All of the above

MTP May 20

79 If demand for goods and services is more than their supply, the resultant inflation is:

- a) Cost push inflation.
- b) stagflation
- c) deflation.
- d) demand pull inflation.

MTP Mar 22

80

Businesses whose fortunes are closely linked to the rate of economic growth is referred to as:

- a) Cyclical
- b) Counter Cyclical
- c) Fiscal Policy
- d) None of these



## Chapter 5 - BUSINESS CYCLES

### Notes

84 Net domestic expenditure is consumption expenditure plus

- a) Net foreign investment
- b) Net foreign investment plus net domestic investment
- c) Net domestic investment
- d) Replacement expenditure

A.Q.

85 Business cycle emerge in \_\_\_\_

- a) Socialist economy
- b) Free market economy
- c) Mixed economic system
- d) None of the above

PYQ June 22

86 \_\_\_\_ sector cannot be included as 'cyclical' businesses,

- a) electric goods
- b) House builders
- c) Agriculture
- d) Restaurants

87 Which of the following characteristics does not belong to expansion path of businessmen cycles

- a) Consumer spending on goods and services tend to rise
- b) Business confidence tends to rise
- c) Interest rates and profits tend to rise
- d) Unemployment tends to rise

88 The rhythmic fluctuations in aggregate economic activity that an experiences over a period of time are called

- a) Inflation
- b) Unemployment
- c) Business cycles
- d) Growth rate

86 Which of the following is not an example of cyclical business ?

- a) Fashion retailers
- b) House Builders
- c) Restaurants
- d) Washing powder

87 Recent example of the Business cycle is 'the housing bubble' of the US economy. This bubble got bust in

- a) 1930
- b) 1998
- c) 2000
- d) 2008

88 The phase of business cycle in which growth rate becomes negative and the level of national income and expenditure declines rapidly resulting in widespread unemployment

- a) Contraction
- b) Recession
- c) Depression
- d) Recovery

89 Which one of the following factors is an external cause or exogenous factor which may lead to boom or bust ?

- a) Economical factor
- b) Social factor
- c) Natural factor
- d) Industrial factor

90 Trade cycles occur as a result of mismatch between aggregate demand function and aggregate supply functions. Who said this ?

- a) Pigou
- b) Schumpeter
- c) Hawtrey
- d) Keynes

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# Chapter 5 - BUSINESS CYCLES

## Answer Key - Economics Chapter 5

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