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Paper-4
Business Economics

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2023 SYLLABUS
For June 2024 Exam Onwards

(Including Questions and Solutions of June 2023)
As Per Latest Updated Syllabus of ICAI

20 Exams

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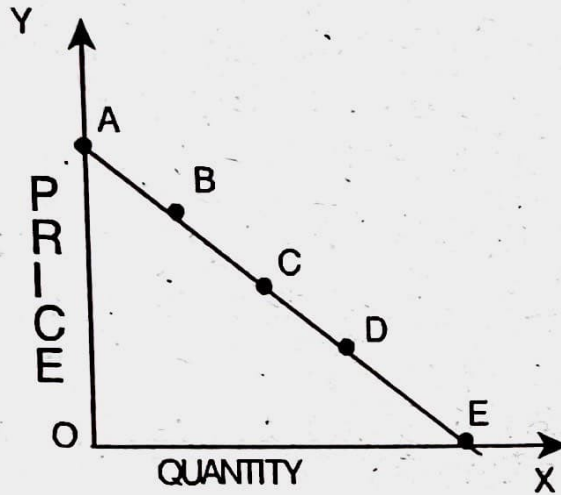
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PAPER 4

**FOUNDATION COURSE
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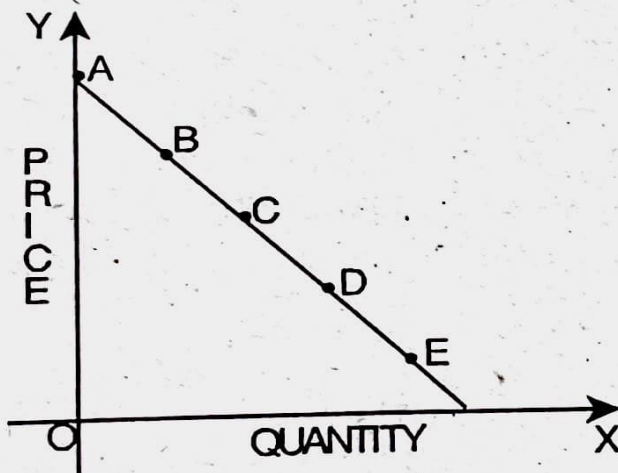
[2]



- (a) elasticity at point A = ∞ , at B = > 1 , at C = 1, at D = < 1 and at E = 0
 (b) elasticity at A = 0, at B = < 1 , at C = 1, at D = > 1 and at E = ∞
 (c) elasticity at A = 0, at B > 1 , at C = 1, at D = < 1 and at E = 0
 (d) None of these. (1 mark)

Answer:

(a)



- (a) When change in demand is greater than price change then $e > 1$
 (b) When change in demand is less than the price change then $e < 1$
 (c) When change in demand is same as the change in price then it is $e = 1$
 (d) When there is no change in demand as change in price then $e = 0$
 (e) When price changes slightly but demand change is higher then $e = \infty$

Here, C shows $e = 1$ by which we can prove that

$C \Rightarrow e = 1$, $A \Rightarrow e = \infty$, $B \Rightarrow e > 1$

$D \Rightarrow e < 1$, $E \Rightarrow e = 0$

[3] Cardinal approach is related to:

- (a) Indifference curve (b) Equi marginal utility
(c) Law of diminishing returns (d) None of these. (1 mark)

Answer:

(b) Marginal Utility theory is given by Alfred Marshall. He assumes that the marginal utility theory is related to cardinal approach which means we can measure the utility in terms of money. Marshall says, "Money is the measuring rod of utility".

[4] An Increase in demand can result from:

- (a) A decline in the market price
(b) An increase in income
(c) A reduction in the price of substitutes
(d) An increase in the price of complements. (1 mark)

Answer:

(b) Price and demand are inversely related as the price rises demand falls and *vice-versa*. But income and demand are directly related. Rise in income increases the quantity demanded and fall in income decreases the quantity demanded.

[5] Cross elasticity of perfect substitutes is

- (a) Zero (b) Negative
(c) One (d) Infinity (1 mark)

Answer:

(d) Cross elasticity of perfect substitutes is infinity as the rise in the price of one good will cause a rise in the demand of its substitutes.

Example: If the price of the tea rises, the demand for coffee rises as these two are perfect substitutes.

Cross elasticity of complementary goods leads to zero.

[6] Supply is a _____ concept.

- (a) flow
(b) stock
(c) flow and stock, both
(d) qualitative (1 mark)

Answer:

(a) Supply refers to 'quantity of a good or service that consumers are willing and able to purchase during a given period of time. Supply is a flow concept as quantity supplied is so much per unit of time per day, per week or per year. It is regularly going on supply which means not only those goods which are sold but also those which are in stock.

[7] For what type of goods does demand fall with a rise in income levels of households?

- (a) Inferior goods (b) Substitutes
(c) Luxuries (d) Necessities (1 mark)

Answer:

(a) Inferior goods are the type of goods which are not of good quality and no one wants to consume these but circumstances force them to consume these. If income rises of households then demand for inferior goods go down or elasticity for these goods becomes negative.

[8] Which economist said that money is the measuring rod of utility?

- (a) A.C Pigou (b) Marshall
(c) Adam Smith (d) Robbins (1 mark)

Answer:

(b) Marginal Utility theory is given by Alfred Marshall. He assumes that the marginal utility theory is related to cardinal approach which means we can measure the utility in terms of money. Marshall says, "Money is the measuring rod of utility".

[9] Elasticity between two points:

- (a) point elasticity (b) Arc elasticity
(c) Cross elasticity (d) None. (1 mark)

Answer:

(b) When price elasticity is to be found between two prices or two points on the demand curve then it is not possible to know what price and quantity should be taken as the base. So, we use Arc elasticity method to know the base price and quantity.

[10] An indifference curve is L shaped, then two goods will be:

- (a) Perfect substitute goods
- (b) Substitute goods
- (c) Perfect complementary goods
- (d) Complementary goods

Answer:

(1 mark)

(c) When two goods are **perfect complementary goods** (e.g. printer and cartridge), the indifference curve will consist of two straight lines with a right angle between them which is convex to the origin, or in other words, it will be L shaped.

[11] The concept of consumer's surplus is derived from:

- (a) The law of diminishing marginal utility.
- (b) The law of equal-marginal utility
- (c) The law of diminishing returns
- (d) Engel's law

Answer:

(1 mark)

(a) Consumer surplus is a surplus which a consumer would be willing to pay rather than go without a commodity over that which he actually does pay. Concept of consumer surplus is given by Marshall and it is derived from = what a consumer is willing to pay - what he actually pays.

[12] When supply curve shifts to the right there is:

- (a) an increase
- (b) expansion
- (c) contraction
- (d) decrease

Answer:

(1 mark)

(a) When the supply curve shifts to the right due to a change in one or more factors other than the own price of the commodity. When supply curve shifts to right, we say that there is an increase in supply and when supply curve shift to left we say that there is a decrease in supply.

[13] Short- run price is also called by the name of:

- (a) Market price
- (b) Showroom price
- (c) Maximum retail price
- (d) None of these.

(1 mark)

Answer:

(a) Short-run price is also known as the **market price** and it is determined by the temporary equilibrium between the forces of demand and supply.

[14] When supply price increase in the short run, the profit of the producer

- (a) increases
- (b) decreases
- (c) remains constant
- (d) decreases marginally

(1 mark)

Answer:

(a) Supply and price are directly related as the supply increase, price increases and as the price decreases, supply decreases. So, increase in supply-price will increase the profits of the producer.

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[15] When Price of a commodity increases what will be the effect on quantity demanded?

- (a) Increases
- (b) Decreases
- (c) No change
- (d) None of these

(1 mark)

Answer:

(b) As per the law of demand, other things being equal, if the price of a commodity falls, the quantity demanded of it will rise and if the price of a commodity rises, its quantity demanded will fall.

[16] According to the law of supply, change in supply is related to?

- (a) Price of goods
- (b) Price of related goods
- (c) Factors of production
- (d) None of the above

(1 mark)

Answer:

(a) According to the law of supply, change in supply is related to the price of goods. As other things remaining constant, the quantity of a good (produced and offered for sale) will increase if the price rises.

[17] In case of inferior goods, with a rise in the income of consumers, demand for Giffen goods will

- (a) Increases
- (b) Decreases
- (c) No change
- (d) None of the above

(1 mark)

Answer:

(b) In general cases, as consumer income rises, they will prefer high quality goods and, therefore, demand for Giffen goods will decrease.

[18] In case of necessities, consumer surplus is?

- (a) Infinite
- (b) Zero
- (c) Equals to one
- (d) More than one

(1 mark)

Answer:

(a) In case of necessities, the marginal utilities of the first few units are infinitely large. In such cases the consumer surplus is always infinite.

[19] When the price of a commodity rises from 200 to ₹ 300 and Quantity supply increases from 2000 to 5000 units, find the elasticity of supply?

- (a) 3.0
- (b) 2.5
- (c) 0.3
- (d) 3.5

(1 mark)

Answer:

$$(a) \frac{\Delta q}{q} \times \frac{p}{\Delta p} = \frac{3,000}{2,000} \times \frac{200}{100} = 3.0.$$

[20] From the following data given below answer question 20 and 21-

Units	TU	MU
1	200	
2	—	180
3	480	—

Total utility derived from 2nd unit?

- (a) 380
- (b) 20
- (c) 100
- (d) 280

(1 mark)

Answer:

(a) $TU = \sum MU$
therefore, 380

[21] Marginal utility of 3rd unit is?

- (a) 200
- (b) 280
- (c) 100
- (d) 50

(1 mark)

Answer:

(b) $MU = TU_n - TU_{n-1}$
Therefore, = 280.

[22] Which Equation is correct-

- (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) $\frac{MU_x}{MU_y} \neq \frac{P_x}{P_y}$

(1 mark)

Answer:

(a) The law of utility states that consumer will be in equilibrium when

$$\frac{MU_x}{MU_y} = \frac{P_x}{P_y}$$

[23] The scope of the indifference curve shows consumer equilibrium at the point where $MRS_{(xy)} = \frac{P_x}{P_y}$ (Price line)

- (a) Less than
- (b) More than
- (c) Equal to
- (d) None of the above

Answer: (1 mark)

(c) Consumer will be in equilibrium only when $MRS_{(xy)}$ is equal to $\frac{P_x}{P_y}$ (price line).

[24] Which of the following is not the property of the indifference curve?

- (a) IC is convex to the origin
- (b) IC slopes downwards from left to right
- (c) Two IC can touch each other
- (d) IC cannot touch either of the axes

Answer: (1 mark)

(c) Properties of Indifference curve are:

1. Indifference curves slope downward to the right
2. Indifference curves are always convex to the origin.
3. Indifference curves can never intersect each other
4. A higher Indifference curve represents higher level of satisfaction
5. Indifference curve will not touch either axes.

[25] In case of Normal goods, rise in price leads to ____?

- (a) Fall in demand
- (b) Rise in demand
- (c) No change
- (d) Initially rise then ultimately fall

Answer: (1 mark)

(a) In general cases, when the price of the commodities rise, the purchasing power of customer will fall and therefore demand will fall.

[26] Method of demand forecasting does not include?

- (a) Mathematical method
- (b) Barometric method
- (c) Expert opinion method
- (d) Statistical method

(1 mark)

Answer:

(a) Method of demand forecasting are:

1. Survey of buyers' intentions
2. Collection opinion method
3. Expert opinion method
4. Statistical method
5. Controlled experiments
6. Barometric method.

Therefore, mathematical method is not a method of forecasting.

[27] If the price of the commodity increases, what will be the effect on the Quantity demanded?

- (a) Decreases
- (b) Increases
- (c) No change
- (d) Cant say

(1 mark)

Answer:

(a) As per the law of demand, other things remaining constant when the price of commodity increases quantity demanded decreases and vice versa.

[28] An IC shows _____ MRS between the commodity?

- (a) Increasing
- (b) Decreasing
- (c) Constant
- (d) Zero

(1 mark)

Answer:

(b) MRS is falling because as the consumer has more and more units of food, he is prepared to give up less and less units of the commodity.

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- [29] Forecasting of demand is the Art and Science of predicting?
 (a) Actual demand for a product at the same future date
 (b) Probable demand in future
 (c) Total demand in future
 (d) None of these. (1 mark)

Answer:

- (b) Forecasting, in general, refers to knowing or measuring the status or nature of an event or variable before it occurs. Forecasting of demand is the art and science of predicting the probable demand for a product or a service.

- [30] Addition made to total utility refers to?

- (a) Total utility
 (b) Average utility
 (c) Marginal utility
 (d) All of the above. (1 mark)

Answer:

- (c) Marginal utility is the addition made to total utility by the consumption of an additional unit of a commodity.

- [31] The elasticity of supply is zero means?

- (a) Perfectly inelastic
 (b) Perfectly elastic
 (c) Imperfectly elastic
 (d) All of the above. (1 mark)

Answer:

- (a) The elasticity of supply:
 $e > 1$ → elastic supply
 $e < 1$ → inelastic supply
 $e = 0$ → Perfectly inelastic supply
 $e = \infty$ → Perfectly elastic supply
 $e = 1$ → Unit elastic

Therefore, the elasticity of supply is zero means, it is perfectly inelastic supply.

- [32] The Consumer is in equilibrium when the following condition is satisfied:

- (a) Budget line is tangent to the Ic curve

(b) $\frac{MU_x}{P_x} = \frac{MU_y}{P_y} = \frac{MU_z}{P_z}$

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

(1 mark)

Answer :

- (c) Condition for consumer attaining equilibrium is the point where the budget line is tangent to the indifference curve and $\frac{MU_x}{P_x} = \frac{MU_y}{P_y}$

Hence, option (c) is correct.

- [33] Which of the following statement is correct?

- (a) Supply is inversely related to its cost of production
 (b) Price and quantity demand of a good have a direct relationship
 (c) Taxes and subsidy has no impact on the supply of the product
 (d) Seasonal changes have no impact on the supply of the commodity (1 mark)

Answer :

- (a) In economics, supply refers to quantity of product available in market for sale at a specified price at a given point of time.

Supply of a product has an inverse relation with cost of production.

Example A seller would supply less quantity of product in market when the cost of production exceeds the market-price of the product. In such case, the seller would wait for a rise in the price of the product.

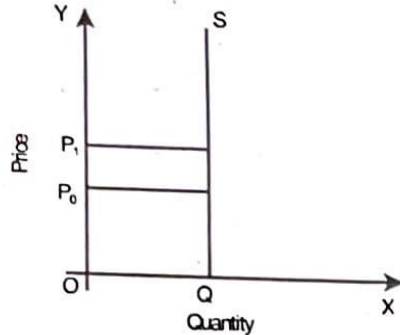
- [34] When the supply of a product is perfectly inelastic then the curve will be

- (a) Parallel to Y-axis
 (b) Parallel to X-axis
 (c) At the angle of 45°
 (d) Sloping upwards

(1 mark)

Answer :

- (a) If due to a change in the price, the quantity supplied of goods remain unchanged, such goods are said to have inelastic supply i.e. there supply cannot be changed. This is shown by the vertical supply curve i.e. curve parallel to Y-axis.



- [35] In the case of _____, there is an inverse relationship between income and demand for a product.

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

(1 mark)

Answer :

- (c) Giffen goods are the products for which demand increases as the price increases and falls when the price decreases. These is a special case of inferior goods which people buy less when their income rises. Hence, an inverse relationship is established between income and demand of the product.

- [36] If maize has - 0.30 as income elasticity of demand, then maize will be considered as _____.

- (a) Necessity
- (b) Inferior good
- (c) Superior good
- (d) None

(1 mark)

Answer :

- (b) Since the income elasticity of maize is $-.30 < 0$, it is an inferior commodity in the eyes of the household. The demand for inferior goods falls as income rises. Also as the elasticity is less than one, it shows that the goods is either relatively less important in the consumer's eye or it is a necessity.

- [37] If price decreases from ₹ 80 to ₹ 60 and elasticity of demand is 1.25 then

- (a) demand increase by 25%
- (b) demand decrease by 25%
- (c) remains constant
- (d) None of the above

(1 mark)

Answer:

- (d) Price Elasticity = $\frac{\text{Percentage change in quantity demanded}}{\text{Percentage change in price}}$

given, \rightarrow Elasticity = 1.25

$$\% \text{ change in price} = \frac{60 - 80}{80} \times 100 = -25\%$$

$$1.25 = \frac{\% \text{ change in Quantity}}{25\%}$$

Increase in Demand = -31.25%

Hence, **option (d)** is correct.

- [38] Which of the following is / are the conditions of theory of consumer surplus if the price is same for all the units he purchased?

- (a) The consumer gains extra utility or surplus
- (b) Consumer surplus for the last commodity is zero
- (c) Both
- (d) None

(1 mark)

Answer:

- (c) The concept of consumer surplus is based on the law of diminishing marginal utility. If a consumer gets extra of something, its marginal utility starts decreasing. Keeping the price same for all the commodities, a consumer gets extra utility for the units consumed by him except the one at the margin i.e. the last unit. The extra utility obtained by the consumer is known as consumer surplus.

[39] Which of the following is not the property of an indifference curve?

- (a) Slopes downwards to the right
 - (b) Always convex to the origin
 - (c) Intersects each other
 - (d) Will not touch either of the axes
- (1 mark)

Answer:

(c) The following are the properties of an indifference curves:

1. It slopes downwards to the right
2. It is convex to the origin
3. Two ICs never intersect each other
4. Higher IC represents a higher level of satisfaction
5. IC never touches either axes

Thus **option (c)** is not the property of an indifference curve.

[40] Which of the following is correct ?

- (a) Elasticity on the lower segment of demand curve is greater than unity
 - (b) Elasticity on the upper segment of demand curve is lesser than unity
 - (c) Elasticity at the middle of the demand curve is equal to unity
 - (d) Elasticity decreases as one moves from the lower part of the demand curve to upper part
- (1 mark)

Answer:

(c) Point elasticity at any point can be measured by the following formula

$$\frac{RT}{Rt} = \frac{\text{lower segment}}{\text{upper segment}}$$

- Elasticity on lower segment of demand curve is less than 1
- Elasticity at the middle of the demand curve is equal to unity
- Elasticity on the upper segment of the demand curve is more than 1
- Elasticity increases on one moves from the lower part of the demand curve to upper part.

[41] Which of the following will affect the demand for non-durable goods?

- (a) Disposable Income
 - (b) Price
 - (c) Demography
 - (d) All of the above
- (1 mark)

Answer:

- (d) Factors affecting the demand for non-durable consumer goods are
1. Disposable income
 2. Price
 3. Demography

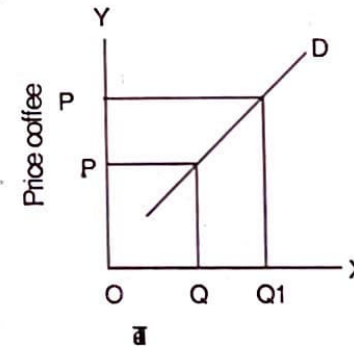
Thus, **option (d)** is the correct answer.

[42] When the price of tea decreases, people reduce the consumption of coffee. Then the goods are

- (a) Complementaries
 - (b) Substitutes
 - (c) Inferior goods
 - (d) Normal goods
- (1 mark)

Answer:

- (b) Substitute goods are those goods which can be interchangeably used. **Example**, tea and coffee, ink pen and ball pen. If the price of a product falls the people will try it and thus, the demand for the other product will fall.



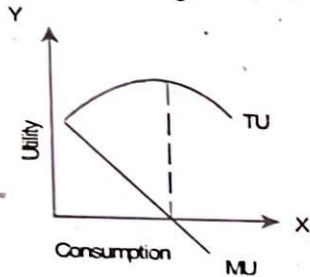
[43] Which of the following relation is true with MU?

- (a) When MU is positive, Total utility rises at a diminishing rate
 - (b) When marginal utility is zero, total utility is maximum
 - (c) When marginal utility is negative, total utility is diminishing
 - (d) All of the above
- (1 mark)

Answer:

(d) The relationship between marginal utility (MU) and Total Utility (TU) is as follows:

1. When MU decreases TU increases at a decreasing rate
2. When MU is zero, TU is maximum
3. When MU becomes negative, TU declines.



[44] The price elasticity of demand at the midpoint of the straight - line demand curve under point method is _____.

- (a) 0
- (b) 1
- (c) >1
- (d) <1

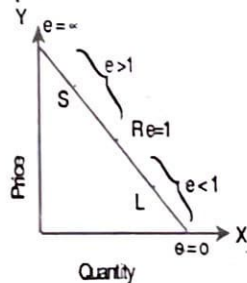
(1 mark)

Answer:

(b) Given a straight line demand curve, point elasticity can be calculated through.

$$\frac{RT}{Rt} = \frac{\text{lower segment}}{\text{upper segment}}$$

Elasticity at various points:



Thus, price elasticity of demand at mid point under point method is 1.

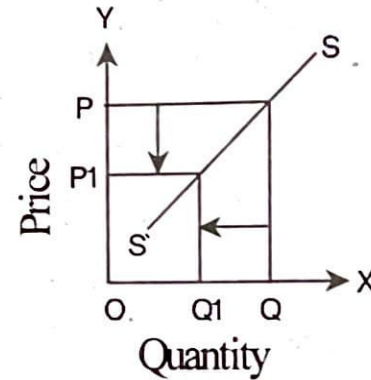
[45] Contraction of supply implies _____.

- (a) Decrease in cost of production
- (b) Decrease in price of the good concerned
- (c) Decrease in price of related good
- (d) Increase in price of the good concerned

(1 mark)

Answer:

(b) Contraction in supply is the result of decrease in price of the good concerned.



[46] Perishable commodities will have _____.

- (a) Perfectly elastic curve
- (b) Perfectly inelastic curve
- (c) Elastic
- (d) Inelastic

(1 mark)

Answer:

(b) The supply curve of perishables goods is perfectly inelastic. Perishable goods cannot be stored for a long time, if stored, they will be wasted, thus, its supply is limited and cannot be changed in short run.

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[47] Supply is a _____ concept.

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

Answer:

- (a) Supply refers to what a firm offer for sale in the market, not necessarily to what they succeed in selling. What is offered may not get sold.
Supply is a flow concept. The quantity supplied is 'so much' per unit of time, per day, per week, or per year.

[48] Total utility is also known as

- (a) Total satiety
- (b) Aggregate satiety
- (c) Full satiety
- (d) Half satiety

Answer:

- (c) Total utility is measurable and additive total utility may be defined as the sum of utility derived from different units of a commodity consumed by a consumer.
Total utility is the sum of total marginal utilities derived from the consumption of different units i.e.
 $TU = Mu_1 + Mu_2 + \dots + Mu_n$
∴ We can say that total utility is also known as total satiety.

[49] A vertical supply curve parallel to y axis implies the elasticity of supply is

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

Answer:

- (a) A Vertical supply curve parallel to y-axis implies that elasticity of supply is Zero.



[50] Budget line is also called

- (a) Price line
- (b) Iso cost line
- (c) Iso-quant
- (d) None

Answer:

- (a) Budget line shows all those combinations of two goods which the consumer can buy spending his given money incomes on the two goods at their given prices. All those combinations which are within the reach of the consumer. Will lie on the budget line.

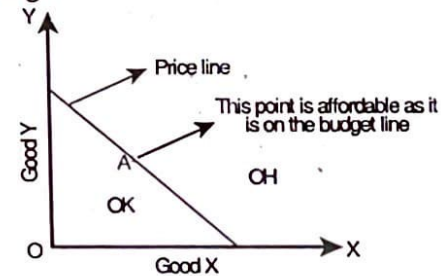
$$\therefore P_x O_x + P_y Q_y \leq B$$

Where Budget line is also called price line.

∴ $P_x Q_x$ = Price and Quantity of good X

$P_y Q_y$ = Price and Quantity of good Y

B is the Budget

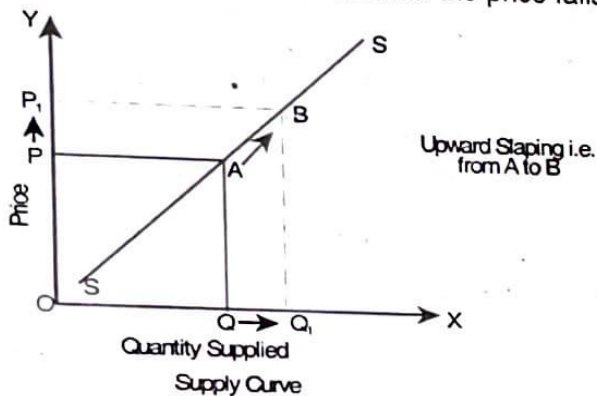


Points K and H are not affordable because of budget constraints.

- [51] The Quantity supplied of a goods or services is the amount that _____
- As actually bought during a given time period at given price.
 - Producers wish, they could sell at higher price
 - Producers plan to sell during a given time period at given price.
 - People are willing to buy during a green their period at a given price.

Answer:

- (c) The quantity supplied of a good or services is the amount that producers plan to sell during a given time period at given price. The quantity supplied of a good also depends upon government's industrial and foreign policies, goals of the firm, infrastructural facilities etc.
- Law of supply states that other things remaining constant, the quantity of a good produced and offered for sale will increase as the price of the good rises and decreases as the price falls.



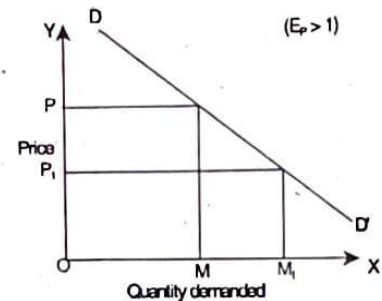
- [52] Luxury goods have income elasticity

- Negative and less than 1
- Positive and greater than 1
- Zero
- None

Answer:

- (b) Luxury goods have income elasticity is positive and greater than one.
i.e. ($E_p > 1$)

Demand for luxury goods arise beyond a certain level of consumer income and keep on rising as income increases.
Eg.: Car, TV etc.
Elasticity greater than one when the percentage change in quantity demanded is greater than percentage change in price.



Elasticity is greater than one

- [53] Percentage change quantity supplied is divided by _____ to obtain elasticity of supply
- Percentage decrease in price
 - Percentage change in price
 - Both (a) and (b)
 - None

Answer:

- (b) Percentage change in quantity supplied is divided by percentage change in price to obtain elasticity of supply.

$$E_s = \frac{\text{Percentage change in Quantity Supplied}}{\text{Percentage change in Price}}$$

- [54] If the price of the product is ₹ 20 per unit and if the price decreases by 5% as a result of which quantity demanded increases by 10% find M_{11} (old quantity is 10 units)
- 9
 - 19
 - 10
 - 12

Answer:

(a)

Price (P) (₹)	Quantity units	Total Revenue TR = P × Q
20	10	200
19	11	209

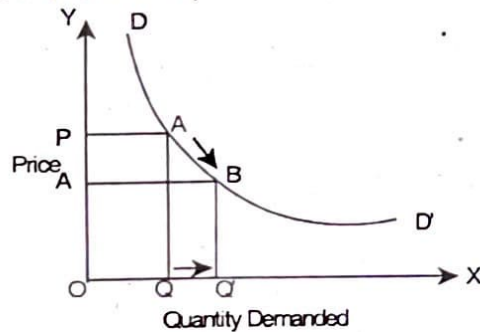
$$\begin{aligned} \therefore MR_n &= TR_n - TR_{n-1} \\ MR_{11} &= TR_{11} - TR_{11-1} \\ MR_{11} &= 209 - 200 \\ MR_{11} &= 9 \end{aligned}$$

[55] Law of demand relates to:

- (a) Price only
- (b) Price and quantity demanded of a good
- (c) Quantity demanded only
- (d) Supply

Answer:

- (b) Law of demand relates to price and quantity demanded of a good. As "Prof. Alfred Marshall" defined Law of Demand as – The greater the amount to be sold, the smaller must be the price at which it is offered in order that it may find purchasers or in other words the amount demanded increases with a fall in price and diminishes with a rise in price.



Demand Curve for Commodity X

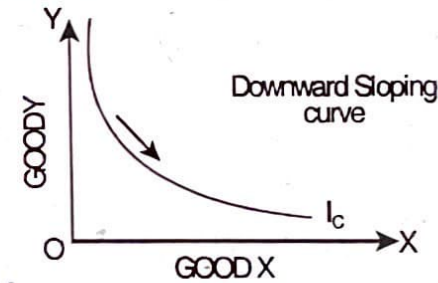
[56] An indifference curve slopes down towards right since more of one commodity and of another commodity result in

- (a) Same level of satisfaction
- (b) Maximum satisfaction
- (c) Greater satisfaction
- (d) Less satisfaction

Answer:

- (a) Indifference curve slopes down towards right since more of one commodity and of another commodity result in same level of satisfaction.

The downward slope of indifference curve states that two commodities can be substituted for each other and when the amount of one good in the combination is increased, the amount of the other good is reduced. This is essential if the level of satisfaction is to remain the same on an indifference curve.



Indifference Curve

[57] Elasticity for habitual goods is

- (a) Perfectly elastic
- (b) Elastic
- (c) Perfectly inelastic
- (d) Inelastic

- ◆ The welfare gain to producers is producer surplus, which is the benefit derived by producers 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 they would be prepared to supply for.
- ◆ At equilibrium price, when the market is in equilibrium, social efficiency is achieved with maximum social surplus to both producers and consumers enjoying maximum possible surplus.

TEST YOUR KNOWLEDGE

Multiple Choice Questions

1. Demand for a commodity refers to:
 - (a) desire backed by ability to pay for the commodity.
 - (b) need for the commodity and willingness to pay for it
 - (c) the quantity demanded of that commodity at a certain price.
 - (d) the quantity of the commodity demanded at a certain price during any particular period of time.
2. Contraction of demand is the result of :
 - (a) decrease in the number of consumers.
 - (b) increase in the price of the good concerned.
 - (c) increase in the prices of other goods.
 - (d) decrease in the income of purchasers.
3. All but one of the following are assumed to remain the same while drawing an individual's demand curve for a commodity. Which one is it?
 - (a) The preference of the individual.
 - (b) His monetary income.
 - (c) Price of the commodity
 - (d) Price of related goods.
4. Which of the following pairs of goods is an example of substitutes?
 - (a) Tea and sugar.

- (b) *Tea and coffee.*
- (c) *Pen and ink.*
- (d) *Shirt and trousers.*
5. *In the case of a straight line demand curve meeting the two axes, the price-elasticity of demand at the mid-point of the line would be:*
- (a) 0
- (b) 1
- (c) 1.5
- (d) 2
6. *The Law of Demand, assuming other things to remain constant, establishes the relationship between:*
- (a) *income of the consumer and the quantity of a good demanded by him.*
- (b) *price of a good and the quantity demanded.*
- (c) *price of a good and the demand for its substitute.*
- (d) *quantity demanded of a good and the relative prices of its complementary goods.*
7. *Identify the factor which generally keeps the price-elasticity of demand for a good low:*
- (a) *Variety of uses for that good.*
- (b) *Very low price of a commodity*
- (c) *Close substitutes for that good.*
- (d) *High proportion of the consumer's income spent on it.*
8. *Identify the coefficient of price-elasticity of demand when the percentage increase in the quantity of a good demanded is smaller than the percentage fall in its price:*
- (a) *Equal to one.*
- (b) *Greater than one.*
- (c) *Less than one.*
- (d) *Zero.*
9. *In the case of an inferior good, the income elasticity of demand is:*
- (a) *positive.*

- (b) Zero.
 - (c) Negative.
 - (d) infinite.
10. If the demand for a good is inelastic, an increase in its price will cause the total expenditure of the consumers of the good to:
- (a) Remain the same.
 - (b) Increase.
 - (c) Decrease.
 - (d) Any of these.
11. If regardless of changes in its price, the quantity demanded of a good remains unchanged, then the demand curve for the good will be:
- (a) horizontal.
 - (b) Vertical.
 - (c) positively sloped.
 - (d) negatively sloped.
12. Suppose the price of Pepsi increases, we will expect the demand curve of Coca Cola to:
- (a) Shift towards left since these are substitutes
 - (b) Shift towards right since these are substitutes
 - (c) Remain at the same level
 - (d) None of the above
13. All of the following are determinants of demand except:
- (a) Tastes and preferences.
 - (b) Quantity supplied.
 - (c) Income of the consumer
 - (d) Price of related goods.
14. A movement along the demand curve for soft drinks is best described as:
- (a) An increase in demand.
 - (b) A decrease in demand.

- (c) A change in quantity demanded.
- (d) A change in demand.
15. If the price of Pepsi decreases relative to the price of Coke and 7-UP, the demand for:
- (a) Coke will decrease.
- (b) 7-Up will decrease.
- (c) Coke and 7-UP will increase.
- (d) Coke and 7-Up will decrease.
16. If a good is a luxury, its income elasticity of demand is:
- (a) Positive and less than 1.
- (b) Negative but greater than -1.
- (c) Positive and greater than 1.
- (d) Zero.
17. The price of hot dogs increases by 22% and the quantity of hot dogs demanded falls by 25%. This indicates that demand for hot dogs is:
- (a) Elastic.
- (b) Inelastic.
- (c) Unitarily elastic.
- (d) Perfectly elastic.
18. If the quantity demanded of mutton increases by 5% when the price of chicken increases by 20%, the cross-price elasticity of demand between mutton and chicken is
- (a) -0.25
- (b) 0.25
- (c) -4
- (d) 4
19. Given the following four possibilities, which one results in an increase in total consumer expenditure?
- (a) Demand is unitary elastic and price falls.
- (b) Demand is elastic and price rises.
- (c) Demand is inelastic and price falls.

- (d) Demand is inelastic and prices rises.
20. Which of the following statements about price elasticity of supply is correct?
- (a) Price elasticity of supply is a measure of how much the quantity supplied of a good responds to a change in the price of that good
- (b) Price elasticity of supply is computed as the percentage change in quantity supplied divided by the percentage change in price
- (c) Price elasticity of supply in the long run would be different from that of the short run
- (d) All the above
21. Which of the following is an incorrect statement?
- (a) When goods are substitutes, a fall in the price of one (*ceteris paribus*) leads to a fall in the quantity demanded of its substitutes.
- (b) When commodities are complements, a fall in the price of one (other things being equal) will cause the demand of the other to rise
- (c) As the income of the consumer increases, the demand for the commodity increases always and vice versa.
- (d) When a commodity becomes fashionable people prefer to buy it and therefore its demand increases
22. Suppose the price of movies seen at a theatre rises from ₹ 120 per person to ₹ 200 per person. The theatre manager observes that the rise in price causes attendance at a given movie to fall from 300 persons to 200 persons. What is the price elasticity of demand for movies? (Use Arc Elasticity Method)
- (a) .5
- (b) .8
- (c) 1.0
- (d) 1.2
23. Suppose a department store has a sale on its silverware. If the price of a plate-setting is reduced from ₹ 300 to ₹ 200 and the quantity demanded increases from 3,000 plate-

- settings to 5,000 plate-settings, what is the price elasticity of demand for silverware? (Use Arc Elasticity Method)
- (a) .8
 - (b) 1.0
 - (c) 1.25
 - (d) 1.50
24. When the numerical value of cross elasticity between two goods is very high, it means
- (a) The goods are perfect complements and therefore have to be used together
 - (b) The goods are perfect substitutes and can be used with ease in place of one another
 - (c) There is a high degree of substitutability between the two goods
 - (d) The goods are neutral and therefore cannot be considered as substitutes
25. If the local pizzeria raises the price of a medium pizza from ₹ 60 to ₹ 100 and quantity demanded falls from 700 pizzas a night to 100 pizzas a night, the price elasticity of demand for pizzas is :(Use Arc Elasticity Method)
- (a) .67
 - (b) 1.5
 - (c) 2.0
 - (d) 3.0
26. If electricity demand is inelastic, and electricity charges increase, which of the following is likely to occur?
- (a) Quantity demanded will fall by a relatively large amount.
 - (b) Quantity demanded will fall by a relatively small amount.
 - (c) Quantity demanded will rise in the short run, but fall in the long run.
 - (d) Quantity demanded will fall in the short run, but rise in the long run.
27. Suppose the demand for meals at a medium-priced restaurant is elastic. If the management of the restaurant is considering raising prices, it can expect a relatively:
- (a) Large fall in quantity demanded.
 - (b) Large fall in demand.
 - (c) Small fall in quantity demanded.

- (d) *Small fall in demand.*
28. *Point elasticity is useful for which of the following situations?*
- (a) *The bookstore is considering doubling the price of notebooks.*
- (b) *A restaurant is considering lowering the price of its most expensive dishes by 50 percent.*
- (c) *An auto producer is interested in determining the response of consumers to the price of cars being lowered by ₹ 100.*
- (d) *None of the above.*
29. *A decrease in price will result in an increase in total revenue if:*
- (a) *The percentage change in quantity demanded is less than the percentage change in price.*
- (b) *The percentage change in quantity demanded is greater than the percentage change in price.*
- (c) *Demand is inelastic.*
- (d) *The consumer is operating along a linear demand curve at a point at which the price is very low and the quantity demanded is very high.*
30. *An increase in price will result in an increase in total revenue if:*
- (a) *The percentage change in quantity demanded is less than the percentage change in price.*
- (b) *The percentage change in quantity demanded is greater than the percentage change in price.*
- (c) *Demand is elastic.*
- (d) *The consumer is operating along a linear demand curve at a point at which the price is very high and the quantity demanded is very low.*
31. *Demand for a good will tend to be more elastic if it exhibits which of the following characteristics?*
- (a) *It represents a small part of the consumer's income.*
- (b) *The good has many substitutes available.*
- (c) *It is a necessity (as opposed to a luxury).*
- (d) *There is little time for the consumer to adjust to the price change.*

32. Demand for a good will tend to be more inelastic if it exhibits which of the following characteristics?
- (a) The good has many substitutes.
 - (b) The good is a luxury (as opposed to a necessity).
 - (c) The good is a small part of the consumer's income.
 - (d) There is a great deal of time for the consumer to adjust to the change in prices.
33. Suppose a consumer's income increases from ₹ 30,000 to ₹ 36,000. As a result, the consumer increases her purchases of compact discs (CDs) from 25 CDs to 30 CDs. What is the consumer's income elasticity of demand for CDs? (Use Arc Elasticity Method)
- (a) 0.5
 - (b) 1.0
 - (c) 1.5
 - (d) 2.0
34. Total utility is maximum when:
- (a) Marginal utility is zero.
 - (b) Marginal utility is at its highest point.
 - (c) Marginal utility is negative
 - (d) None of the above
35. Which one is not an assumption of the theory of demand based on analysis of indifference curves?
- (a) Given scale of preferences as between different combinations of two goods.
 - (b) Diminishing marginal rate of substitution.
 - (c) Diminishing marginal utility of money
 - (d) Consumers would always prefer more of a particular good to less of it, other things remaining the same.
36. An indifference curve slopes down towards right since more of one commodity and less of another result in:
- (a) Same level of satisfaction.
 - (b) Greater satisfaction.
 - (c) Maximum satisfaction.

- (d) Any of the above
37. Suppose that workers in a steel plant managed to force a significant increase in their wage package. How would the new wage contract be likely to affect the market supply of steel, other things remaining the same?
- (a) Supply curve will shift to the left.
- (b) Supply curve will shift to the right.
- (c) Supply will not shift, but the quantity of cars produced per month will decrease.
- (d) Supply will not shift, but the quantity of cars produced per month will increase.
38. Which of the following statements is incorrect?
- (a) An indifference curve must be downward-sloping to the right.
- (b) Convexity of a curve implies that the slope of the curve diminishes as one moves from left to right.
- (c) The income elasticity for inferior goods to a consumer is positive
- (d) The total effect of a change in the price of a good on its quantity demanded is called the price effect.
39. The successive units of stamps collected by a little boy give him greater and greater satisfaction. This is a clear case of
- (a) Operation of the law of demand.
- (b) Consumer surplus enjoyed in hobbies and rare collections
- (c) Exception to the law of diminishing utility.
- (d) None of the above
40. What will happen in the rice market if buyers are expecting higher rice prices in the near future?
- (a) The demand for rice will increase and the demand curve will shift to the right
- (b) The demand for rice will decrease and the demand curve will shift to the left
- (c) The demand for rice will be unaffected as it is a necessity
- (d) The demand for wheat will increase and the demand curve will shift to the right
41. In the case of a Giffen good, the demand curve will usually be:
- (a) horizontal.

- (b) downward-sloping to the right.
- (c) vertical.
- (d) upward-sloping to the right.
42. By consumer surplus, economists mean
- (a) The area inside the budget line above the price of the commodity
- (b) The area between the average revenue and marginal revenue curves.
- (c) The difference between the maximum amount that a person is willing to pay for a good and its market price.
- (d) The difference between the market price and the supply curve
43. Which of the following is a property of an indifference curve?
- (a) It is convex to the origin due to diminishing marginal rate of substitution
- (b) The marginal rate of substitution is constant as you move along an indifference curve.
- (c) Marginal utility is constant as you move along an indifference curve.
- (d) Total utility is greatest where the budget line cuts the indifference curve.
44. When economists speak of the utility of a certain good, they are referring to
- (a) The demand for the good.
- (b) The usefulness of the good in consumption.
- (c) The expected satisfaction derived from consuming the good.
- (d) The rate at which consumers are willing to exchange one good for another.
45. A vertical supply curve parallel to Y axis implies that the elasticity of supply is:
- (a) Zero
- (b) Infinity
- (c) Equal to one
- (d) Greater than zero but less than infinity.
46. For a normal good with a downward sloping demand curve:
- (a) The price elasticity of demand is negative; the income elasticity of demand is negative.

- (b) *The price elasticity of demand is positive; the income elasticity of demand is negative.*
 - (c) *The price elasticity of demand is positive; the income elasticity of demand is positive.*
 - (d) *The price elasticity of demand is negative; the income elasticity of demand is positive.*
47. *An increase in the supply of a good is caused by :*
- (a) *Improvements in its production technology*
 - (b) *Fall in the prices of other goods which can be produced using the same inputs.*
 - (c) *Fall in the prices of factors of production used in its production.*
 - (d) *all of the above.*
48. *Elasticity of supply refers to the degree of responsiveness of supply of a good to changes in its:*
- (a) *Demand.*
 - (b) *Price.*
 - (c) *Cost of production.*
 - (d) *State of technology.*
49. *A horizontal supply curve parallel to the quantity axis implies that the elasticity of supply is:*
- (a) *Zero.*
 - (b) *Infinite.*
 - (c) *Equal to one.*
 - (d) *Greater than zero but less than one.*
50. *Contraction of supply is the result of:*
- (a) *Decrease in the number of producers.*
 - (b) *Decrease in the price of the good concerned.*
 - (c) *Increase in the prices of other goods.*
 - (d) *Decrease in the outlay of sellers.*

51. *Conspicuous goods are also known as*
- (a) *Prestige goods*
 - (b) *Snob goods*
 - (c) *Veblen goods*
 - (d) *All of the above*
52. *The quantity purchased remains constant irrespective of the change in income. This is known as*
- (a) *negative income elasticity of demand*
 - (b) *income elasticity of demand less than one*
 - (c) *zero income elasticity of demand*
 - (d) *income elasticity of demand is greater than one*
53. *As income increases, the consumer will go in for superior goods and consequently the demand for inferior goods will fall. This means inferior goods have*
- (a) *income elasticity of demand less than one*
 - (b) *negative income elasticity of demand*
 - (c) *zero income elasticity of demand*
 - (d) *unitary income elasticity of demand*
54. *When income increases the money spent on necessities of life may not increase in the same proportion. This means*
- (a) *income elasticity of demand is zero*
 - (b) *income elasticity of demand is one*
 - (c) *income elasticity of demand is greater than one*
 - (d) *income elasticity of demand is less than one*
55. *The luxury goods like jewellery and fancy articles will have*
- (a) *low income elasticity of demand*
 - (b) *high income elasticity of demand*
 - (c) *zero income elasticity of demand*
 - (d) *none of the above*

56. *A good which cannot be consumed more than once is known as*
- (a) *Durable good*
 - (b) *Non-durable good*
 - (c) *Producer good*
 - (d) *None of the above*
57. *A relative price is*
- (a) *price expressed in terms of money*
 - (b) *what you get paid for babysitting your cousin*
 - (c) *the ratio of one money price to another*
 - (d) *equal to a money price*
58. *A point below the budget line of a consumer*
- (a) *Represents a combination of goods which costs the whole of consumer's income*
 - (b) *Represents a combination of goods which costs less than the consumer's income*
 - (c) *Represents a combination of goods which is unattainable to the consumer given his/her money income*
 - (d) *Represents a combination of goods which costs more than the consumers' income*
59. *Demand is the*
- (a) *the desire for a commodity given its price and those of related commodities*
 - (b) *the entire relationship between the quantity demanded and the price of a good other things remaining the same*
 - (c) *willingness to pay for a good if income is larger enough*
 - (d) *ability to pay for a good*
60. *Suppose potatoes have (-).0.4 as income elasticity. We can say from the data given that:*
- (a) *Potatoes are superior goods.*
 - (b) *Potatoes are necessities.*
 - (c) *Potatoes are inferior goods.*
 - (d) *There is a need to increase the income of consumers so that they can purchase potatoes.*

61. The price of tomatoes increases and people buy tomato puree. You infer that tomato puree and tomatoes are
- (a) Normal goods
 - (b) Complements
 - (c) Substitutes
 - (d) Inferior goods
62. Chicken and fish are substitutes. If the price of chicken increases, the demand for fish will
- (a) Increase or decrease but the demand curve for chicken will not change
 - (b) Increase and the demand curve for fish will shift rightwards.
 - (c) Not change but there will be a movement along the demand curve for fish.
 - (d) Decrease and the demand curve for fish will shift leftwards.
63. Potato chips and popcorn are substitutes. A rise in the price of potato chips will _____ the demand for popcorn and the quantity of popcorn sold will _____
- (a) increase; increase
 - (b) increase; decrease
 - (c) decrease; decrease
 - (d) decrease; increase
64. If the price of orange Juice increases, the demand for apple Juice will _____.
- (a) increase because they are substitutes
 - (b) decrease because they are substitutes
 - (c) remain the same because real income is increased
 - (d) decrease as real income decreases
65. An increase in the demand for computers, other things remaining same, will:
- (a) Increase the number of computers bought.
 - (b) Decrease the price but increase the number of computers bought.
 - (c) Increase the price of computers.
 - (d) Increase the price and number of computers bought.
66. When total demand for a commodity whose price has fallen increases, it is due to:
- (a) Income effect.

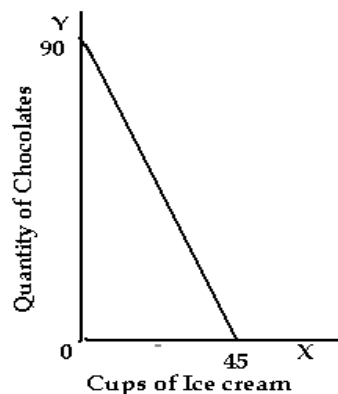
- (b) *Substitution effect*
 - (c) *Complementary effect*
 - (d) *Price effect*
67. *With a fall in the price of a commodity:*
- (a) *Consumer's real income increases*
 - (b) *Consumer's real income decreases*
 - (c) *There is no change in the real income of the consumer*
 - (d) *None of the above*
68. *With an increase in the price of diamond, the quantity demanded also increases. This is because it is a:*
- (a) *Substitute good*
 - (b) *Complementary good*
 - (c) *Conspicuous good*
 - (d) *None of the above*
69. *An example of goods that exhibit direct price-demand relationship is*
- (a) *Giffen goods*
 - (b) *Complementary goods*
 - (c) *Substitute goods*
 - (d) *None of the above*
70. *In Economics, when demand for a commodity increases with a fall in its price it is known as:*
- (a) *Contraction of demand*
 - (b) *Expansion of demand*
 - (c) *No change in demand*
 - (d) *None of the above*
71. *The quantity supplied of a good or service is the amount that*
- (a) *is actually bought during a given time period at a given price*
 - (b) *producers wish they could sell at a higher price*

- (c) *producers plan to sell during a given time period at a given price*
- (d) *people are willing to buy during a given time period at a given price*
72. *Supply is the*
- (a) *limited resources that are available with the seller*
- (b) *cost of producing a good*
- (c) *entire relationship between the quantity supplied and the price of good.*
- (d) *Willingness to produce a good if the technology to produce it becomes available*
73. *In the book market, the supply of books will decrease if any of the following occurs except*
- (a) *a decrease in the number of book publishers*
- (b) *a decrease in the price of the book*
- (c) *an increase in the future expected price of the book*
- (d) *an increase in the price of paper used.*
74. *If price of computers increases by 10% and supply increases by 25%. The elasticity of supply is :*
- (a) *2.5*
- (b) *0.4*
- (c) *(-) 2.5*
- (d) *(-) 0.4*
75. *An increase in the number of sellers of bikes will increase the*
- (a) *The price of a bike*
- (b) *Demand for bikes*
- (c) *The supply of bikes*
- (d) *Demand for helmets*
76. *If the supply of bottled water decreases, other things remaining the same, the equilibrium price _____ and the equilibrium quantity _____*
- (a) *increases; decreases*
- (b) *decreases; increases*
- (c) *decreases; decreases*

- (d) *increases; increases*
77. *A decrease in the demand for cameras, other things remaining the same will*
- (a) *Increase the number of cameras bought*
 - (b) *Decrease the price but increase the number of cameras bought*
 - (c) *Decrease in quantity of camera demanded*
 - (d) *Decrease the price and decrease in the number of cameras bought.*
78. *Which of the following statements about inferior goods is/are false?*
- I. *Inferior goods are those that we will never buy, no matter how cheap they are.*
 - II. *Inferior goods are those that we buy more of, if we become poorer.*
 - III. *Inferior goods are those that we buy more of, if we become richer.*
- (a) *I and III only.*
 - (b) *I only*
 - (c) *III only.*
 - (d) *I, II, and III.*
79. *Comforts lie between*
- (a) *inferior goods and necessities*
 - (b) *luxuries and inferior goods*
 - (c) *necessaries and luxuries*
 - (d) *none of the above*
80. *In a very short period, the supply*
- (a) *can be changed*
 - (b) *can not be changed*
 - (c) *can be increased*
 - (d) *none of the above*
81. *When supply curve moves to the left, it means*
- (a) *lesser quantity is supplied at a given price*
 - (b) *larger quantity is supplied at a given price*

- (c) *prices have fallen and quantity is supplied at a lower price*
- (d) *none of the above*
82. *When supply curve moves to right, it means*
- (a) *supply increases and more quantity is supplied at a given price*
- (b) *supply decreases and less quantity is supplied at a given price*
- (c) *supply remains constant at a given price*
- (d) *none of the above*
83. *The elasticity of supply is defined as the*
- (a) *responsiveness of the quantity supplied of a good to a change in its price*
- (b) *responsiveness of the quantity supplied of a good without change in its price*
- (c) *responsiveness of the quantity demanded of a good to a change in its price*
- (d) *responsiveness of the quantity demanded of a good without change in its price*
84. *Elasticity of supply is measured by dividing the percentage change in quantity supplied of a good by _____*
- (a) *Percentage change in income*
- (b) *Percentage change in quantity demanded of goods*
- (c) *Percentage change in price*
- (d) *Percentage change in taste and preference*
85. *Elasticity of supply is zero means*
- (a) *perfectly inelastic supply*
- (b) *perfectly elastic supply*
- (c) *imperfectly elastic supply*
- (d) *none of the above*
86. *Elasticity of supply is greater than one when*
- (a) *Proportionate change in quantity supplied is more than the proportionate change in price.*
- (b) *Proportionate change in price is greater than the proportionate change in quantity supplied.*
- (c) *change in price and quantity supplied are equal*

- (d) None of the above
87. If the quantity supplied is exactly equal to the relative change in price then the elasticity of supply is
- (a) Less than one
(b) Greater than one
(c) One
(d) None of the above
88. The price of a commodity decreases from ₹ 6 to ₹ 4 and the quantity demanded of the good increases from 10 units to 15 units. Find the coefficient of price elasticity.
- (a) 1.5
(b) 2.5
(c) -1.5
(d) 0.5
89. The supply function is given as $Q = -100 + 10P$. Find the elasticity using point method, when price is ₹ 15.
- (a) 4
(b) -3
(c) -5
(d) 3
90. The figure below shows the budget constraint of a consumer with an income of ₹ 900/- to spend on two commodities, namely ice cream and chocolates.



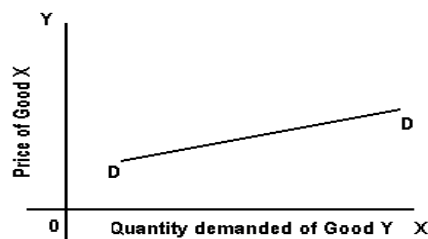
The prices of these two commodities respectively are:

- (a) ₹ 10 and ₹ 20
 - (b) ₹ 20 and ₹ 10
 - (c) ₹ 10 and ₹ 5
 - (d) Any of the above
91. 'No matter what the price of coffee is, Arjun always spend a total of exactly 100 per week on coffee.' The statement implies that:
- (a) Arjun is very fond of coffee and therefore he has an inelastic demand for coffee
 - (b) Arjun has elastic demand for coffee
 - (c) Arjun's demand for coffee is relatively less elastic
 - (d) Arjun's demand for coffee is unit elastic
92. A firm learns that the own price elasticity of a product it manufactures is 3.5. What would be the correct action for this firm to take if it wishes to raise its total revenue?
- (a) Lower the price because demand for the good is elastic.
 - (b) Raise the price because demand for the product is inelastic.
 - (c) Raise the price because demand is elastic.
 - (d) We need information in order to answer this question.
93. At higher prices people demand more of certain goods not for their worth but for their prestige value – This is called
- (a) Veblen effect
 - (b) Giffens paradox
 - (c) Speculative effect
 - (d) None of the above
94. If the price of air-conditioner increases from ₹ 30,000 to ₹ 30,010 and resultant change in demand is negligible, we use the measure of _____ to measure elasticity.
- (a) Point elasticity of demand since it is a small change
 - (b) Arc elasticity of demand since it is a small change
 - (c) Price elasticity based on average prices method
 - (d) Any of the above

95. Given the following four possibilities, which one will result in an increase in total expenditure of the consumer?
- (a) Demand is unit elastic and price rises
 - (b) Demand is elastic and price rises
 - (c) Demand is inelastic and price falls
 - (d) demand is inelastic and price rises
96. The supply curve shifts to the right because of _____
- (a) improved technology
 - (b) increased price of factors of production
 - (c) increased excise duty
 - (d) all of the above
97. Which of the following statements is correct?
- (a) When the price falls the quantity demanded falls
 - (b) Seasonal changes do not affect the supply of a commodity
 - (c) Taxes and subsidies do not influence the supply of the commodity
 - (d) With lower cost, it is profitable to supply more of the commodity.
98. If the demand is more than supply, then the pressure on price will be
- (a) Upward
 - (b) Downward
 - (c) Constant
 - (d) None of the above
99. The supply curve for highly perishable commodities during very short period is generally _____
- (a) Elastic
 - (b) Inelastic
 - (c) Perfectly elastic
 - (d) Perfectly inelastic

100. Supply is a _____ concept.
- (a) Stock
 - (b) Flow and stock
 - (c) Flow
 - (d) None of the above
101. The cross elasticity between Rye bread and Whole Wheat bread is expected to be:
- (a) Positive
 - (b) Negative
 - (c) Zero
 - (d) Can't say
102. The cross elasticity between personal computers and soft wares is:
- (a) Positive
 - (b) Zero
 - (c) Negative
 - (d) One
103. The cross elasticity between Bread and DVDs is:
- (a) Positive
 - (b) Negative
 - (c) Zero
 - (d) One
104. Which of the following statements is correct?
- (a) With the help of statistical tools, the demand can be forecasted with perfect accuracy
 - (b) The more the number of substitutes of a commodity, the more elastic is the demand.
 - (c) Demand for butter is perfectly elastic.
 - (d) Gold jewellery will have negative income elasticity.
105. Suppose the income elasticity of education in private school in India is 3.6. What does this indicate:
- (a) Private school education is highly wanted by rich

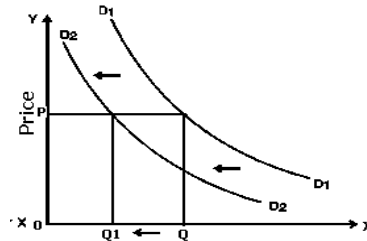
- (b) Private school education is a necessity.
- (c) Private school education is a luxury.
- (d) We should have more private schools.
106. If the organizers of an upcoming cricket match decide to increase the ticket price in order to raise its revenues, what they have learned from past experience is;
- (a) The percentage increase in ticket rates will be always equal the percentage decrease in tickets sold
- (b) The percentage increase in ticket rates will be always greater than the percentage decrease in tickets sold
- (c) The percentage increase in ticket rates will be less than the percentage decrease in tickets sold
- (d) (a) and (c) above are true
107. Data on production of vegetables for the past two years showed that, despite stable prices, there is a substantial decline in output of cabbage leading to lower supply into the market. Which of the following can possibly be the reason?
- (a) An increase in the price of cauliflower which is equally preferred by consumers
- (b) Announcement of a subsidy by government on vegetable production
- (c) More farmers producing cabbage and the increasing competition among them
- (d) A substantial decrease in the price of capsicum
108. The following diagram shows the relationship between price of Good X and quantity demanded of Good Y. What we infer from the diagram is;



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

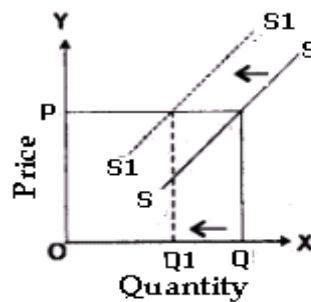
(d) Good X and Good Y are close substitutes

109. The diagram given below shows



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

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



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

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

- (a) A fall in the price of a substitute with the price of the good unchanged

- (b) *A fall in the nominal income of the consumer and a fall in the price of the normal good*
- (c) *A fall in the price of a complementary good with the price of the normal good unchanged*
- (d) *A fall in the price of the normal good, other things remaining the same*
112. *If roller- coaster ride is a function of amusement park visit, then, if the price of amusement park entry falls*
- (a) *The demand for roller- coaster rides will rise and the demand curve will shift to right*
- (b) *The demand for roller coaster ride cannot be predicted as it depends on the tastes of consumers for the ride*
- (c) *There will be an expansion in the demand for roller coaster drive as it complementary*
- (d) *None of the above*
113. *If a short run supply curve is plotted for the following table which presents price and quantity of fighter aircrafts, what will be its shape?*

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

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

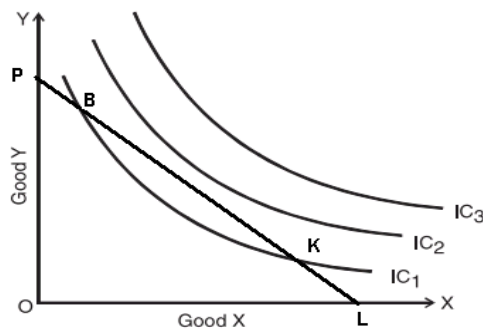
114. The average income of residents of two cities A and B and the corresponding change in demand for two goods is given in the following table. Which of the following statements is true?

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

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

Refer to the figure below. Answer questions 115 and 116

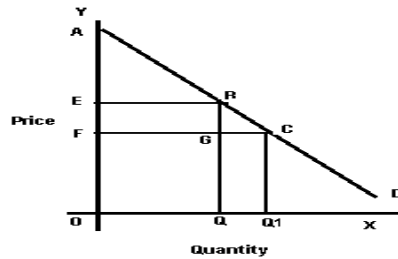
115. If this consumer is spending her entire income and consuming at point B, what advise will you give her?



- (a) No advise needed, as she is maximizing her utility at B
 - (b) Consume more of Good X and less of Good Y
 - (c) Consume more of X and less of Y and reach point K
 - (d) Consume same quantity of Good Y and more of Good X
116. Which of the following statements is true about this consumer?
- (a) The consumer is not maximizing her utility at point K
 - (b) The consumer is spending her entire income on both goods
 - (c) The consumer gets equal pleasure at points B and K
 - (d) All the above

Refer to the figure below. Answer questions 117 and 118

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



- (a) A decrease in consumer surplus by $EFGR$
- (b) A decrease in consumer surplus by AER
- (c) A decrease in consumer surplus by FCR
- (d) None of the above
118. When price rises from F to E , the increase in revenue earned by the seller is
- (a) Equivalent to area $EFGR$
- (b) Equivalent to area FCR
- (c) Equivalent to area AER
- (d) None of the above
119. How would that budget line be affected if the price of both goods fell?
- (a) The budget line would not shift.
- (b) The new budget line must be parallel to the old budget line.
- (c) The budget line must be shifting to the left
- (d) The new budget line will have the same slope as the original so long as the prices of both goods change in the same proportion.
120. During a recession, economies experience increased unemployment and a reduced level of income. How would a recession likely to affect the market demand for new cars?
- (a) Demand curve will shift to the right.
- (b) Demand curve will shift to the left.
- (c) Demand will not shift, but the quantity of cars sold per month will decrease.
- (d) Demand will not shift, but the quantity of cars sold per month will increase.

ANSWERS

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

3

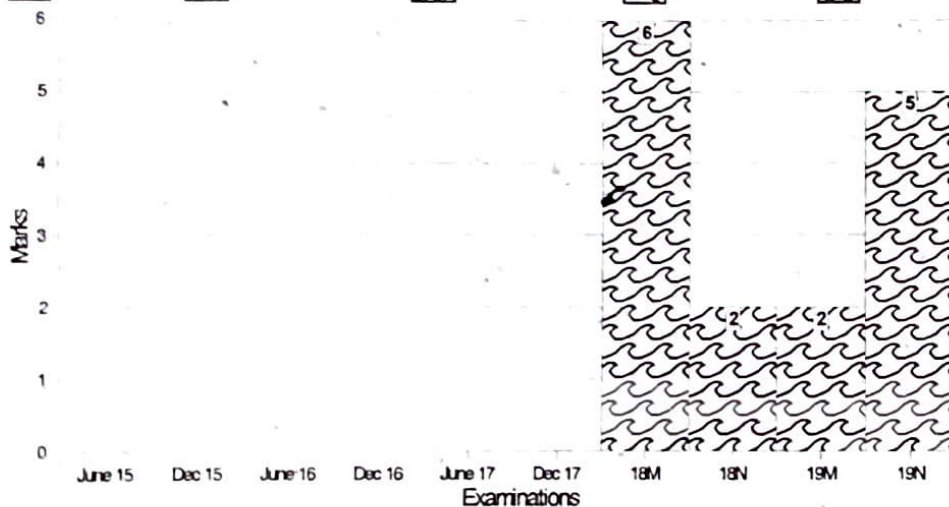
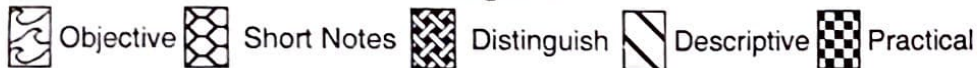
THEORY OF PRODUCTION AND COST

Unit:1

Theory of Production

Marks of Objective, Short Notes, Distinguish Between, Descriptive & Practical Questions

Legend



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Solved Scanner CA Foundation Paper - 4A (New Syllabus)

PAST YEAR QUESTIONS AND ANSWERS

2006 - NOVEMBER

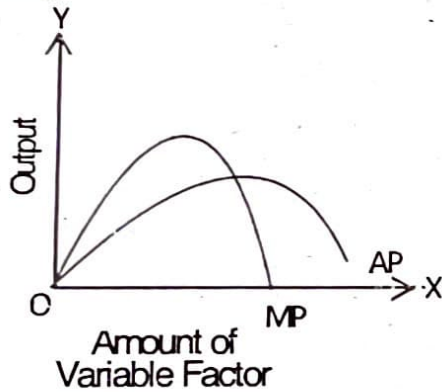
- [1] _____ shows the overall output generated at a given level of input:
- Cost function
 - Production function
 - ISO cost
 - Marginal rate of technical substitution
- (1 mark)
- Answer:**
- (b) Production function states the relationship between inputs and outputs generated.
- [2] If LAC curve falls as output expands, this is due to _____:
- law of diminishing returns
 - economics of scale
 - law of variable proportion
 - dis-economics of scale
- (1 mark)
- Answer:**
- (b) In the long run, when output expands total cost first increases, then becomes constant and finally decreases.
- When output expands, and cost curve falls it is the first stage of returns to scale which occurs due to economies of scale.
- [3] Isoquants are equal to:
- Product Lines
 - Total utility lines
 - Cost lines
 - Revenue lines
- (1 mark)
- Answer:**
- (a) An isoquant consist of alternative combinations of input to produce a given quantity of output and product lines are lines representing various combinations of factors of production to produce a given output.

2007 - FEBRUARY

- [4] The marginal product curve is above the average product curve when the average product is:
- (a) Increasing (b) Decreasing
(c) Constant (d) None (1 mark)

Answer:

- (a) Marginal product and average product are so related that when average product increases, MP increases at a faster rate and cuts AP at its Maximum and when AP falls MP falls at a faster rate. So the marginal product curve is above the average product curve when AP is increasing.



- [5] Increasing returns to scale can be explained in terms of:
- (a) External and internal economies
(b) External and internal diseconomies
(c) External economics and internal diseconomies
(d) All of these (1 mark)

Answer:

- (a) Increasing returns to scale i.e. When output increases more than the increase in input. It occurs due to external and internal economics.

2007 - MAY

- [6] An isoquant is _____ to an isocost line at the equilibrium point:
- (a) convex (b) concave
(c) tangent (d) perpendicular (1 mark)

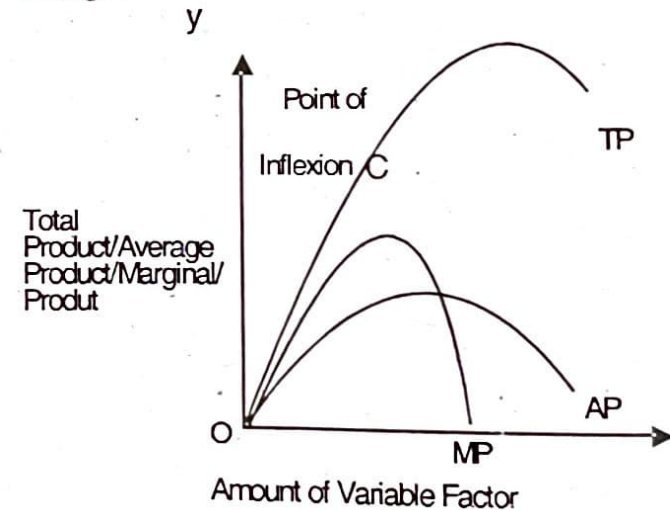
Answer:

- (c) An isoquant is tangent to an isocost line. This point of tangency defines the equilibrium position of a firm. A higher isoquant shows an unalterable point and a lower one shows underutilized resources. Hence an isoquant with an isocost line as tangent is the equilibrium position.

- [7] At the point of inflexion, the marginal product is:
- (a) Increasing (b) Decreasing
(c) Maximum (d) Negative (1 mark)

Answer:

- (c) Point of inflexion is a point in the first stage of law of variable proportion i.e. When MP becomes maximum. At this point, the slope of TP changes.



- 8) Diminishing marginal returns implies:
 (a) Decreasing average variable costs
 (b) Decreasing marginal costs
 (c) Increasing marginal costs
 (d) Decreasing average fixed costs (1 mark)

Answer:

- (c) Keeping other things constant when marginal cost increases with a considerable increase in variable factors, the marginal product declines. This is the second stage of law of variable proportion or the stage of diminishing returns.

2007 - AUGUST

- [9] If the marginal product of labour is below the average product of labour, it must be true that:
 (a) Marginal product of labour is negative
 (b) Marginal product of labour is zero
 (c) Average product of labour is falling
 (d) Average product of labour is negative (1 mark)

Answer:

- (c) Same as Ans. 4

2007 - NOVEMBER

- [10] Law of variable proportion is valid when:
 (a) Only one input is fixed and all other inputs are kept variable
 (b) All factors are kept constant
 (c) All inputs are varied in the same proportion
 (d) None of these (1 mark)

Answer:

- (a) Law of variable proportion occurs in short-run. Short-run is a period when only one input is fixed and all other inputs are kept variable.

- [11] Change in total revenue due to incremental change in quantity supplied is called:
 (a) Marginal Revenue (b) Marginal Change
 (c) Average Revenue (d) Average Change (1 mark)

Answer:

- (a) Marginal revenue is defined as an addition made to the total revenue by selling one more unit of a commodity. It is the incremental change in total revenue.

$$M.R._n = T.R._n - T.R._{n-1}$$

2008 - FEBRUARY

- [12] Increase in all input leading to less than proportional increase in output is called _____.
 (a) increasing returns to scale
 (b) decreasing returns to scale
 (c) constant returns to scale
 (d) both increasing and decreasing returns to scale (1 mark)

Answer:

- (b) Decreasing returns to scale is the stage when the increase in the output is less than the increase in input, this occurs due to internal and external diseconomies.

- [13] Consider the following combinations of inputs and outputs:
 This production technology satisfies

Labour	Capital	Output
5	10	1
6	12	2
7	14	3
8	16	4
9	18	5
10	20	6

- (a) Increasing returns to scale
- (b) Diminishing returns to scale
- (c) Constant returns to scale
- (d) Increasing returns initially, following by decreasing returns to scale.

Answer:

(1 mark)

- (c) In the given production technology the increase in input is proportionate to the increase in output.

With an increase of every 1 unit of labour and 2 units of capital the output increases by 1 unit.

Hence, it is the case of constant returns to scale as both fixed and variable factors are changing (all factors are variable).

2008 - JUNE

- [14] During IInd stage of law of diminishing returns:
- (a) MP and TP is maximum
 - (b) MP and AP are decreasing
 - (c) AP is negative
 - (d) TP is negative

(1 mark)

Answer:

- (b) During the second stage of Law of Diminishing Returns (i.e. Law of Variable Proportion) both MP and AP are decreasing because at this stage the optimum combination between fixed and variable factors have been attained and now if the input is increased, output starts decreasing. At this stage, total product increases at a diminishing rate i.e. MP and AP decreases.

- [15] Consider the following table:

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

What is the total output, when 2 labours are employed?

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

(1 mark)

Answer:

- (c) When 1 unit of labour is employed TP = 100, MP = 100 when 2 unit of labour is employed MP = 80 i.e. addition made to the product is 80.

Total product when 2 labours are employed is 100 + 80 = 180.

OR

$$MP_2 = TP_2 - T.P_{2-1}$$

$$80 = TP_2 - 100.$$

$$TP_2 = 80 + 100 = 180.$$

- [16] Who has given the concept of Innovative Entrepreneurship?

- (a) Robbins
- (b) Adam Smith
- (c) Schumpeter
- (d) Sweezy

(1 mark)

Answer:

- (c) The concept of Innovative Entrepreneurship was given by Schumpeter.

2008 - DECEMBER

- [17] AT 10 units Total Cost → ₹ 200
 20 units Total Cost → ₹ 600
 Marginal Cost = ?

- (a) 50
- (b) 40
- (c) 30
- (d) 400

(1 mark)

Answer:

- (b) Given Original total cost = ₹ 200
 Original quantity produced = 10 units
 New total cost = ₹ 600
 New quantity produced = 20 units

Answer:

(d) The entrepreneur has also been called the organiser, the manager or risk-taker. The task of an entrepreneur is to initiate production work and to bear the risks involved. An entrepreneur performs the following functions:

- (i) Initiating a business enterprise and resource co-ordination
- (ii) Risk bearing or uncertainty bearing
- (iii) Innovation

[23] Law of diminishing returns is applicable in:

- (a) Manufacturing industry
- (b) Agriculture
- (c) Neither (a) nor (b)
- (d) Any economic activity at a point of time (1 mark)

Answer:

(d) Law of diminishing returns states that as more and more factors of production are employed, the total production first increases, and then eventually declines. This law applies to all economic activities at some point or the other.

2009 - DECEMBER

[24] Labour force wants more _____.

- (a) facility (b) leisure
- (c) benefit (d) all of the above (1 mark)

Answer:

(b) Labour is one of the factors of production. A labourer has to make a choice between hours of labour and hours of leisure. Labour force prefers to have more of the rest and leisure than earning money.

[25] Production activity in the short-run is analysed by:

- (a) Returns to scale (b) Economies of scale
- (c) Law of variable proportion (d) None of these (1 mark)

Answer:

(c) Short-run is a time period when only one factor is fixed and rest are variable. The law of variable proportion operates in the short-run. Therefore, in short-run production activity is analysed by law.

[26] Increasing returns to scale occurs due to:

- (a) Economies of scale (b) Specialization
- (c) Indivisibility of factors (d) All of these (1 mark)

Answer:

(d) Increasing returns to scale occurs when the output increases more than the increase in input. This occurs due to economies of scale also it occurs due to the indivisibility of factors and returns to scale may also increase because of greater possibilities of specialization of land and machinery.

2010 - JUNE

[27] Law of diminishing returns is applicable in _____.

- (a) only manufacturing industries
- (b) only agriculture
- (c) neither in agriculture nor in industries
- (d) in all economic activities after a limit (1 mark)

Answer:

(d) Law of diminishing returns states that as more and more factors of production are employed, the total product first increases and then eventually declines. This law applies to all economic activities after a limit.

[28] Law of increasing returns is applicable because of _____.

- (a) indivisibility of factors (b) specialization
- (c) economies of scale (d) both (a) & (b) above (1 mark)

Answer:

(d) The two causes of Law of Increasing Returns are:
 (A) Indivisibility of Factors.
 (B) Division of Labour and specialization.
 Hence both options A and B are correct.

- [29] When output decreases by 20% due to an increase in inputs by 20%, this stage is called the law of _____.
- (a) increasing returns to scale (b) decreasing returns to scale
 (c) constant returns to scale (d) none of the above (1 mark)

Answer:

- (d) Law of constant returns states that with increase in input, the output also increases in the same proportion.

However, in the given question, the output is decreasing by 20% due to an increase in input by 20%. This is not the case of constant returns to scale. This is neither the case of increasing returns to scale nor decreasing returns to scale, hence, the answer would be none of the above.

2010 - DECEMBER

- [30] In the first stage of the law of variable proportions, the total product increases at the _____.
- (a) decreasing rate (b) increasing rate
 (c) constant rate (d) both a and b. (1 mark)

Answer:

- (b) The law of variable proportion states that as we increase the quantity of one input which is combined with other fixed inputs, the MP of variable input eventually declines. It is divided into three stages (laws):

- (i) Law of increasing returns
 (ii) Law of decreasing returns
 (iii) Law of negative returns

- [31] What will be the total product when two labourers are hired according to the table given below?

No. of labourers	Total product	Marginal product
0	—	—
1	350	350
2	—	230

- (a) 680 (b) 580
 (c) 350 (d) 230 (1 mark)

Answer:

$$\begin{aligned} \text{(b) } TP_n &= TP_{n-1} + MP_n \\ &= 350 + 230 \\ &= 580 \end{aligned}$$

- [32] Which function shows the relationship between input and output?
- (a) Consumption function (b) Investment function
 (c) Production function (d) Cost function (1 mark)

Answer:

- (c) Production function states the relationship between inputs and output i.e. the maximum amount of output that can be produced with given quantities of inputs under a given state of technical knowledge.

2011 - JUNE

- [33] External economies are enjoyed:
- (a) By large producers only (b) As the firm expands
 (c) Both (a) and (b) (d) None of above. (1 mark)

Answer:

- (c) External economies are those economies which accrue to firms as a result of expansion in the output of the whole industry and they are not dependent on the output level of individual firms. External economies are enjoyed by large producers.

2012 - JUNE

- [34] The Law of Diminishing Returns is applicable in _____.
- (a) only in manufacturing industries
 (b) only in agriculture
 (c) neither in agriculture nor in industries
 (d) all economic activities after a point. (1 mark)

Answer:

(d) Law of diminishing returns occurs in the short run and states that as more and more units of variable factors are employed to a fixed factor total product first increases and then eventually declines.

This law occurs on all economic activities after a point of time because after reaching an optimum combination the factors become over utilized and lead to lesser production.

[35] The concept of Returns to Scale is related to:

- (a) Very short period
- (b) Short period
- (c) Long period
- (d) None of above.

Answer:

(c) Long -run refers to the time period when all the factors change and no factor is fixed.

When all inputs are changed in the same proportion, it leads to a change in scale. Therefore, returns to scale occurs in the long run.

[36] The function of an entrepreneur is:

- (a) Initiating an enterprise and resource coordination
- (b) Risk bearing
- (c) Introducing innovations
- (d) All of the above.

Answer:

(d) An entrepreneur is a person who combines all factors of production, bears risk and initiates the process of production. An entrepreneur performs the following functions:

- (a) Initiating a business and resource coordination
- (b) Risk bearing and uncertainty bearing
- (c) Taking innovations

2012 - DECEMBER

[37] Which of the following is not a characteristics of land?

- (a) It is a free gift of nature
- (b) It is a mobile factor of production
- (c) It is limited in quantity
- (d) Its productive power is indestructible.

(1 mark)

Answer:

(b) A factor of production should have the following characteristics to be called land :

1. It is a free gift of nature
2. It is strictly limited in quantity
3. It is indestructible
4. It cannot be shifted from one place to another.
5. It is a specific factor of production

[38] A production function is defined as the relationship between _____.

- (a) the quantity of physical inputs and physical output of a firm
- (b) stock of inputs and stock of output
- (c) prices of inputs and output
- (d) price and supply of a firm.

(1 mark)

Answer:

(a) Production function states the relationship between inputs and output i.e. the maximum amount of output that can be produced with given quantities of inputs under a given state of technical knowledge.

[39] Production activity in the short period is analysed with the help of:

- (a) Law of variable proportion
- (b) Laws of returns to scale
- (c) Both (a) & (b)
- (d) None of the above.

(1 mark)

Answer:

(a) Production function states the relationship between inputs and outputs. The production activity can be in short-run or long-run. Short period is that period of time which is too short for a firm to install new capital equipment to increase production. This is done when the law of variable proportion is analysed.

2013 - JUNE

[40] Which of the following is the reason for the working of the law of increasing returns?

- (a) Fuller utilisation of fixed factors
- (b) Indivisibility of the factors
- (c) Greater specialization of labour
- (d) All of the above.

(1 mark)

Answer:

- (d) The causes of the law of increasing returns are:
 — Indivisibility of factors.
 — Division of labour and specialisation.

When variable factor is increased, fuller utilisation of fixed factor becomes possible and it results in increasing returns.

Hence, all of the above are the reasons for working of the law of increasing returns.

[41] External economies can be achieved through:

- (a) Foreign trade only
- (b) Superior managerial skill
- (c) Extension of transport and credit facilities
- (d) External assistance.

(1 mark)

Answer:

- (c) External economies of scale are those which accrue to firms as a result of expansion in the output of the whole industry. These are available to one or more of the firms in the form of —
- (i) Cheaper raw materials and capital equipment
 - (ii) Technological external economies
 - (iii) Development of skilled labour
 - (iv) Growth of ancillary industries
 - (v) Better transportation and marketing facilities. Thus, external economies can be achieved through the extension of transport and credit facilities.

[42] External economies arise due to:

- (a) Growth of ancillary industries
- (b) High cost of technologies
- (c) Increase in the price of factors of production
- (d) None of the above.

(1 mark)

Answer:

- (a) External economies arises due to the following reasons:
- (i) Cheaper raw materials and capital equipment
 - (ii) Technological external economies
 - (iii) Development of skilled labour
 - (iv) Growth of ancillary industries
 - (v) Better transportation and marketing facilities

2013 - DECEMBER

[43] Innovation theory of entrepreneurship is propounded by:

- (a) Knight
- (b) Schumpeter
- (c) Max Weber
- (d) Peter Drucker

(1 mark)

Answer:

- (b) The concept of innovative entrepreneurship was propounded by Schumpeter.

[44] Production function is:

- (a) Purely a technical relationship between input & output
- (b) Purely an economic relationship between input & output
- (c) Both the technical & economical relationship between input & output
- (d) None of the above.

(1 mark)

Answer:

- (a) Production function states the relationship between inputs and the output i.e. the maximum amount of the output that can be produced with the given quantities of inputs under a given state of technical knowledge.

Thus, production function is purely a technical relationship between input & output.

- [45] The concept of returns to scale is related with:
 (a) very short period (b) short period
 (c) long period (d) none of the above (1 mark)

Answer:

(c) Long-run refers to the time period when all the factors change and no factor is fixed, when all inputs are changed in the same proportion, it leads to a change in scale. Therefore, returns to scale occurs in the long run.

Thus, option (c) is correct.

- [46] In Cobb-Douglas production function, two inputs are:
 (a) Land and Labour (b) Labour and Capital
 (c) Capital and Entrepreneur (d) Entrepreneur and land (1 mark)

Answer:

(b) Cobb-Douglas Production function applies not to an individual firm but to the whole of manufacturing. In this case, output is manufacturing production and inputs used are labour and capital.

2014 - JUNE

- [47] Which one of the following is not a characteristic of land?
 (a) A free gift of nature
 (b) Its supply is fixed
 (c) An active factor of production
 (d) It has different uses. (1 mark)

Answer:

(c) As a theoretical concept, land has the following characteristics:

- (1) Land is Nature's gift.
- (2) Supply of land is fixed.
- (3) It has indestructible powers.
- (4) It is a passive factor.
- (5) It has different uses.

Hence, land is not an active factor of production, thus option (c) is the correct answer.

- [48] An Entrepreneur undertakes which one of the following functions?
 (a) Initiating a business and resource co-ordination
 (b) Risk or uncertainty bearing
 (c) Innovations
 (d) All of the above. (1 mark)

Answer:

(d) An entrepreneur performs the following functions in general:

- (1) Initiating a business enterprise & resource co-ordination.
- (2) Risk bearing/uncertainty bearing.
- (3) Innovations.

Hence, option (d) i.e. all of the above is the correct answer.

- [49] With a view to increase his production, Hariharan a manufacturer of shoes, increases all the factors of production in his unit by 100%. But at the end of the year, he finds that instead of an increase of 100%, his production has increased by only 80%. Which law of returns to scale is operating in this case?
 (a) Increasing returns to scale (b) Decreasing returns to scale
 (c) Constant returns to scale (d) None of the above. (1 mark)

Answer:

(b) When output increases in a smaller proportion with an increase in all inputs, decreasing returns to scale are said to prevail. In this case, inputs are increased by 100% in comparison to outputs which are increased by 80%.

Hence, option (b) is correct.

2014 - DECEMBER

- [50] Linear homogeneous production function is based on:
 (a) Increasing returns to scale (b) Decreasing returns to scale
 (c) Constant returns to scale (d) None of the above (1 mark)

Answer:

(c) Linear homogeneous production function is based on constant returns to scale. It occurs when the inputs increase by some proportion and the output also increases by the same proportion.

2015 - JUNE

[51] Which of the following statement is true in relation to an ISO-Quant Curve?

- (a) It represents those combinations of two factors of production that will give the same level of output
- (b) It represents those combinations of all the factors that will give the same level of output
- (c) It slopes upward to the right
- (d) It can touch either axis.

(1 mark)

Answer:

(a) An iso-quant represents all those combinations of two factors of production which are capable of producing the same level of output.

[52] Production is defined as:

- (a) Creation of matter
- (b) Creation of utility in matter
- (c) Creation of infrastructural facilities
- (d) None of the above.

(1 mark)

Answer:

(b) By production we mean that process by which man utilises or converts the resources of nature, working upon them so as to make them satisfy human wants.

[53] Long period production function is related to:

- (a) Law of variable proportions
- (b) Laws of returns to scale
- (c) Law of diminishing returns
- (d) None of the above.

(1 mark)

Answer:

(b) Long period production function is related to law of returns to scale which relate to the long-period production function by changing one or more of its factors. Long period production function is related to law of returns to scale which relate to the long-period production function by changing one or more of its factors.

2015 - DECEMBER

[54] The conclusion drawn from Cobb-Douglas production function is that labour contributed about _____ and capital about _____ of the increase in the manufacturing production.

- (a) $\frac{3^{\text{th}}}{4}$, $\frac{1^{\text{th}}}{4}$
- (b) $\frac{1}{2}$, $\frac{1}{2}$
- (c) $\frac{1^{\text{th}}}{4}$, $\frac{3^{\text{th}}}{4}$
- (d) None of the above. (1 mark)

Answer:

(a) Cobb-Douglas production function states that labour contributed about $\frac{3}{4}$ th and capital about $\frac{1}{4}$ th of the increase in the manufacturing production $Q = KL^a C^{(1-a)}$

Where 'Q' is output, 'L' the quantity of labour, 'C' the Quantity of capital, 'K' and 'a' are positive constants.

2016 - JUNE

[55] ISO quants are also known as:

- (a) Production possibility curves
- (b) Indifference curves
- (c) Production indifference curves
- (d) None of the above.

(1 mark)

Answer:

(c) ISO quants are also known as production indifference curves. They show all those combinations of different factors of production which gives the same output to the producer. ISO quants are similar to indifference curves of the theory of consumer behaviour.

[56] Human capital refers to:

- (a) Savings by individuals
- (b) Mobilisation of savings
- (c) Human skills and abilities
- (d) Productive investment.

Answer:

(1 mark)

(c) Human capital refers to human skill and ability. This is called human capital because a good deal of investment has gone into creation of these abilities in human.

[57] The Law of Variable Proportions is associated with:

- (a) Short period
- (b) Long period
- (c) Both short and long periods
- (d) Neither short nor long period.

Answer:

(1 mark)

(a) The law of variable proportions examines the production function with one factor variable, keeping quantities of other factor fixed. This law operates in the short run when all the factors of production cannot be increased or decreased simultaneously. In other words, it refers to input-output relationship.

[58] Which one of the following statements is not correct?

- (a) Land has indestructible powers
- (b) Labour is mobile
- (c) Capital is nature's gift
- (d) Land is a passive factor.

Answer:

(1 mark)

(c) Capital has been rightly defined as 'produced means of production'. It has been produced by man by working with nature. Therefore, capital may well be defined as man made instruments of production. Example: machine, tools, instruments, factories etc.

2016 - DECEMBER

[59] Which of the following is not a characteristic of labour?

- (a) It is perishable
- (b) It has weak bargaining power
- (c) Labour and Labour power cannot be separated
- (d) Labour is not mobile

(1 mark)

Answer:

(d) Labour is not mobile. This is not a characteristic of labour. Labour is mobile.

[60] Which among the following is not a characteristic of Land?

- (a) It is an active factor
- (b) It has variety of uses
- (c) Its production powers are indestructible
- (d) Its supply is limited

(1 mark)

Answer:

(a) Land is a passive factor of production. It is not a active factor.

[61] When average product rises as a result of an increase in the quantity of variable factor, marginal product is:

- (a) Equal to average product
- (b) More than average product
- (c) Less than average product
- (d) Becomes negative

(1 mark)

Answer:

(b) When average product rises as a result of an increase in the quantity of variable factor, marginal product is more than average product.

[62] Suppose the first four units of a variable input generate corresponding total output of 150, 200, 350, 550. What will be the marginal product of the third unit of input?

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

(1 mark)

Answer:

- (d) Marginal product of the third unit of input
 $= TP_4 - TP_3$
 $= 550 - 350$
 $= 200$

2017 - JUNE

[63] The famous Cobb-Douglas production function is based on studies of _____ industries in the United States of America.

- (a) manufacturing (b) construction
 (c) consumer (d) aviation. (1 mark)

Answer:

(a) A famous statistical production function is Cobb-Douglas production function. Paul H. Douglas and C.W. Cobb of the U.S.A. Studied the production function of the American manufacturing industries. In its original form, this production function applies not to an individual firm but to the whole of manufacturing in the United States. Thus, option (a) is correct.

[64] In Economics, entire process of _____ is nothing but creation of utilities in the form of goods and services.

- (a) consumption (b) production
 (c) exchange (d) distribution. (1 mark)

Answer:

(b) Production is nothing but the creation of utilities in the form of goods and services. For example, in the production of a woolen suit, utility is created in some form or the other. Firstly wool is changed into woolen cloth at the spinning and weaving mill (utility created by changing the form) then it is taken to a place where it is to be sold (utility added by transporting it). Since woolen clothes are used only in winter, it will be retained until such time when then they are required by purchasers (time utility). In the whole process, services of various groups of people are utilized (as that of mill

workers, shopkeepers, agents etc.) to contribute to the enhancement of utility. Thus, the entire process of production is nothing but creation of form utility, place utility, time utility and/or personal utility.

2018 - MAY

[65] Cobb Douglas function is given by $Q = KL^a C^b$

- (a) If $\alpha + \beta > 1$, increasing returns
 (b) If $\alpha + \beta > 1$, increasing returns to scale
 (c) if $\alpha + \beta < 1$, diminishing returns
 (d) if $\alpha + \beta = 1$, decreasing returns to scale. (1 mark)

Answer:

(b) Cobb-Douglas function is given by Paul H. Douglas and C.W. Cobb of U.S.A. studied the production of American Manufacturing industries. They describe that output is manufacturing and input are labour and capital. It is given by $Q = K L^a C^{(1-a)}$ if, $a + b > 1$, increasing return to scale.

[66] Production is defined as:

- (a) Creation of matter
 (b) Creation of utility in matter
 (c) Creation of infrastructural facilities
 (d) None of the above. (1 mark)

Answer:

(b) Man cannot create matter. Man can create only utility in matter. Production should not be taken as creation of matter but it is taken as creation of utility in matter.

For Example: When man produces a table, he does not create the matter of which the wood is composed of. He only transforms wood into chair and utility to wood which did not have utility before.

[67] The conclusion drawn from Cobb Douglas production function is that labour contributed about _____ and capital about _____ of the increase in the manufacturing production.

- (a) $\frac{3^{\text{th}}}{4}, \frac{1^{\text{th}}}{4}$ (b) $\frac{1^{\text{th}}}{2}, \frac{1^{\text{th}}}{2}$
 (c) $\frac{1^{\text{th}}}{4}, \frac{3^{\text{th}}}{4}$ (d) None of the above. (1 mark)

Answer:

(a) As Cobb-Douglas function is below:

$$Q = K L^a C^{(1-a)}$$

Which shows that labour produces $\frac{3}{4}$ th and capital produces $\frac{1}{4}$ of the increase in manufacturing production

[68] At the point of inflexion, the marginal product is:

- (a) Increasing (b) Decreasing
 (c) Maximum (d) Negative (1 mark)

Answer:

(c) Point of inflexion is a point where marginal product is at maximum. First marginal product utility increase then reach at maximum points which is point of inflexion and then decrease. Marginal product can be negative.

[69] Isoquante's are equal to:

- (a) Product lines (b) Total utility lines
 (c) Cost lines (d) Revenue lines (1 mark)

Answer:

(a) Isoquants are similar to indifference curves of theory of consumer behaviour. An isoquants represents all those combinations which are capable of producing same level of output. Production indifference curve is another. Name of isoquants as it represents product lines.

[70] Increasing returns to scale can be explained in terms of:

- (a) External and internal economics
 (b) External and internal diseconomies
 (c) External economies and internal diseconomies
 (d) All of these. (1 mark)

Answer:

(a) Increasing return to scale means increase in output is greater than increase in input and increasing return to scale causes due to external and internal economies while decreasing return to scale causes due to external and internal diseconomies.

2018 - NOVEMBER

[71] According to Cobb-Douglas production function, will get _____ returns to scale?

- (a) Constant
 (b) Diminishing
 (c) Increasing
 (d) Any of the above (1 mark)

Answer:

(a) According to Cobb-Douglas production function is stated as

$$Q = KL^aC^{(1-a)}$$

When 'Q' is output, 'L' is the quantity of labour and 'C' the quantity of capital. 'K' and 'a' are positive constants.

[72] Which of the following statement about factors of production is not true?

- (a) Land is a passive factor
 (b) Land is a free gift of nature
 (c) Land is immobile
 (d) Land is perishable (1 mark)

Answer:

- (d) Characteristics of land are
 1. Land is a free gift of nature
 2. Supply of land is fixed
 3. Land is permanent and has indestructible power
 4. Passive factor
 5. Land in Immobils.

Therefore, land is not perishable and (d) option will be the answer.

2019 - MAY

[73] Which of the following is considered as production in economics?

- (a) Helping a blind person in crossing the road
- (b) Group dance performance in a collage annual function
- (c) Holding a child who is falling from a wall
- (d) Performing an art in a theatre (1 mark)

Answer :

- (d) Production consists of various processes to add utility to natural resources for gaining greater satisfaction from them by making use of personal skills in the form of services.

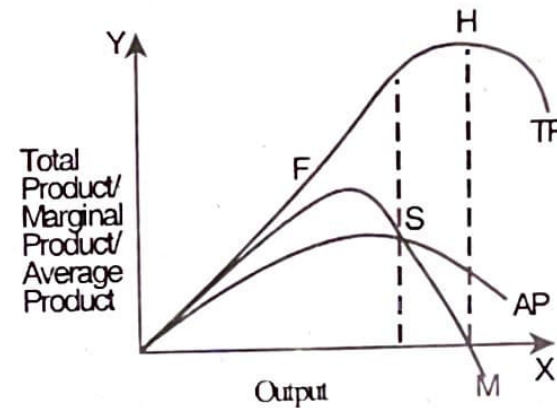
Example: Performing an art in a theatre.

[74] Marginal, average and total product of a firm in the short run will not comprise with

- (a) When marginal product is at a maximum, average product is equal to marginal product, and total product is rising
- (b) When average product is maximum, average product is equal to marginal product, and total product is rising
- (c) When marginal product is negative, total product and average product are falling
- (d) When total product is increasing, average product and marginal product may be either rising or falling (1 mark)

Answer :

- (a) The relationship between average product and marginal product is as follows:
- (i) When average product rises, marginal product is more than average product
 - (ii) When average product is maximum, $MP = AP$
 - (iii) When average product falls, marginal product is less than the average product.



Hence, option (a) is not the relation between MP and AP.

2019 - NOVEMBER

[75] Supply of land is _____ in case of economy?

- (a) Elastic
- (b) Inelastic
- (c) Perfectly elastic
- (d) Perfectly inelastic

Answer:

- (d) Supply of land is perfectly inelastic in case of economy. Land is strictly limited in quantity. It is different from other factors of production in that no change in demand can affect the amount of land in existence. However, it is relatively elastic from the point of view of a firm.

[76] MP is the slope of _____

- (a) TP
- (b) AP
- (c) Both
- (d) None

Answer:

(a) Marginal Product is the slope of Total Product as-
Total product is the total output resulting from the efforts of all factors of production combined together at any time.

Marginal product is the change in total product per unit change in the quantity of variable factor, i.e. it is the addition made in additional unit of output.

$$MP_n = TP_n - TP_{n-1}$$

Or

$$\frac{\Delta TP}{\Delta Q} \quad \Delta TP = \text{Change in Total Product}$$

$\Delta Q = \text{Change in Quantity}$

For Question [77] - [79] used the data table given below :

No of workers	Total output	Marginal output
0	0	0
1	10	-
2	-	8
3	24	-

[77] What will be total output for 2 workers.

- (a) 6
- (b) 18
- (c) 12
- (d) 17

[78] What will be marginal output for 3 workers?

- (a) 6
- (b) 12
- (c) 7
- (d) 8

[79] Average Product for three labour:

- (a) 12
- (b) 11
- (c) 8
- (d) None

Answer:

For Answer [77] - [79] used the data table given below:

At first unit of output. Total output and Marginal output are equal i.e.

$$TP = MP = 10 \text{ units (given as } TP = 10)$$

$$TP = \sum MP$$

$$TP = 10 + 8 = 18 \text{ units of output}$$

No. of Workers	Total Output	Marginal Output
0	0	0
1	10	10
2	10 + 8 = 18	8
3	24	24 - 18 = 6

$$\text{As } Mp_n = TP_n - TP_{n-1}$$

i.e. $TP_n = TP_3$ i.e. total product at 3 units of labour (worker)

$TP_{n-1} = TP_{3-1} = TP_2$ ∴ Total product at 2 units of labour (worker)

$MP_n = MP_3 =$ i.e. marginal product at 3 units of labour (worker)

∴ 24 units - 18 units = 6 units.

And marginal product is Maximum at 8 units of labour.

[77] (b) Total output for 2 workers is (b) = 18

[78] (a) Marginal output for 3 workers is (a) = 6

[79] (c) The average product at 3 units of labour is 8

$$AP = \frac{TP}{Q} = \frac{24}{3} = 8$$

3






THEORY OF PRODUCTION AND COST

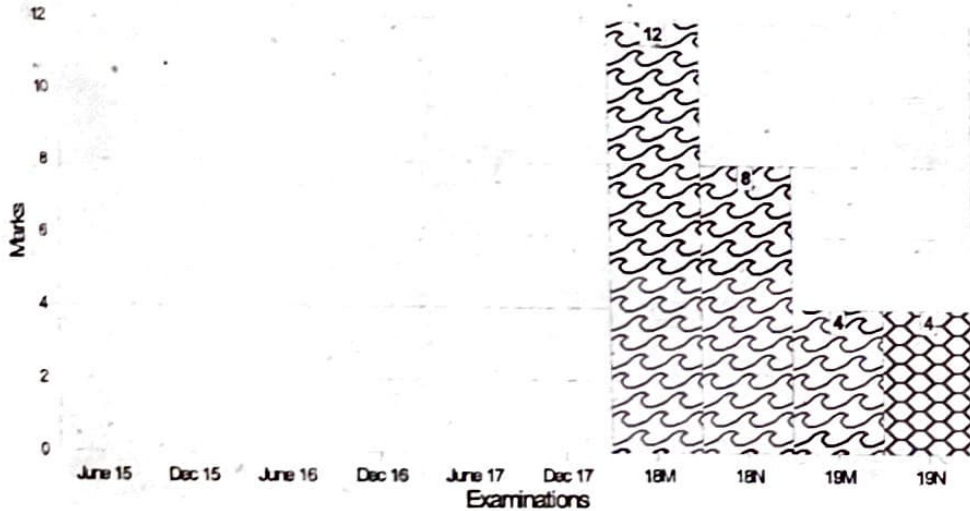
Unit:2

Theory of Cost

Marks of Objective, Short Notes, Distinguish Between, Descriptive & Practical Questions

Legend

 Objective
  Short Notes
  Distinguish
  Descriptive
  Practical



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4.129

4.130 ■ Solved Scanner CA Foundation Paper - 4A (New Syllabus)

PAST YEAR QUESTIONS AND ANSWERS

2006 - NOVEMBER

- [1] Opportunity cost is:
- | | |
|---------------------|----------------------------------|
| (a) Direct cost | (b) Total cost |
| (c) Accounting cost | (d) Cost of foregone opportunity |
- (1 mark)

Answer:

(d) Opportunity cost is the cost of the next best alternative forgone. It's the cost of foregone opportunity.

- [2] As output increases, average fixed cost:
- | | |
|----------------------|--------------------|
| (a) Remains constant | (b) Starts falling |
| (c) Start rising | (d) None |
- (1 mark)

Answer:

(b) Average fixed cost is expressed as :

$$AFC = \frac{\text{Fixed Cost}}{\text{No. of units produced}}$$

Fixed cost always remains fixed. It does not increase with an increase in output. So the average fixed cost falls as more and more units are produced as the fixed cost remains the same.

- [3] Average fixed cost can be obtained through :
- | | |
|----------------------------|----------------------------|
| (a) $AFC = \frac{TFC}{TS}$ | (b) $AFC = \frac{EC}{TU}$ |
| (c) $AFC = \frac{TC}{PC}$ | (d) $AFC = \frac{TFC}{TU}$ |
- (1 mark)

Answer:

(d) Average fixed cost = $\frac{\text{Total Fixed Cost}}{\text{No. of units produced}}$

In given Question,
 AFC = Average fixed cost
 TFC = Total fixed cost
 TU = Total no. of units produced.

2007 - FEBRUARY

- [4] AFC curve is :
 (a) Convex & downward sloping
 (b) Concave & downward sloping
 (c) Convex & upward sloping
 (d) Concave & upward rising (1 mark)

Answer:

(a) Average fixed cost always decreases with an increase in output so the AFC curve is convex and downward sloping.

- [5] A firm's average fixed cost is ₹ 20 at 6 units of output what will it be at 4 units of output?
 (a) ₹ 50 (b) ₹ 30
 (c) ₹ 40 (d) ₹ 20

Answer:

$$(b) AFC = \frac{TFC}{\text{No. of units}}$$

$$20 = \frac{TFC}{6}$$

$$\text{So Total fixed cost} = 20 \times 6 = ₹ 120.$$

So Average Fixed Cost of 4 units of output

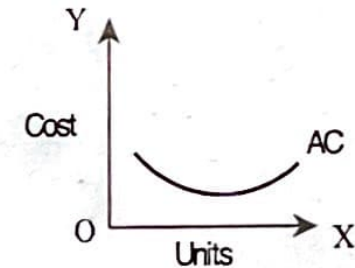
$$AFC = \frac{TFC}{\text{No. of units}}$$

$$AFC = \frac{120}{4} = ₹ 30$$

- [6] U-shaped average cost curve is based on:
 (a) Law of increasing cost
 (b) Law of decreasing cost
 (c) Law of constant returns to scale
 (d) Law of variable proportions (1 mark)

Answer:

(d) Average cost curve is U shaped due to law of variable proportion. In the first stage T.P increases so AC decreases, then T.P becomes constant and finally T. P decreases and A C increases. Hence, it gives a U shape to the average cost curve.



2007 - MAY

- [7] When shape of average cost curve is upward, marginal cost :
 (a) Must be decreasing (b) Must be constant
 (c) Must be rising (d) Any of these (1 mark)

Answer:

(c) Average cost and marginal cost are so related that when average cost falls, MC falls at a faster rate, when AC rises, MC cuts AC at its minimum.

So when AC curve is upward MC must be rising.

- [8] If total cost at 10 units is ₹ 600 and ₹ 640 for 11th unit. The marginal cost of 11th unit is :
 (a) ₹ 20 (b) ₹ 30
 (c) ₹ 40 (d) ₹ 50 (1 mark)

Answer:

$$\begin{aligned} \text{(c) Marginal Cost}_n &= TC_n - TC_{n-1} \\ &= TC_{11} - TC_{11-1} \\ &= 640 - 600 \\ &= ₹ 40 \end{aligned}$$

Marginal cost of 11th unit is ₹ 40.

[9] Economic cost excludes which of the following :

- (a) Accounting cost + explicit cost
- (b) Accounting cost + implicit cost
- (c) Explicit cost + Implicit cost
- (d) Accounting cost + opportunity cost (1 mark)

Answer:

(a) Economic cost take into account accounting (explicit) cost and in addition to this it also includes amount of money the entrepreneur could have earned if he had invested his money and sold his services and other factors in the next best alternative use.

In a nutshell:

Economic Cost = Implicit cost + Explicit cost
 OR = Accounting cost + Implicit cost
 OR = Accounting cost + opportunity cost

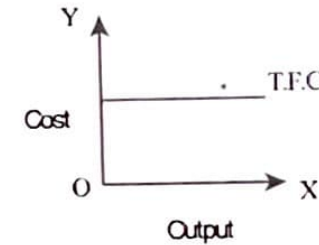
2007 - AUGUST

[10] Which of the following cost curves is never 'U' shaped?

- (a) Average total cost curve
- (b) Marginal cost curve
- (c) Total cost curve
- (d) Total Fixed cost curve (1 mark)

Answer:

(d) Total fixed cost refers to the cost which remains same even if the production total increases. Fixed cost has no effect with an increase or decrease in production. Examples of such cost are rent of factory, electricity charges, etc. Since fixed cost always remains constant so the fixed cost curve is not U shaped but it's a straight line.



[11] Suppose, the total cost of production of commodity X is ₹ 1,25,000. Out of this cost implicit cost is ₹ 35,000 and normal profit is ₹ 25,000. What will be the explicit cost of commodity X?

- (a) 90,000
- (b) 65,000
- (c) 60,000
- (d) 1,00,000 (1 mark)

Answer:

(b) Total cost = ₹ 1,25,000
 Implicit cost = ₹ 35,000
 Normal profit = ₹ 25,000
 Explicit cost = ?
 Total cost = Explicit Cost + Implicit Cost + Normal Profit
 1,25,000 = Explicit Cost + 35,000 + 25,000
 Explicit Cost = ₹ 65,000

[12] What is the total cost of production of 20 units, if fixed cost is ₹ 5,000 and variable cost is ₹2/-?

- (a) 5,400
- (b) 5,040
- (c) 4,960
- (d) 5,020 (1 mark)

Answer:

(b) Total Cost = Fixed Cost + Variable Cost
 ₹ 5,000 + 20 × 2.
 = ₹ 5,040

2007 - NOVEMBER

- [13] External economies accrue due to _____ :
- (a) increasing returns to scale (b) increasing returns to factor
 (c) law of variable proportion (d) low cost (1 mark)

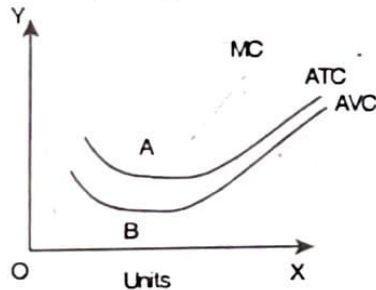
Answer:

(a) External economics accrue to firms as a result of expansion of output of whole industry. Increasing returns to scale occurs due to external economies.

- [14] At which point does the marginal cost curve intersect the average variable cost curve and short run average total cost curve?
- (a) At equilibrium points (b) At their lowest points
 (c) At their optimum points (d) They don't intersect at all (1 mark)

Answer:

(b) Marginal cost curve and average cost curve have a tendency that when AC curve falls, MC curve falls faster when AC curve rises MC curve rises on a faster rate and MC curve cuts the AC curve at its minimum (lowest point).



- [15] Implicit cost may be defined as the:
- (a) Costs which do not change over a period of time
 (b) Costs which the firm incurs but doesn't disclose
 (c) Payment to the non-owners of the firm for the resources
 (d) Money payment which the self employed resources could have earned in their best alternative employment (1 mark)

Answer:

- (d) Implicit cost is the cost of self employed resources. It is the cost of inputs owned by the firms and used by the firm in its own production process.
 Implicit cost includes:
 (a) return on money invested by the entrepreneur in its own business
 (b) rent of self owned building of the entrepreneur .

2008 - FEBRUARY

- [16] A firm's average fixed cost is ₹ 40 at 12 units. What will be the average fixed cost at 8 units: (1 mark)
- (a) ₹ 60 (b) ₹ 70
 (c) ₹ 90 (d) ₹ 80

Answer:

$$(a) AFC = \frac{TFC}{\text{No. of units produced}}$$

$$40 = \frac{TFC}{12}$$

$$TFC = 40 \times 12 = ₹ 480$$

Average fixed cost of 8 units:

$$AFC = \frac{TFC}{\text{No. of units produced}} = \frac{480}{8} = ₹ 60.$$

- [17] Returns to scale will said to be in operation when quantity of :
- (a) All inputs are changed
 (b) All inputs are changed in already established proportion
 (c) All inputs are not changed
 (d) One input is changed while quantity of all other inputs remain the same (1 mark)

Answer:

(b) Returns to scale comes into operation when all inputs whether fixed or variable are changed in same proportion i.e. the scale of production changes.

[18] Which of the following curves never touch any axis but is downward?

- (a) Marginal cost curve (b) Total cost curve
(c) Average fixed cost curve (d) Average variable cost curve
(1 mark)

Answer:

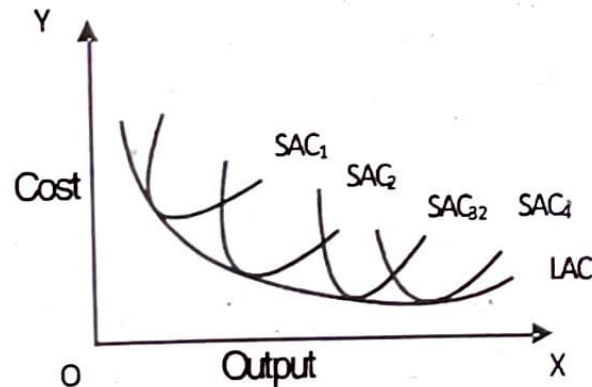
(c) Average fixed cost curve never touches any axes but it slopes downward. Average fixed cost can never be zero even if there is no production so it can never touch any axes. AFC falls when output increases as fixed cost is always fixed. Hence, the curve is downward sloping.

[19] Which of the following is known as Envelope curve?

- (a) MC curve (b) AFC curve
(c) LAC curve (d) TFC curve
(1 mark)

Answer:

(c) Long run average cost curve is called enveloping curve as it envelopes all short run average cost curves (SAC curves are tangent to LAC curve)



2008 - JUNE

[20] A firm producing 7 units of output has an average total cost of ₹ 150 and has to pay ₹ 350 to its fixed factors of production. How much of the average total cost is made up of variable cost?

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

Answer:

$$(d) ATC = \frac{TC}{\text{No. of units}}$$

$$150 = \frac{T.C.}{7}$$

$$\text{Total cost of 7 units} = 150 \times 7 = 1050$$

$$\text{Fixed Cost} = ₹ 350$$

$$\text{Total cost} = \text{Fixed Cost} + \text{Variable Cost}$$

$$1050 = 350 + V.C.$$

$$\text{So variable cost of 7 units} = 1050 - 350 = ₹ 700$$

$$\text{Average variable cost of 7 units} = \frac{700}{7} = ₹ 100$$

[21] A firm's average fixed cost is ₹ 20 at 6 units of output. What will it be at 3 units of output?

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

Answer:

$$(c) \text{ Average fixed cost} = \frac{TFC}{\text{No. of units}}$$

$$20 = \frac{TFC}{6}$$

$$T.F.C. = 20 \times 6 = ₹ 120.$$

$$\text{Average fixed cost of 3 units of output} = \frac{TFC}{\text{Total units}} = \frac{120}{3} = ₹ 40.$$

2008 - DECEMBER

[22] Calculate total cost of 4 units :

Units	Total Cost (₹)	Marginal Cost (₹)
2	80	40
4	—	30

- (a) 140 (b) 120
(c) 50 (d) 40

(1 mark)

Answer:

(a) Let the total cost of producing 4 units be ₹ x

$$\text{Marginal Cost} = \frac{\text{Change in Total Cost}}{\text{Change in Total Quantity}}$$

$$= \frac{x - 80}{4 - 2} = 30$$

$$= \frac{x - 80}{2} = 30$$

$$= x - 80 = 60$$

$$= x = 60 + 80$$

$$= ₹ 140$$

[23]

OUTPUT(Units)	TOTAL COST
0	30
1	40
2	50
3	60

Find Average Fixed Cost of 3 units

- (a) 10 (b) 30
(c) 65 (d) 60

(1 mark)

Answer:

(a) Average Fixed Cost

$$= \frac{\text{Average Fixed Cost}}{\text{Quantity}} = \frac{30}{3} = ₹ 10$$

[24] Long run does not have:

- (a) Average Cost (b) Total Cost
(c) Fixed Cost (d) Variable Cost (1 mark)

Answer:

(c) Long run is a period of time during which the firm can vary all its inputs, unlike short run in which some inputs are fixed and other are variable. In other words, in short run the firm is tied with a given plant, in the long run the firm moves from one plant to another, so long run does not have any fixed cost.

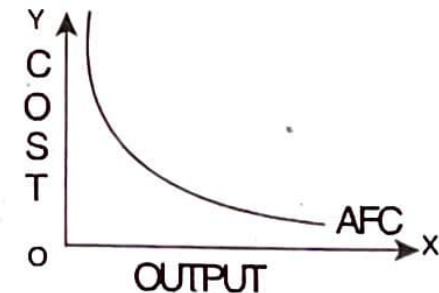
2009 - JUNE

[25] Which of the following curve is not U shaped?

- (a) AFC (b) AVC
(c) MC (d) TC. (1 mark)

Answer:

(a) Fixed cost remains fixed irrespective of number of units produced and therefore average fixed cost keeps on decreasing as more and more units are produced. Due to this, the average fixed cost curve always slopes downward throughout its length and it is not of U shape.



2010 - JUNE

[31] What will be the TVC if we produce 2 units?

Units	0	1	2
TC	20	37	50

(a) 15 (b) 05
(c) 17 (d) 30

Answer:

(d) At zero units of output $TC = FC$ (since $TC = FC + VC$)
So $FC = 20$,

At 2 units of output: $TC = 50$ and $FC = 20$ so
variable cost = Total cost – Fixed cost
 $50 - 20 = 30$

(1 mark)

[32] The total cost of production of 10 units is ₹ 200. When production is increased to 20 units its total cost becomes ₹ 600. What will be its marginal cost.

- (a) 400 (b) 40
(c) 4 (d) 30

Answer:

(b) Marginal Cost is expressed as:

$$= \frac{\text{Difference in total cost}}{\text{Difference in total units}}$$

$$= \frac{₹ 600 - ₹ 200}{20 - 10} = \frac{₹ 400}{10}$$

$$= ₹ 40 \text{ per unit.}$$

(1 mark)

[33]

Units	0	1	2	3	4
Total Cost	20	30	40	45	50

What will be the AFC at 4 units of output.

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

(1 mark)

Answer:

(d) Average fixed cost is expressed as:

$$= \frac{\text{Total fixed cost}}{\text{Quantity}} = \frac{₹ 20}{4 \text{ units}} = ₹ 5 \text{ per unit.}$$

2010 - DECEMBER

[34] Payment made to outsiders for their goods and services are called:

- (a) Opportunity cost (b) Real cost
(c) Explicit cost (d) Implicit cost (1 mark)

Answer:

(c) Explicit cost (or Accounting cost) takes care of all the payments and charges made by the entrepreneur to the suppliers of various productive factors E.g. wages to workers employed, prices for the raw materials, fuel and power used, rent for hired building, interest on money borrowed for doing business etc. These costs are included in cost of production.

[35] Direct Cost is also known as :

- (a) Indirect Cost (b) Traceable Cost
(c) Opportunity Cost (d) Accounting Cost. (1 mark)

Answer:

(b) Indirect cost also known as non-traceable cost. Traceable cost also known as direct cost. Accounting cost also known as explicit cost.

[36] A firm's AFC is ₹ 200 at 10 units of output what will be it at 20 units of output?

- (a) 500 (b) 100
(c) 150 (d) 200 (1 mark)

Answer:

$$(b) AFC = \frac{TFC}{\text{Output}}$$

Now, TFC for 10 units of output = $200 \times 10 = 2000$

$$\rightarrow AFC \text{ for 20 units} = \frac{2000}{20} = 100$$

- [37] Long run price is also called by the name of _____.
 (a) market price (b) normal price
 (c) administered price (d) wholesale price. (1 mark)

Answer:

(b) Long Run price is also known as Normal price

- [38] What will be the AFC of 2 units according to the table given below :

Output	0	1	2
Total Cost (in ₹)	580	689	850

- (a) 105 (b) 135
 (c) 235 (d) 290 (1 mark)

Answer:

(d) TC at 0 Units of output = ₹ 580

→ TFC = ₹ 580

$$AFC = \frac{TFC}{Output} = \frac{580}{2} = 290$$

- [39] Fixed cost is known as _____ cost.
 (a) prime (b) supplementary
 (c) overhead (d) direct (1 mark)

Answer:

(c) Fixed cost is also known as overhead cost since it continues to exist even if the operations are suspended. For example rent of factory.

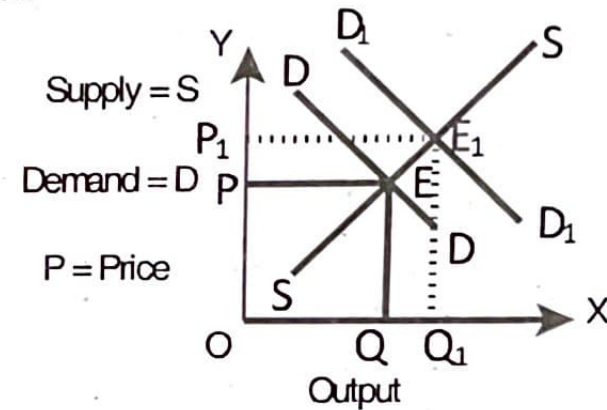
- [40] Average Revenue Curve is also known as _____.
 (a) profit curve. (b) demand curve.
 (c) supply curve. (d) average cost curve. (1 mark)

Answer:

(b) Average Revenue Curve is also known as Demand Curve.

- [41] Supply curve remaining unchanged, an increase in demand will lead to.
 (a) A fall in price (b) A rise in price
 (c) No change in price (d) An increase in supply. (1 mark)

Answer:



- (b) An increase in demand without a change in supply leads to a rise in price and quantity.

2011 - JUNE

- [42] Find out AFC of 3 unit :

Unit	0	1	2	3
TC	300	1,000	2,000	3,000

- (a) 100 (b) 200
 (c) 300 (d) 400 (1 mark)

Answer:

(a) Average fixed cost (AFC) = $\frac{\text{Total Fixed cost}}{\text{No. of units}}$

In the given case,

Total fixed cost = ₹ 300

$$\therefore AFC \text{ for 3 units} = \frac{300}{3} = ₹ 100$$

Hence, AFC for 3 units is ₹ 100

Answer:

(b) Total fixed cost = $30 \times 6 = ₹ 180$

∴ AFC for 4 units of output = $\frac{TFC}{Q} = \frac{180}{4} = ₹ 45$

[50] Given

Output	0	4	8
Total Cost (₹)	20	24	48

What will be the AFC of 4 units of Output

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

(1 mark)

Answer:

(d) Total Fixed Cost (TFC) = ₹ 20

Total units of output (Q) = 4 units

AFC = $\frac{TFC}{Q} = \frac{20}{4} = ₹ 5$

[51] Suppose the total cost of production of commodity 'X' is ₹ 1,25,000 Out of other cost implicit is ₹ 35,000 and normal profit is ₹ 25,000 what will be the explicit cost of commodity 'X'?

- (a) ₹ 60,000 (b) ₹ 65,000
(c) ₹ 90,000 (d) ₹ 80,000

(1 mark)

Answer:

(b) Explicit Cost = Total Cost – Implicit Cost – Normal Profit
= $1,25,000 - 35,000 - 25,000 = ₹ 65,000$

2012 - JUNE

[52] What will be the total fixed cost for the production of three units as per the details given below:

Units	0	1	2	3
Total Cost	620	940	1555	3670

- (a) 620 (b) 640
(c) 1115 (d) 2650

(1 mark)

Answer:

(a) Fixed cost is the cost which remains fixed even if the total output is zero. Also,

Total Cost = Fixed Cost + Variable Cost

At zero units of output, variable cost will be zero.

$620 = \text{Fixed Cost} + 0$

So total fixed cost = ₹ 620.

Fixed cost remains constant irrespective of units of output.

Hence at 3 units of output also total fixed cost will be ₹ 620.

[53] Cost in terms of pain, discomfort, disability involved in supplying the various factors of production by their owners are termed as _____.

- (a) social cost (b) explicit cost
(c) real cost (d) implicit cost (1 mark)

Answer:

(c) Real cost refers to all those payments which are made to the factors of production to compensate for the efforts, pains, exertions or sacrifices suffered by them.

Real cost = efforts, pains, exertions and sacrifices of labour and capital + wait and abstinence of entrepreneur.

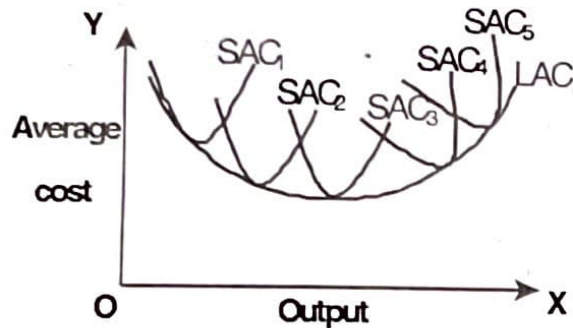
Real cost is the cost in terms of pain and sacrifice made to produce goods and services. It includes the cost of producing goods and services as well as the cost of all resources used and the cost of not employing those resources in alternative uses.

[54] Which of the following is known as the Envelope Curve?

- (a) Average variable cost curve
(b) Average total cost curve
(c) Long run average cost curve
(d) Short run average cost curve. (1 mark)

Answer:

(c) Long Run Average Cost Curve (LAC) is a U shaped curve. When LAC curve is declining it is tangent to the falling portions of the short run cost curves and when LAC is rising it is tangent to the rising portions of the short run cost curves. In simple words, long run average cost curve envelops all the short run cost curves and hence is known as the envelope curve.



- [55] The cost of resources owned and employed by the entrepreneur himself in his business is termed as _____ cost.
- (a) explicit (b) implicit
(c) fixed (d) variable. (1 mark)

Answer:

(b) Implicit costs are the cost for which payment in money terms is not made. These are the cost of factors owned by the entrepreneur himself and employed in his own business. For e.g. An entrepreneur uses his own land for production. If he would have rented that land he would have earned rent. So the cost of using his own land in the business is known as the implicit cost.

- [56] A firm will close down in the short period if its average revenue is less than its:
- (a) Average cost (b) Average variable cost
(c) Marginal cost (d) Average fixed cost (1 mark)

Answer:

(b) A firm should close down in the short run if it is not able to recover its variable cost. A firm shall continue to run if it is not able to meet its fixed cost because it may recover it in future. But variable cost is incurred to meet the payment of raw material, labour etc. which should be met otherwise the firm should close down.

2012 - DECEMBER

- [57] A firm's total cost is ₹ 200 at 5 units of output and ₹ 220 at 6 units of output. The marginal cost of producing 6th unit of output will be

- (a) 20 (b) 120
(c) 220 (d) 320. (1 mark)

Answer:

$$\begin{aligned} \text{(a) Marginal Cost}_n &= TC_n - TC_{n-1} \\ &= TC_6 - TC_{6-1} \\ &= TC_6 - TC_5 \\ &= 220 - 200 \\ &= ₹ 20 \text{ per unit} \end{aligned}$$

- [58] Consider the following data

Units of output :	0	1	2	3	4
Total Cost :	25	45	60	85	105

The Average Variable Cost (AVC) for an output of 4 units will be :-

- (a) ₹ 20 (b) ₹ 30
(c) ₹ 25 (d) ₹ 26 (1 mark)

Answer:

$$\text{(a) VC P.u.} = \frac{\text{Difference in Total Cost}}{\text{Difference in units produced}}$$

$$= \frac{105 - 25}{4 - 0}$$

$$= \frac{80}{4} = ₹ 20 \text{ p.u.}$$

$$\text{VC of 4 units} = 20 \times 4 = ₹ 80$$

$$\therefore \text{AVC} = \frac{80}{4} = ₹ 20$$

[59] The change in total cost due to one unit change in the output is called _____ cost.

- (a) marginal (b) average
(c) average variable (d) average fixed (1 mark)

Answer:

(a) Marginal cost is the addition made to the total cost by production of an additional unit of output.

[60] When AC curve is rising, the MC curve must be _____ to it.

- (a) equal (b) above
(c) below (d) parallel. (1 mark)

Answer:

(b) When the AC curve rises as a result of an increase in output, MC is more than AC i.e. MC curve is above AC curve.

[61] The Average fixed cost for producing an output of 6 units of a product by a firm is ₹ 30. The same cost for producing an output of 4 units will be ₹ _____.

- (a) 50 (b) 45
(c) 25 (d) 20 (1 mark)

Answer:

$$(b) AFC = \frac{TFC}{\text{No. of units}}$$

$$30 = \frac{TFC}{6}$$

$$\therefore TFC = 30 \times 6 = ₹180$$

$$\text{So, AVC for 4 units of output} = \frac{180}{4}$$

$$= ₹45$$

2013 - JUNE

[62] Which of the following cost curve will slope downward and does not touch the x-axis?

- (a) Average cost curve

- (b) Marginal cost curve
(c) Average variable cost curve
(d) Average fixed cost curve. (1 mark)

Answer:

(d) The total fixed cost is a constant amount, i.e. it is fixed in nature. Average fixed cost will steadily fall as output increases. Therefore, if we draw average fixed cost curve it will slope downwards throughout its length but will not touch to x-axis as AFC cannot be zero.

[63] Suppose the total cost production of a commodity 'x' is ₹ 1,25,000 out of which Implicit cost is ₹ 35,000 and normal profit is ₹ 25,000. What would be the explicit cost of commodity x?

- (a) ₹ 90,000 (b) ₹ 65,000
(c) ₹ 1,00,000 (d) ₹ 60,000 (1 mark)

Answer:

$$(b) \text{ Total cost} = ₹ 1,25,000$$

$$\text{Implicit cost} = ₹ 35,000$$

$$\text{Normal profit} = ₹ 2,50,000$$

$$\text{Explicit cost} = ?$$

$$\text{Total cost} = \text{Explicit cost} + \text{Implicit cost} + \text{Normal profit}$$

$$1,25,000 = \text{Explicit cost} + 35,000 + 25,000$$

$$\text{Explicit cost} = 1,25,000 - 35,000 - 25,000$$

$$= 65,000$$

[64] In which of the following cases opportunity cost concept applies?

- (a) Resources have alternative uses
(b) Resources have limited uses
(c) Resources have no use
(d) None of the above. (1 mark)

Answer:

(a) Opportunity cost refers to the cost of opportunity forgone involving a comparison between the alternative chosen and the alternative forgone. It relates to the sacrificed alternatives.

Thus, opportunity cost concept applies where the resources have alternative uses.

- [65] Direct costs are also known as _____.
- (a) traceable costs (b) indirect costs
(c) opportunity costs (d) real costs. (1 mark)

Answer:

- (a) Direct cost are costs that are readily identified and are traceable to a particular product operation or plant. It is also known as Traceable Cost.

2013 - DECEMBER

- [66] Which statement among below is correct in reference in Average Fixed Cost
- (a) Never becomes zero (b) Curve never touches x-axis
(c) Curve never touches y-axis (d) All of the above. (1 mark)

Answer:

- (d) Average fixed cost never touches any axis but it slopes downward, Average fixed cost can never be zero even if there is no production so it can never touch any axis. AFC falls when output increases as fixed cost is always fixed. Thus option (d) is correct.

2014 - JUNE

- [67] Marginal cost changes due to change in _____ cost.
- (a) total (b) fixed
(c) average (d) variable (1 mark)

Answer:

- (d) Marginal cost is the addition made to the total cost by the production of an additional unit of output. It is independent of fixed cost. It is only the variable costs which changes with a change in the level of output in a short run.

- [68] A firm produces 10 units of a commodity at an average total cost of ₹ 200 and with a fixed cost of ₹ 500. Find out the component of average variable cost in the total cost :
- (a) ₹ 300 (b) ₹ 200
(c) ₹ 150 (d) ₹ 100 (1 mark)

Answer:

- (c) Average total cost of 1 unit = ₹ 200
Total cost of 10 units = $200 \times 10 = ₹ 2,000$
→ Total fixed cost = ₹ 500
→ Total variable cost = total cost - total fixed cost
 $= 2,000 - 500 = ₹ 1,500$
→ Variable cost of 1 unit = $\frac{1,500}{10} = ₹ 150$
→ Hence, component of average variable cost in the total cost is ₹ 150.

- [69] Average total cost to a firm is ₹ 600 when it produces 10 units of output and ₹ 640 when the output is 11 units. The MC of the 11th unit is :
- (a) ₹ 40 (b) ₹ 540
(c) ₹ 840 (d) ₹ 1,040 (1 mark)

Answer:

- (d) Average total cost of 10 units of output = ₹ 600
Average total cost of 11 units of output = ₹ 640
∴ Marginal cost of 11th unit = Total cost of 11 units - Total cost of 10 units
 $= (640 \times 11) - (600 \times 10)$
 $= ₹ 1,040$

2014 - DECEMBER

- [70] Average cost of producing 50 units of any commodity is ₹ 250 and fixed cost is ₹ 1,000. What will be the average fixed cost of producing 100 units of the commodity?
- (a) ₹ 10 (b) ₹ 30
(c) ₹ 20 (d) ₹ 05 (1 mark)

Answer:

(a) Fixed Cost of producing 50 units is ₹ 1,000 and the fixed cost of producing 100 units will also be the same i.e. ₹ 1,000.

∴ The Average Fixed Cost of 100 units

$$AFC \rightarrow \frac{\text{Fixed Cost}}{\text{Quantity}} \rightarrow \frac{1,000}{100} = ₹ 10$$

[71] A company produces 10 units of output and incurs ₹ 30 per unit as variable cost and ₹ 5 per unit of fixed cost. What will be its total cost of producing 10 units?

- (a) ₹ 300 (b) ₹ 35
(c) ₹ 305 (d) ₹ 350 (1 mark)

Answer:

(d) The total cost of producing 10 units is:

$$\text{Total Cost} = \text{Total Fixed Cost} + \text{Total Var. Cost}$$

$$\rightarrow 10 \times 5 + 10 \times 30$$

$$\rightarrow 50 + 300$$

$$\rightarrow ₹ 350$$

[72] On the basis of the following data what will be the marginal cost of the 6th unit of output?

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

- (a) ₹ 133 (b) ₹ 75
(c) ₹ 80 (d) ₹ 450 (1 mark)

Answer:

(c)

Output	Total Cost	Marginal Cost
0	240	0
1	330	90
2	410	80
3	480	70

4	540	60
5	610	70
6	690	80

[73] The positively sloped (rising) part of the long run average cost curve indicates working of the _____.

- (a) diseconomies of scale (b) increasing returns to scale
(c) constant returns to scale (d) economies of scale (1 mark)

Answer:

(a) The positively sloped (rising) part of the long run average cost curve indicates working of the diseconomies of scale. Because rising LFAC and diminishing returns to scale result from internal and external diseconomies of scale.

[74] Average fixed cost curve is always:

- (a) Declining when output increases
(b) U-Shaped, if there are increasing returns to scale
(c) U-Shaped, if there are decreasing returns to scale
(d) Intersected by marginal cost at its minimum point (1 mark)

Answer:

(a) Average fixed cost will steadily decline as output increases. If we draw an AFC it will slope downwards throughout its length but will not touch the x-axis as AFC can't be zero.

2015 - JUNE

[75] Planning curve is related to which of the following?

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

(1 mark)

Answer:

(b) Long range average cost curve is often called a planning curve because a firm plans to produce any output in long run by choosing a particular plant in the long run and the average cost curve corresponding to the given output.

[76] Using the following data find out the marginal cost (MC) of the sixth unit of output:

Output	0	1	2	3	4	5	6	7
Total Cost	48	73	94	114	130	148	168	189

- (a) 24 (b) 16
(c) 20 (d) 21 (1 mark)

Answer:

$$(c) MC = \frac{\Delta TC}{\Delta Q} \text{ or } MC_n = TC_n - TC_{n-1}$$

$$MC = 168 - 148 = 20$$

2015 - DECEMBER

Solve question no. 77 given below the following table:

Output (Units)	TFC (in ₹)	TVC (in ₹)	MC (in ₹)
0	500	-	-
1	500	400	400
5	500	1600	-

[77] What will be marginal cost, when output is 5 units?

- (a) 300 (b) 400
(c) 500 (d) 600. (1 mark)

Answer:

$$(a) M.C = \frac{\Delta T.C}{\Delta Q} = \frac{\text{Change in Total Cost}}{\text{Change in Quantity}}$$

$$T.F.C = 500 \quad T.V.C \text{ for 5 units} = 1,600$$

$$T.C. \text{ for 5 units} = T.F.C + T.V.C = 500 + 1,600 = 2,100$$

$$T.F.C = 500 \quad T.V.C \text{ for 1 unit} = 400$$

$$T.C. \text{ for 1 unit} = 500 + 400 = 900$$

$$= \frac{1,200}{4} = 300$$

- [78] Diminishing marginal returns implies
(a) Decreasing average variable costs
(b) Decreasing marginal costs
(c) Increasing marginal costs
(d) Decreasing fixed costs. (1 mark)

Answer:

(c) It states that as one input variable is increased there is a point at which the marginal increase in output increase and then begins to decrease, leading to the increase in the marginal cost with every additional unit.

[79] When the output of a firm increase in the short run, its average fixed cost

- (a) Increases (b) Decreases
(c) Remains constant (d) First declines and then rises. (1 mark)

Answer:

(b) Since TFC is a constant amount, AFC will steadily fall as output increases.

[80] 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. (1 mark)

Answer:

- (d) Average fixed cost curve is never "U" shaped because it slopes downward through its length and never touch X1 axis.

2016 - JUNE

[81] Fixed cost curve normally:

- (a) Starts from the origin (b) Is U shaped
(c) Is vertical line (d) Is horizontal line. (1 mark)

Answer:

- (d) Fixed cost are those cost which are independent of output i.e. they do not change with changes in output: Thus, fixed cost curve normally is a horizontal line.

[82] A rational producer will produce in the stage in which marginal product is positive and :

- (a) $MP > AP$ (b) $MP = AP$
(c) $MP < AP$ (d) MP is zero. (1 mark)

Answer:

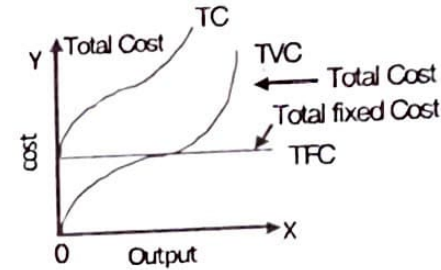
- (c) A rational producer will produce in the stage in which marginal product is positive and $MP < AP$. As in this case a producer could increase the average product of labour by decreasing the quantity of labour slightly.

[83] The vertical difference between TVC and TC curves is equal to:

- (a) MC (b) AVC
(c) TFC (d) None of the above. (1 mark)

Answer:

- (c) Total cost of a business is the sum of total variable cost and total fixed cost or symbolically $TC = TFC + TVC$.



The total variable cost curve rises upward showing thereby that as output increases, total variable cost increases. This curve starts from the origin which shows when output is zero, variable cost are also nil. The total cost curve thus has obtained by adding vertically the total fixed cost curve and the total variable cost curve.

[84] What happens to marginal cost when average cost increases?

- (a) Marginal cost is below average cost
(b) Marginal cost is above average cost
(c) Marginal cost is equal to average variable cost
(d) Marginal cost is equal to average cost. (1 mark)

Answer:

- (b) The relationship between marginal cost and average cost is the same as that between any other marginal average quantities when average cost rises as a result of increase in output marginal cost is more than the average cost.

[85] If the market price of good is more than the opportunity cost of producing it, then:

- (a) The market price of the product will increase in the long run
(b) Producers will increase supply in the long run
(c) Resources will flow away from production of the good, causing supply to decline with the passage of time
(d) The situation will remain unchanged as long as supply and demand remain in balance. (1 mark)

Answer:

- (b) If the market price of good is more than the opportunity cost of producing it then producer will increase supply in long run that is the amount of a good or services that producer are willing and able to offer to the market at various prices during the time.

2016 - DECEMBER

- [86] A firm has variable cost of ₹ 1,000 at 5 units of output. If fixed costs are ₹ 400, what will be the average total cost at 5 units of output?
 (a) 380 (b) 600
 (c) 280 (d) 400 (1 mark)

Answer:

- (c) Variable Cost = ₹ 1,000 at 5 unit
 Fixed Cost = ₹ 400
 Total cost = Variable cost + Fixed cost
 = ₹ 1,000 + 400
 = ₹ 1,400 at 5 unit.
 ∴ Average total cost = $\frac{1,400}{5}$
 = ₹ 280

- [87] The average total cost of producing 50 units is ₹ 250 and total fixed cost is ₹ 1,000. What is the average fixed cost of producing 100 units?
 (a) 5 (b) 30
 (c) 20 (d) 10 (1 mark)

Answer:

- (d) ATC of 50 units = ₹ 250
 TFC = ₹ 1,000
 AFC of 100 units = $\frac{1,000}{100}$
 = ₹ 10.

- [88] When average fixed cost is ₹ 20 at 6 units of output, what will it be at 4 units of output?
 (a) ₹ 60 (b) ₹ 30
 (c) ₹ 40 (d) ₹ 20 (1 mark)

Answer:

- (b) AFC = 20 at 6 units of output
 ∴ TFC = 20 × 6
 = 120
 ∴ AFC at 4 units of output
 = $\frac{120}{4} = ₹ 30$

2017 - JUNE

- [89] Modern industrial units face _____ cost curve due to change in their technology of production.
 (a) U shaped (b) L shaped
 (c) Dish shaped (d) J shaped. (1 mark)

Answer:

- (b) L shaped cost curve.

U shaped cost curve could exist only when the state of technology remains constant but, the empirical evidence shows that the state of technology changes in the long run.

Therefore, modern industrial units face 'L' shaped cost curve than 'U' shaped cost curve.

- [90] What will be AVC in the production of 3 units according to the following cost data?

Production (units)	:	0	1	2	3
Total Cost (₹)	:	140	230	310	380
(a) ₹ 80			(b) ₹ 100		
(c) ₹ 110			(d) ₹ 240		

Answer:

- (a) AVC = $\frac{TVC}{Q} = \frac{TC - TFC}{Q} = \frac{380 - 140}{3} = \frac{240}{3} = 80$

[91] The costs which remain fixed over certain range of output but suddenly jump to a new higher level when production goes beyond a given limit are called:

- (a) Variable cost (b) Semi- variable cost
(c) Stair- step variable cost (d) Jumping cost. (1 mark)

Answer:

(c) STAIR-STEP VARIABLE COSTS are the costs which increase in a stair step fashion i.e. they remain fixed over certain range of output; but suddenly jump to a new higher level when output goes beyond a given limit. Eg. Fixed salary of foreman will have a sudden jump if another foreman is appointed when the output crosses a particular limit.

[92] A firm producing 9 units of output has an average total cost of ₹ 200 and has to pay ₹ 630 to its fixed cost of production. How much of the average total cost is made up of variable cost?

- (a) ₹ 150 (b) ₹ 130
(c) ₹ 70 (d) ₹ 300 (1 mark)

Answer:

(b) Variable Cost = Total Cost - Fixed Cost
= (200 × 9) - 630
= 1,170

$$AVC = \frac{TVC}{Q} = \frac{1,170}{9} = ₹ 130$$

[93] The cost of one thing in terms of alternative given up is known as:

- (a) Opportunity Cost (b) Real Cost
(c) Production Cost (d) Physical Cost. (1 mark)

Answer:

(a) Opportunity cost is concerned with the cost of forgone opportunity; it involves a comparison between the policy that was chosen and the policy that was rejected.

For example, the opportunity cost of using capital is the interest that it can earn in the next best use with equal risk.

2017 - DECEMBER

[94] In the short run, when the output of a firm increases, its average fixed cost

- (a) Remains constant (b) Decreases
(c) Increases (d) First decreases and then rises (1 mark)

Answer:

(b) Yes in the short run, when the output of a firm increases its average fixed cost decreases. When the output is 100 units the AFC will be ₹ 20. And now if the output increases to 200 units, AFC will be ₹ 10. Hence, cost decreases.

[95] What will be average variable cost of producing 5 units of blankets as per details given in the following table?

Blankets	0	1	2	3	4	5
Total Cost (in ₹)	1,500	2,575	3,800	4,500	5,300	6,000

- (a) ₹ 500 (b) ₹ 750
(c) ₹ 900 (d) ₹ 1,000 (1 mark)

Answer:

(c) Average variable = $\frac{\text{Difference in Total Cost}}{\text{Difference in units}}$

$$= \frac{6,000 - 1,500}{5 - 0}$$

$$= \frac{4,500}{5}$$

$$= ₹ 900 \text{ per unit}$$

[96] Which of the following is/are example(s) of an economic cost?

- (a) wage paid to labourers
(b) raw materials purchase cost
(c) interest paid on short term loan
(d) all of the above. (1 mark)

Answer:

(d) Economic cost = explicit cost + implicit cost.
 Explicit cost refers to those costs only which involve cash payments of the entrepreneur of the firm.

Implicit cost refers to the amount of money the entrepreneur could have earned if he had invested his money and sold his own services and other factors in the next best alternatives.

2018 - MAY

- [97] Opportunity Cost is:
 (a) Marginal cost (b) Variable cost
 (c) Total fixed cost (d) None of these. (1 mark)

Answer:

(d) Opportunity Cost of a given activity defined as the value of next best activity and it is not related with any cost. It means sacrifice of one good for another good to give satisfaction to self.

- [98] 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 (1 mark)

Answer:

(a) 'Law of diminishing return' applies to short run but not in long run as in short run a fixed cost do not change while variable cost changes but in long run both are changes. Supply/Production cannot increase in short run whether there is loss or profit.

- [99] Linear homogenous production function is based on
 (a) Increasing returns to scale
 (b) Decreasing returns to scale
 (c) Constant returns to scale
 (d) None of the above. (1 mark)

Answer:

(c) Linear Homogenous production is based on constant return to scale because output increase in the same way as increase in input or we can say that increase in output is equal to increase in input. Sole proprietorship production is based on constant return to scale for lifetime.

[100] Which of the following curve is not U shaped?

- (a) AFC (b) MC
 (c) AVC (d) TC (1 mark)

Answer:

(a) AFC is the cost obtained by dividing total fixed cost by the number of units of output.

$$AFC = \frac{TFC}{Q} \quad \left(\frac{\text{Total Fixed Cost}}{\text{No. of units of output}} \right)$$

TFC can never be U-shaped as it will fall as total output increases and will not touch the X-axis. It can also never be zero.

[101] Unit

	0	1	2
TC	580	1200	1500

Calculated AFC at 2nd unit of output:

- (a) 235 (b) 290
 (c) 310 (d) 920 (1 mark)

Answer:

(b) Here: 580 is a fixed cost because it will be incurred whether firm produces or not. So, it is fixed cost,

We know

$$AFC = \frac{TFC}{Q}$$

$$AFC = ?, TFC = 580, Q = 2$$

So,

$$AFC = \frac{580}{2} = 290$$

- [102] Which of the following curves never touch any axis but is downward
- (a) Marginal cost curve
 - (b) Total cost curve
 - (c) Average fixed cost curve
 - (d) Average variable cost curve
- (1 mark)

Answer:

(c) Average fixed cost is a curve which cannot touch any axis so, it can never be zero. When total production increases then average fixed cost steadily falls but never touch axis.

- [103] External economies accrue due to _____.
- (a) Increasing returns to scale
 - (b) Increasing returns to factor
 - (c) Law of variable proportions
 - (d) LOW cost
- (1 mark)

Answer:

(a) Increase return to scale means when there is a increase in output is more than increase in input or in other words increase in, output > increase in input and there are some factors or external economies which tends to increasing return to scale.

- [104] A firms average fixed cost is ₹ 20 at 6 units of output what will be at 3 units of output?
- (a) ₹ 60
 - (b) ₹ 30
 - (c) ₹ 40
 - (d) ₹ 20
- (1 mark)

Answer:

(c) Average fixed cost is 20 at 6 units and what will be at 3 units?

$$\text{AFC at 6 units} = 20$$

$$\text{AFC at 3 units} = \frac{20}{3} \times 6$$

$$= ₹ 40$$

as we AFC is decreasing steadily by increasing total production.

So, AFC at 3 units is 40 and at 6 is 20.

- [105] Which of the following is correct?

- (a) $\text{AFC} = \text{AVC} + \text{ATC}$
 - (b) $\text{ATC} = \text{AFC} - \text{AVC}$
 - (c) $\text{AVC} = \text{AFC} + \text{ATC}$
 - (d) $\text{AFC} = \text{ATC} - \text{AVC}$
- (1 mark)

Answer:

(d) Average fixed can be obtained in two ways:

$$(a) \text{ AFC} = \frac{\text{TFC}}{Q} = \frac{\text{Total Fixed Cost}}{\text{No. of units of output}}$$

$$(b) \text{ AFC} = \text{ATC} - \text{AVC}$$

Where, ATC = Average total cost and AVC = Average variable cost.

- [106] The vertical difference between TVC and TC curves is equal to:

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

Answer:

(c) Total Variable Cost (TVC) and Total Cost (TC) is differences of TFC (Total Fixed Cost) Formula Derived is:

$$\text{TC} = \text{TVC} + \text{TFC}$$

$$\text{TC} - \text{TVC} = \text{TFC}$$

This is vertical difference between Total Variable Cost and Total Cost.

- [107] The cost of one thing in terms of alternative given up:

- (a) Real cost
 - (b) Production cost
 - (c) Opportunity cost
 - (d) Physical cost
- (1 mark)

Answer:

(c) Opportunity cost is the cost which means the next best activity or sacrificing of one good thing for other.

- [108] The cost which remains fixed over certain range of output but suddenly jumps to a new higher level when production goes beyond a given limit are called:

- (a) Variable cost
 - (b) Semi-variable cost
 - (c) Stair-step variable cost
 - (d) Jumping cost
- (1 mark)

Answer:

(c) There are so many types of variable cost and these are:

- (a) Variable cost or pure Variable Cost
- (b) Semi-Variable or mixture of fixed and Variable cost.

- (c) Stair-step Variable cost which means the cost which remains fixed for a long time but suddenly jumped to a new higher level when production goes beyond a given limit.

2018 - NOVEMBER

[109] The slope of Average Fixed cost curve is?

- (a) Falls from left to right
- (b) Rises from left to right
- (c) Parallel to x-axis
- (d) Parallel to y-axis

(1 mark)

Answer:

- (a) Shape of Average Fixed Cost is hyperbola in shape it falls from left to right but does not touch x axis.

[110] Price of a commodity is best expressed as

- (a) Exchange value
- (b) Cost of goods sold
- (c) Production cost
- (d) Nominal value

(1 mark)

Answer:

- (a) Price of commodity is expressed as its exchange value as it is the price at which it will be sold or purchased.

[111] Accounting cost is _____ of Economic cost

- (a) Equal to
- (b) Less than
- (c) More than
- (d) Not Included

(1 mark)

Answer:

- (b) Accounting cost is explicit cost and economic cost is Explicit + Cost + National cost therefore, accounting cost is less than economic cost.

[112] When AC Curve is at minimum then MC Curve is _____?

- (a) Minimum then AC Curve
- (b) Equals to AC Curve
- (c) Above AC Curve
- (d) Less than AC Curve

(1 mark)

Answer:

- (b) When average cost is minimum, MC is equal to the AC. In other word, MC curve cuts AC curve at its minimum point.

[113] Which of the following equation represents profit, maximisation condition?

- (a) $MC = MR$
- (b) $MC > MR$
- (c) $MC < MR$
- (d) None.

(1 mark)

Answer:

- (a) Profit will be at maximum level when marginal Revenue is equal to marginal cost therefore, it is able to cover its cost and survive in economy.

[114] MC curve of a firm in a perfectly competitive industry depicts?

- (a) Demand curve
- (b) Supply curve
- (c) Average cost curve
- (d) Total cost curve

(1 mark)

Answer:

- (b) MC curve is rising upward in a competitive market therefore, it depicts supply curve.

[115] Issues requiring decision making in the context of business are:

- (a) How much should be the optimum output at what price should the firm sell?
- (b) How will the product be placed in the market?
- (c) How to combat the risks and uncertainties involved?
- (d) All of the above.

(1 mark)

Answer:

(d) All the given options are required for making business decisions in context of business therefore, answer will be (d) all of the above.

[116] Law of production does not include?

- (a) Returns to scale
- (b) Law of variable proportion
- (c) Law of diminishing returns to a factor
- (d) Least cost combination factors

(1 mark)

Answer:

(d) Least cost combination factor is not included in law of production function.

2019 - MAY

[117] A firm producing 15 units of output has average cost of ₹ 250 and ₹ 125 as per unit cost for fixed factors of production. Then average variable cost will be

- (a) 180
- (b) 150
- (c) 125
- (d) None of the above

(1 mark)

Answer :

(c) Average total cost (ATC) = AFC + AVC
 $ATC = 250; AFC = 125$
 $AVC = ATC - AFC$
 $= 250 - 125 = 125$

[118] Which of the following statement is incorrect?

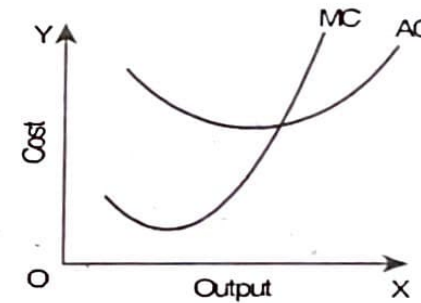
- (a) AC is sloping downwards, MC is below AC
- (b) AC is sloping downwards, MC must fall
- (c) AC is sloping upwards, MC is above AC
- (d) MC cuts AC from its lowest point.

(1 mark)

Answer :

(b) The relationship between Average cost and Marginal cost is as following:

- (i) when average cost falls as a result of an increase in output, marginal cost is less than average cost.
- (ii) when average cost rises as a result of increase in output, marginal cost is more than average cost.
- (iii) when average cost is minimum, marginal cost is equal to average cost.



[119] Diminishing marginal returns implies.

- (a) Decreasing average fixed cost
- (b) Decreasing average variable cost
- (c) Decreasing marginal cost
- (d) Increasing marginal cost

(1 mark)

Answer:

(d) Diminishing marginal Returns implies an increase in marginal cost. Marginal cost is the increase in total cost of production if one additional unit of output is produced.

[120] Opportunity Cost is _____

- (a) Recorded in the book of accounts
- (b) Sacrificed alternative
- (c) Both (a) and (b)
- (d) None of the above

(1 mark)

Answer:

- (b) Opportunity cost is the cost of the next best alternative foregone. It is generally not recorded in the books of accounts. Thus, it can be said that opportunity cost is the sacrificed alternative whose cost is not recorded in books of accounts.

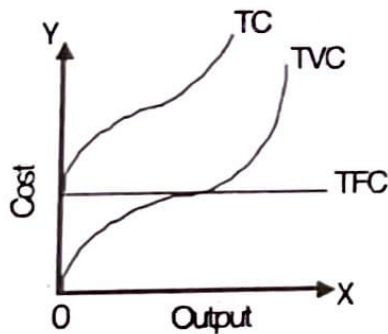
2019 - NOVEMBER

[121] Which of the following is true?

- (a) $TC = TFC + TVC$
 (b) $TC + TVC + TFC$
 (c) $2TC - TVC = TFC$
 (d) none

Answer:

- (a) Total Cost = Total Fixed Cost + Total Variable Cost
 i.e. $TC = TFC + TVC$



Short - Run Total Cost Curves

[122] Total Economic Cost = Explicit Cost + Implicit Cost + _____

- (a) Normal Profit
 (b) Super Normal Profit
 (c) Loss
 (d) None

Answer:

- (a) Total Economic Cost = Explicit Cost + Implicit Cost + Normal Profit
 As economic cost includes :
 (a) Normal return on money capital invested by the entrepreneur himself in his cum business.
 (b) The wages or salary not paid to entrepreneur, but could have been earned if the services had been sold somewhere else.
 (c) It also takes into account, accounting cost.
 (d) And also the normal profit earned.

[123] Economic cost of production differs from accounting cost of production

- (a) Partially True
 (b) True
 (c) False
 (d) None

Answer:

- (b) Economic cost of production differs from accounting cost of production is TRUE as Economic cost includes both explicit cost and implicit cost. Whereas Accounting cost only includes the amount spent i.e. EXPLICIT COST

[124] Which curve is never U-shaped

- (a) AFC
 (b) AVC
 (c) AC
 (d) None

- LAC curve is not tangent to the minimum points of the SAC curves.
- Empirical evidence shows that the state of technology changes in the long-run. Therefore, modern firms face 'L-shaped' cost curve over a considerable quantity of output.
- ◆ Economies of scale are of two kinds - external economies of scale and internal economies of scale.
 - External economies of scale accrue to a firm due to factors which are external to a firm.
 - Internal economies of scale accrue to a firm when it engages in large scale production.
 - Increase in scale, beyond the optimum level, results in diseconomies of scale.

TEST YOUR KNOWLEDGE

Multiple Choice Questions

1. Which of the following is considered production in Economics?
 - (a) Tilling of soil.
 - (b) Singing a song before friends.
 - (c) Preventing a child from falling into a manhole on the road.
 - (d) Painting a picture for pleasure.
2. Identify the correct statement:
 - (a) The average product is at its maximum when marginal product is equal to average product.
 - (b) The law of increasing returns to scale relates to the effect of changes in factor proportions.
 - (c) Economies of scale arise only because of indivisibilities of factor proportions.
 - (d) Internal economies of scale can accrue when industry expands beyond optimum.
3. Which of the following is not a characteristic of land?
 - (a) Its supply for the economy is limited.
 - (b) It is immobile.

- (c) *Its usefulness depends on human efforts.*
- (d) *It is produced by our forefathers.*
4. *Which of the following statements is true?*
- (a) *Accumulation of capital depends solely on income of individuals.*
- (b) *Savings can be influenced by government policies.*
- (c) *External economies go with size and internal economies with location.*
- (d) *The supply curve of labour is an upward slopping curve.*
5. *In the production of wheat, all of the following are variable factors that are used by the farmer except:*
- (a) *the seed and fertilizer used when the crop is planted.*
- (b) *the field that has been cleared of trees and in which the crop is planted.*
- (c) *the tractor used by the farmer in planting and cultivating not only wheat but also corn and barley.*
- (d) *the number of hours that the farmer spends in cultivating the wheat fields.*
6. *The marginal product of a variable input is best described as:*
- (a) *total product divided by the number of units of variable input.*
- (b) *the additional output resulting from a one unit increase in the variable input.*
- (c) *the additional output resulting from a one unit increase in both the variable and fixed inputs.*
- (d) *the ratio of the amount of the variable input that is being used to the amount of the fixed input that is being used.*
7. *Diminishing marginal returns implies:*
- (a) *decreasing average variable costs.*
- (b) *decreasing marginal costs.*
- (c) *increasing marginal costs.*
- (d) *decreasing average fixed costs.*
8. *The short run, as economists use the phrase, is characterized by:*
- (a) *at least one fixed factor of production and firms neither leaving nor entering the industry.*
- (b) *generally a period which is shorter than one year.*

- (c) all factors of production are fixed and no variable inputs.
- (d) all inputs are variable and production is done in less than one year.
9. The marginal, average, and total product curves encountered by the firm producing in the short run exhibit all of the following relationships except:
- (a) when total product is rising, average and marginal product may be either rising or falling.
- (b) when marginal product is negative, total product and average product are falling.
- (c) when average product is at a maximum, marginal product equals average product, and total product is rising.
- (d) when marginal product is at a maximum, average product equals marginal product, and total product is rising.
10. To economists, the main difference between the short run and the long run is that:
- (a) In the short run all inputs are fixed, while in the long run all inputs are variable.
- (b) In the short run the firm varies all of its inputs to find the least-cost combination of inputs.
- (c) In the short run, at least one of the firm's input levels is fixed.
- (d) In the long run, the firm is making a constrained decision about how to use existing plant and equipment efficiently.
11. Which of the following is the best definition of "production function"?
- (a) The relationship between market price and quantity supplied.
- (b) The relationship between the firm's total revenue and the cost of production.
- (c) The relationship between the quantities of inputs needed to produce a given level of output.
- (d) The relationship between the quantity of inputs and the firm's marginal cost of production.
12. The "law of diminishing returns" applies to:
- (a) the short run, but not the long run.
- (b) the long run, but not the short run.
- (c) both the short run and the long run.
- (d) neither the short run nor the long run.

13. *Diminishing returns occur:*

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

Use the following information to answer questions 14-16.

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

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

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

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

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

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

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

17. Which cost increases continuously with the increase in production?
- (a) Average cost.
 - (b) Marginal cost.
 - (c) Fixed cost.
 - (d) Variable cost.
18. Which of the following cost curves is never 'U' shaped?
- (a) Average cost curve.
 - (b) Marginal cost curve.
 - (c) Average variable cost curve.
 - (d) Average fixed cost curve.
19. Total cost in the short run is classified into fixed costs and variable costs. Which one of the following is a variable cost?
- (a) Cost of raw materials.
 - (b) Cost of equipment.
 - (c) Interest payment on past borrowings.
 - (d) Payment of rent on building.
20. In the short run, when the output of a firm increases, its average fixed cost:
- (a) increases.
 - (b) decreases.
 - (c) remains constant.
 - (d) first declines and then rises.
21. Which one of the following is also known as planning curve?
- (a) Long run average cost curve.
 - (b) Short run average cost curve.
 - (c) Average variable cost curve.
 - (d) Average total cost curve.
22. If a firm moves from one point on a production isoquant to another, which of the following will not happen.
- (a) A change in the ratio in which the inputs are combined to produce output.

- (b) *A change in the ratio of marginal products of the inputs.*
- (c) *A change in the marginal rate of technical substitution.*
- (d) *A change in the level of output.*
23. *With which of the following is the concept of marginal cost closely related?*
- (a) *Variable cost.*
- (b) *Fixed cost.*
- (c) *Opportunity cost.*
- (d) *Economic cost.*
24. *Which of the following statements is correct?*
- (a) *When the average cost is rising, the marginal cost must also be rising.*
- (b) *When the average cost is rising, the marginal cost must be falling.*
- (c) *When the average cost is rising, the marginal cost is above the average cost.*
- (d) *When the average cost is falling, the marginal cost must be rising.*
25. *Which of the following is an example of "explicit cost"?*
- (a) *The wages a proprietor could have made by working as an employee of a large firm.*
- (b) *The income that could have been earned in alternative uses by the resources owned by the firm.*
- (c) *The payment of wages by the firm.*
- (d) *The normal profit earned by a firm.*
26. *Which of the following is an example of an "implicit cost"?*
- (a) *Interest that could have been earned on retained earnings used by the firm to finance expansion.*
- (b) *The payment of rent by the firm for the building in which it is housed.*
- (c) *The interest payment made by the firm for funds borrowed from a bank.*
- (d) *The payment of wages by the firm.*

Use the following data to answer questions 27-29.

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

27. The average fixed cost of 2 units of output is:
- (a) ₹ 80
 - (b) ₹ 85
 - (c) ₹ 120
 - (d) ₹ 205
28. The marginal cost of the sixth unit of output is:
- (a) ₹ 133
 - (b) ₹ 75
 - (c) ₹ 80
 - (d) ₹ 450
29. Diminishing marginal returns start to occur between units:
- (a) 2 and 3.
 - (b) 3 and 4.
 - (c) 4 and 5.
 - (d) 5 and 6.
30. Marginal cost is defined as:
- (a) the change in total cost due to a one unit change in output.
 - (b) total cost divided by output.
 - (c) the change in output due to a one unit change in an input.
 - (d) total product divided by the quantity of input.
31. Which of the following is true of the relationship between the marginal cost function and the average cost function?
- (a) If MC is greater than ATC, then ATC is falling.
 - (b) The ATC curve intersects the MC curve at minimum MC.
 - (c) The MC curve intersects the ATC curve at minimum ATC.
 - (d) If MC is less than ATC, then ATC is increasing.
32. Which of the following statements is true of the relationship among the average cost functions?
- (a) $ATC = AFC - AVC$.

- (b) $AVC = AFC + ATC$.
- (c) $AFC = ATC + AVC$.
- (d) $AFC = ATC - AVC$.
33. Which of the following is not a determinant of the firm's cost function?
- (a) The production function.
- (b) The price of labour.
- (c) Taxes.
- (d) The price of the firm's output.
34. Which of the following statements is correct concerning the relationships among the firm's cost functions?
- (a) $TC = TFC - TVC$.
- (b) $TVC = TFC - TC$.
- (c) $TFC = TC - TVC$.
- (d) $TC = TVC - TFC$.
35. Suppose output increases in the short run. Total cost will:
- (a) increase due to an increase in fixed costs only.
- (b) increase due to an increase in variable costs only.
- (c) increase due to an increase in both fixed and variable costs.
- (d) decrease if the firm is in the region of diminishing returns.
36. Which of the following statements concerning the long-run average cost curve is false?
- (a) It represents the least-cost input combination for producing each level of output.
- (b) It is derived from a series of short-run average cost curves.
- (c) The short-run cost curve at the minimum point of the long-run average cost curve represents the least-cost plant size for all levels of output.
- (d) As output increases, the amount of capital employed by the firm increases along the curve.
37. The negatively-sloped (i.e. falling) part of the long-run average total cost curve is due to which of the following?
- (a) Diseconomies of scale.

- (b) *Diminishing returns.*
- (c) *The difficulties encountered in coordinating the many activities of a large firm.*
- (d) *The increase in productivity that results from specialization.*
38. *The positively sloped (i.e. rising) part of the long run average total cost curve is due to which of the following?*
- (a) *Diseconomies of scale.*
- (b) *Increasing returns.*
- (c) *The firm being able to take advantage of large-scale production techniques as it expands its output.*
- (d) *The increase in productivity that results from specialization.*
39. *A firm's average total cost is ₹ 300 at 5 units of output and ₹ 320 at 6 units of output. The marginal cost of producing the 6th unit is:*
- (a) ₹ 20
- (b) ₹ 120
- (c) ₹ 320
- (d) ₹ 420
40. *A firm producing 7 units of output has an average total cost of ₹ 150 and has to pay ₹ 350 to its fixed factors of production whether it produces or not. How much of the average total cost is made up of variable costs?*
- (a) ₹ 200
- (b) ₹ 50
- (c) ₹ 300
- (d) ₹ 100
41. *A firm has a variable cost of ₹ 1000 at 5 units of output. If fixed costs are ₹ 400, what will be the average total cost at 5 units of output?*
- (a) ₹ 280
- (b) ₹ 60
- (c) ₹ 120
- (d) ₹ 1400

42. A firm's average fixed cost is ₹ 20 at 6 units of output. What will it be at 4 units of output?
- (a) ₹ 60
 - (b) ₹ 30
 - (c) ₹ 40
 - (d) ₹ 20
43. Which of the following statements is true?
- (a) The services of a doctor are considered production.
 - (b) Man can create matter.
 - (c) The services of a housewife are considered production.
 - (d) When a man creates a table, he creates matter.
44. Which of the following is a function of an entrepreneur?
- (a) Initiating a business enterprise.
 - (b) Risk bearing.
 - (c) Innovating.
 - (d) All of the above.
45. In describing a given production technology, the short run is best described as lasting:
- (a) up to six months from now.
 - (b) up to five years from now.
 - (c) as long as all inputs are fixed.
 - (d) as long as at least one input is fixed.
46. If decreasing returns to scale are present, then if all inputs are increased by 10% then:
- (a) output will also decrease by 10%.
 - (b) output will increase by 10%.
 - (c) output will increase by less than 10%.
 - (d) output will increase by more than 10%.
47. The production function is a relationship between a given combination of inputs and:
- (a) another combination that yields the same output.
 - (b) the highest resulting output.

- (c) *the increase in output generated by one-unit increase in one output.*
- (d) *all levels of output that can be generated by those inputs.*
48. *If the marginal product of labour is below the average product of labour, it must be true that:*
- (a) *the marginal product of labour is negative.*
- (b) *the marginal product of labour is zero.*
- (c) *the average product of labour is falling.*
- (d) *the average product of labour is negative.*
49. *The average product of labour is maximized when marginal product of labour:*
- (a) *equals the average product of labour.*
- (b) *equals zero.*
- (c) *is maximized.*
- (d) *none of the above.*
50. *The law of variable proportions is drawn under all of the assumptions mentioned below except the assumption that:*
- (a) *the technology is changing.*
- (b) *there must be some inputs whose quantity is kept fixed.*
- (c) *we consider only physical inputs and not economic profitability in monetary terms.*
- (d) *the technology is given and stable.*
51. *What is a production function?*
- (a) *Technical relationship between physical inputs and physical output.*
- (b) *Relationship between fixed factors of production and variable factors of production.*
- (c) *Relationship between a factor of production and the utility created by it.*
- (d) *Relationship between quantity of output produced and time taken to produce the output.*
52. *Laws of production does not include*
- (a) *returns to scale.*
- (b) *law of diminishing returns to a factor.*

- (c) *law of variable proportions.*
- (d) *least cost combination of factors.*
53. *An iso quant shows*
- (a) *All the alternative combinations of two inputs that can be produced by using a given set of output fully and in the best possible way.*
- (b) *All the alternative combinations of two products among which a producer is indifferent because they yield the same profit.*
- (c) *All the alternative combinations of two inputs that yield the same total product.*
- (d) *Both (b) and (c).*
54. *Economies of scale exist because as a firm increases its size in the long run:*
- (a) *Labour and management can specialize in their activities more.*
- (b) *As a larger input buyer, the firm can get finance at lower cost and purchase inputs at a lower per unit cost.*
- (c) *The firm can afford to employ more sophisticated technology in production.*
- (d) *All of these.*
55. *The production function:*
- (a) *is the relationship between the quantity of inputs used and the resulting quantity of a product.*
- (b) *Tells us the maximum attainable output from a given combination of inputs.*
- (c) *Expresses the technological relationship between inputs and output of a product.*
- (d) *All the above.*
56. *The production process described below exhibits.*

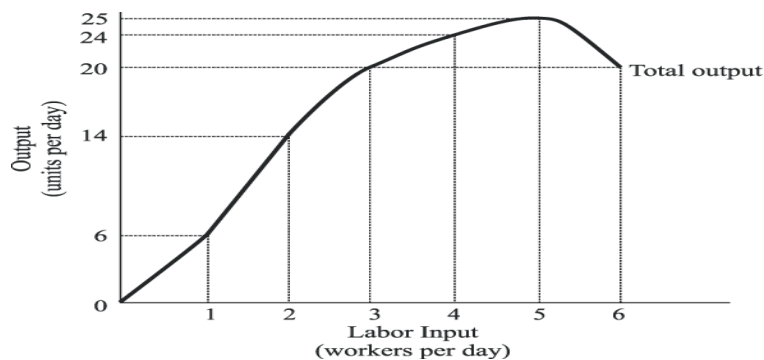
Number of Workers	Output
0	0
1	23
2	40
3	50

- (a) *constant marginal product of labour.*
- (b) *diminishing marginal product of labour.*

- (c) *increasing return to scale.*
- (d) *increasing marginal product of labour.*
57. *Which of the following is a variable cost in the short run?*
- (a) *rent of the factory.*
- (b) *wages paid to the factory labour.*
- (c) *interest payments on borrowed financial capital.*
- (d) *payment on the lease for factory equipment.*
58. *The efficient scale of production is the quantity of output that minimizes*
- (a) *average fixed cost.*
- (b) *average total cost.*
- (c) *average variable cost.*
- (d) *marginal cost.*
59. *In the short run, the firm's product curves show that*
- (a) *Total product begins to decrease when average product begins to decrease but continues to increase at a decreasing rate.*
- (b) *When marginal product is equal to average product, average product is decreasing but at its highest.*
- (c) *When the marginal product curve cuts the average product curve from below, the average product is equal to marginal product.*
- (d) *In stage two, total product increases at a diminishing rate and reaches maximum at the end of this stage.*
60. *A fixed input is defined as*
- (a) *That input whose quantity can be quickly changed in the short run, in response to the desire of the company to change its production.*
- (b) *That input whose quantity cannot be quickly changed in the short run, in response to the desire of the company to change its production.*
- (c) *That input whose quantities can be easily changed in response to the desire to increase or reduce the level of production.*
- (d) *That input whose demand can be easily changed in response to the desire to increase or reduce the level of production.*

61. *Average product is defined as*
- (a) *total product divided by the total cost.*
 - (b) *total product divided by marginal product.*
 - (c) *total product divided by the number of units of variable input.*
 - (d) *marginal product divided by the number of units of variable input.*
62. *Which of the following statements is true?*
- (a) *After the inflection point of the production function, a greater use of the variable input induces a reduction in the marginal product.*
 - (b) *Before reaching the inevitable point of decreasing marginal returns, the quantity of output obtained can increase at an increasing rate.*
 - (c) *The first stage corresponds to the range in which the AP is increasing as a result of utilizing increasing quantities of variable inputs.*
 - (d) *All the above.*
63. *Marginal product, mathematically, is the slope of the*
- (a) *total product curve.*
 - (b) *average product curve.*
 - (c) *marginal product curve.*
 - (d) *implicit product curve.*
64. *Suppose the first four units of a variable input generate corresponding total outputs of 200, 350, 450, 500. The marginal product of the third unit of input is:*
- (a) *50*
 - (b) *100*
 - (c) *150*
 - (d) *200*
65. *Which of the following statements is false in respect of fixed cost of a firm?*
- (a) *As the fixed inputs for a firm cannot be changed in the short run, the TFC are constant, except when the prices of the fixed inputs change.*
 - (b) *TFC continue to exist even when production is stopped in the short run, but they exist in the long run even when production is not stopped.*

- (c) Total Fixed Costs (TFC) can be defined as the total sum of the costs of all the fixed inputs associated with production in the short run.
- (d) In the short run, a firm's fixed cost cannot be escaped even when production is stopped.
66. Diminishing marginal returns for the first four units of a variable input is exhibited by the total product sequence:
- (a) 50, 50, 50, 50
- (b) 50, 110, 180, 260
- (c) 50, 100, 150, 200
- (d) 50, 90, 120, 140
67. Use the following diagram to answer the question given below it

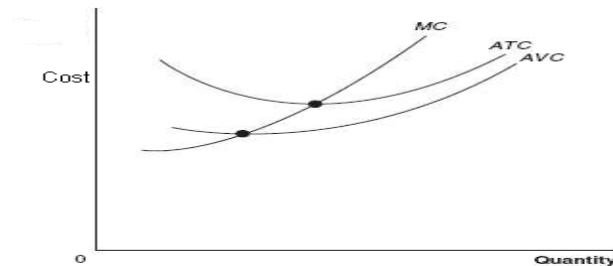


- The marginal physical product of the third unit of labour is _____, the MP of the _____ labour is Negative
- (a) Six; fourth
- (b) Six; third
- (c) Six; fifth
- (d) Six; sixth
68. In the third of the three stages of production:
- (a) the marginal product curve has a positive slope.
- (b) the marginal product curve lies completely below the average product curve.
- (c) total product increases.
- (d) marginal product is positive.

69. When marginal costs are below average total costs,
- (a) average fixed costs are rising.
 - (b) average total costs are falling.
 - (c) average total costs are rising.
 - (d) average total costs are minimized.
70. A firm's long-run average total cost curve is
- (a) Identical to its long-run marginal-cost curve.
 - (b) Also its long-run supply curve because it explains the relationship between price and quantity supplied.
 - (c) In fact the average total cost curve of the optimal plant in the short run as it tries to produce at least cost.
 - (d) Tangent to all the curves of short-run average total cost.
71. In the long run, if a very small factory were to expand its scale of operations, it is likely that it would initially experience
- (a) an increase in pollution level.
 - (b) diseconomies of scale.
 - (c) economies of scale.
 - (d) constant returns to scale.
72. A firm's long-run average total cost curve is.
- (a) Identical to its long-run marginal-cost curve as all factors are variable.
 - (b) Also its long-run total cost curve because it explains the relationship cost and quantity supplied in the long run.
 - (c) In fact the average total cost curve of the optimal plant in the short run as it tries to produce at least cost.
 - (d) Tangent to all short-run average total cost the curves and represents the lowest average total cost for producing each level of output.
73. Which of the following statements describes increasing returns to scale?
- (a) Doubling of all inputs used leads to doubling of the output.
 - (b) Increasing the inputs by 50% leads to a 25% increase in output.
 - (c) Increasing inputs by $1/4$ leads to an increase in output of $1/3$.

- (d) None of the above.
74. The marginal cost for a firm of producing the 9th unit of output is ₹ 20. Average cost at the same level of output is ₹ 15. Which of the following must be true?
- (a) marginal cost and average cost are both falling
- (b) marginal cost and average cost are both rising
- (c) marginal cost is rising and average cost is falling
- (d) it is impossible to tell if either of the curves are rising or falling
75. Implicit cost can be defined as
- (a) Money payments made to the non-owners of the firm for the self-owned factors employed in the business and therefore not entered into books of accounts.
- (b) Money not paid out to the owners of the firm for the self-owned factors employed in a business and therefore not entered into books of accounts.
- (c) Money payments which the self-owned and employed resources could have earned in their next best alternative employment and therefore entered into books of accounts.
- (d) Money payments which the self-owned and employed resources earn in their best use and therefore entered into book of accounts.
76. The most important function of an entrepreneur is to _____.
- (a) Innovate
- (b) Bear the sense of responsibility
- (c) Finance
- (d) Earn profit
77. Economic costs of production differ from accounting costs of production because
- (a) Economic costs include expenditures for hired resources while accounting costs do not.
- (b) Accounting costs include opportunity costs which are deducted later to find paid out costs.
- (c) Accounting costs include expenditures for hired resources while economic costs do not.
- (d) Economic costs add the opportunity cost of a firm which uses its own resources.

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



- (a) Fixed costs are falling while total costs are rising at rising output.
- (b) Total costs are rising and average costs are also rising.
- (c) Marginal costs are above average variable costs as output rises.
- (d) Average fixed costs are falling as output rises.
79. Marginal cost changes due to changes in _____
- (a) Total cost
- (b) Average cost
- (c) Variable cost
- (d) Quantity of output
80. Which of the following statements is correct?
- (a) Fixed costs vary with change in output.
- (b) If we add total variable cost and total fixed cost we get the average cost.
- (c) Marginal cost is the result of total cost divided by number of units produced.
- (d) Total cost is obtained by adding up the fixed cost and total variable cost.
81. Which of the following statements is incorrect?
- (a) The LAC curve is also called the planning curve of a firm.
- (b) Total revenue = price per unit \times number of units sold.
- (c) Opportunity cost is also called alternative cost.
- (d) If total revenue is divided by the number of units sold we get marginal revenue.
82. The vertical difference between TVC and TC is equal to-
- (a) MC
- (b) AVC

- (c) TFC
- (d) None of the above
83. The falling part of long run average cost curve is tangent to the _____ of corresponding short run average cost curve(s).
- (a) falling part
- (b) rising part
- (c) minimum point
- (d) None of the above
84. Which one of the following is an external economies of scale in long run?
- (a) Risk bearing economies
- (b) Financial economies
- (c) Development of skill labour
- (d) None of the above

ANSWERS

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

4

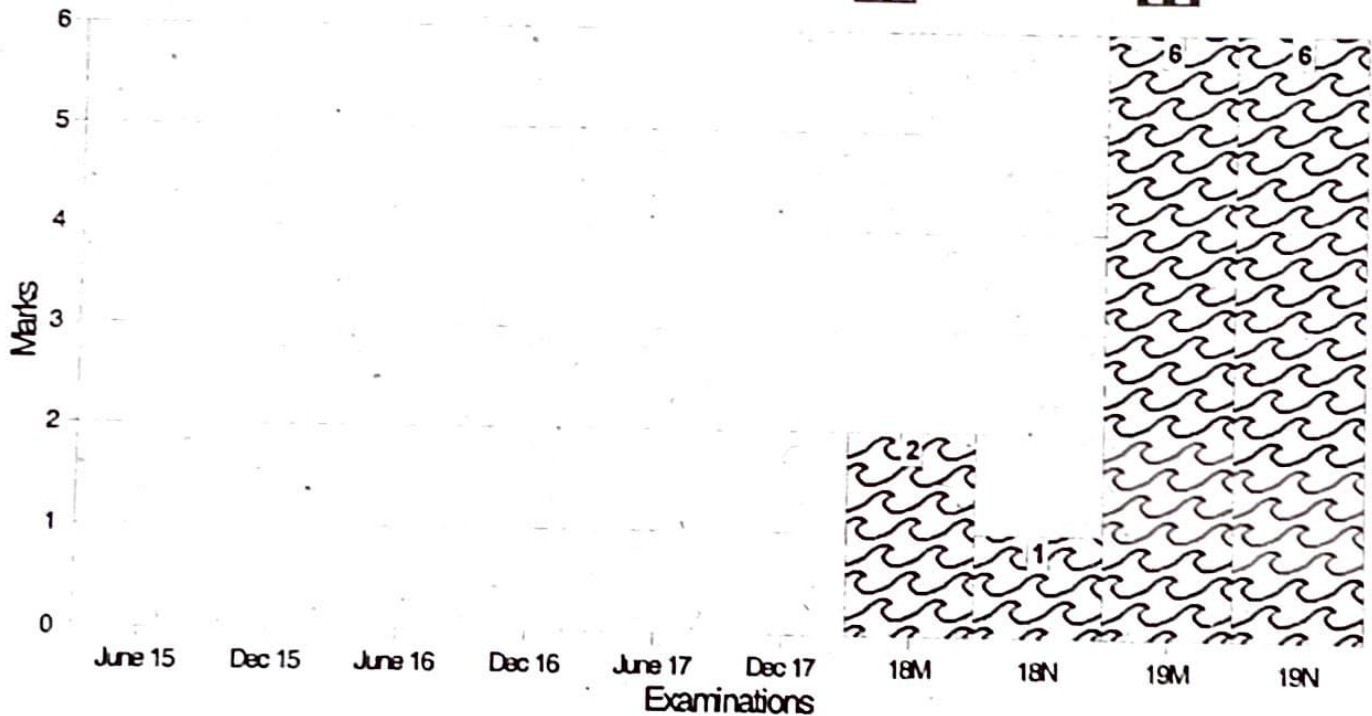
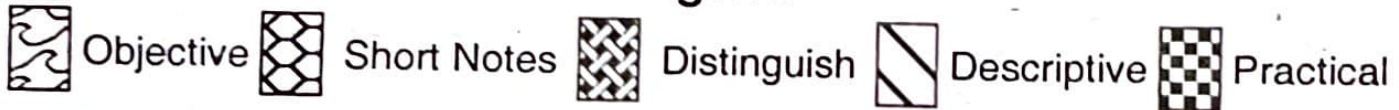
MEANING AND TYPES OF MARKET

Unit: 1

Meaning and Types of Market

Marks of Objective, Short Notes, Distinguish Between, Descriptive & Practical Questions

Legend



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PAST YEAR QUESTIONS AND ANSWERS

2006 - NOVEMBER

- [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 (1 mark)

Answer:

- (d) Pure competition is a part of perfect competition. The essential conditions of pure competition are:
 (a) Large number of buyers and sellers
 (b) Homogeneous products
 (c) Freedom of entry and exit of firms.

2007 - FEBRUARY

- [2] Under which of the following forms of market structure does a firm has no control over the price of its product :
 (a) Monopoly (b) Oligopoly
 (c) Monopolistic competition (d) Perfect competition (1 mark)

Answer:

- (d) Perfect competition is a price taking firm. The prices in such a market are determined by market forces of demand and supply. Neither the buyer nor the seller can influence the prices.

- [3] Given the relation $MR = P \left(1 - \frac{1}{e} \right)$ if $e > 1$, then:

- (a) $MR > 0$ (b) $MR < 0$
 (c) $MR = 0$ (d) None (1 mark)

Answer:

(a) $MR = P \left(\frac{e - 1}{e} \right)$

If $e > 1$

The relation $\frac{e - 1}{e}$ will be positive.

2007 - MAY

- [4] Profits of the firm will be more at :
 (a) $MR = MC$
 (b) Additional revenue from extra unit equals its additional cost
 (c) Both of above (1 mark)
 (d) None

Answer:

- (c) Profits of the firm are maximum at profit maximization level i.e. $MC = MR$, Additional revenue from extra unit equals its additional cost.

- [5] What should firm do when Marginal revenue is greater than marginal cost?
 (a) Firm should expand output
 (b) Effect should be made to make them equal
 (c) Prices should be covered down
 (d) All of these (1 mark)

Answer:

- (a) When marginal revenue is greater than marginal cost, the producer shall expand output as it is profitable for the firm to expand output.

2007 - AUGUST

- [6] Under monopoly price discrimination depends upon :
- (a) Elasticity of demand for commodity
 - (b) Elasticity of supply for commodity
 - (c) Size of market
 - (d) All of above
- Answer:** (1 mark)
- (a) Monopoly has a feature of price discrimination i.e. charging different prices from different customer. It depends upon the elasticity of demand of various customers. Difference in elasticity forces the monopolist to charge different prices from different customers.
- [7] Firms in a monopolistic market are price _____ :
- (a) takers
 - (b) givers
 - (c) makers
 - (d) acceptors
- Answer:** (1 mark)
- (c) In a monopoly market the prices are decided by the monopolist. He is the maker of the price. Buyers cannot influence the prices.

2007 - NOVEMBER

- [8] Market which have two firms are known as :
- (a) Oligopoly
 - (b) Duopoly
 - (c) Monopsony
 - (d) Oligopsony
- Answer:** (1 mark)
- (b) Duopoly is composed of two words - "Duo" and "Poly". Duo means two and "poly" means seller. Hence, duopoly is a market where there are two sellers.

2008 - FEBRUARY

- [9] Monopolist can determine :
- (a) Price
 - (b) Output
 - (c) Either price or output
 - (d) None
- Answer:** (1 mark)
- (c) Monopolist firm is the price maker firm. In this market only the seller can influence the prices. He can determine either output or price.
- [10] MR of nth unit is given by :
- (a) TR_n / TR_{n-1}
 - (b) $TR_n + TR_{n-1}$
 - (c) $TR_n - TR_{n-1}$
 - (d) All of these
- Answer:** (1 mark)
- (c) Marginal revenue is the addition made to the total revenue by producing one more unit of a commodity. It is expressed as:
- $$M.R._n = TR_n - TR_{n-1}$$

2008 - JUNE

- [11] The market structure in which the number of sellers is small and there is inter dependence in decision making by the firms is known as :
- (a) Perfect competition
 - (b) Oligopoly
 - (c) Monopoly
 - (d) Monopolistic competition
- Answer:** (1 mark)
- (b) Oligopoly is often described as "competition among the few". It is characterized by small number of sellers who are interdependent in decision making.

- [12] In perfect competition, since the firm is a price taker, the _____ curve is a straight line :
- (a) marginal cost
 - (b) total cost
 - (c) total revenue
 - (d) marginal revenue
- (1 mark)

Answer:

- (d) In a perfect competitive market, the prices of all the firms are same. Hence, there is no change in marginal revenue and the MR curve is a straight line.

2011 - JUNE

- [13] Given the relation $MR = P \left(1 - \frac{1}{e} \right)$, if $e < 1$, then:

- (a) $MR < 0$
- (b) $MR > 0$
- (c) $MR = 0$
- (d) None of these.

(1 mark)

Answer:

- (a) If $MR = P(1 - 1/e)$ and $e < 1$

Lets assume $e = 0.5$

putting it in the formula we get

$$P \left(1 - \frac{1}{0.5} \right)$$

$$MR = - P$$

So MR will always be less than zero.

2012 - JUNE

- [14] For a discriminating monopolist the condition for equilibrium is:
- (a) $MR > MC$
 - (b) $MR_1 = MR_2$
 - (c) $MR_a = MR_b = MC$
 - (d) All of the above.
- (1 mark)

Answer:

- (c) One of the important conditions of price discrimination is that the seller should be able to divide his market into two or more submarkets. If marginal revenue in both markets are different then price discrimination is possible. The seller will transfer his products more to that market which gives more marginal revenue. Suppose MR of market A is more than market B. So the seller will transfer the products from market B to market. A Due to this the prices of market B will rise and A will fall. Gradually the MR of B will start increasing. He will continue to transfer units from B to A till the marginal revenue from both markets become equal. After this point it will be no longer profitable to transfer units and hence the position of equilibrium will be when

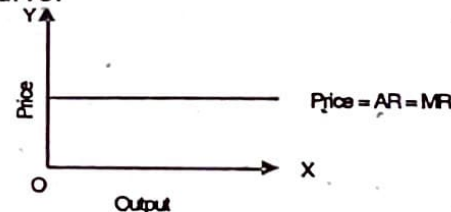
$$MR_a = MR_b = MC$$

- [15] Average revenue curve is also known as:

- (a) Profit curve
 - (b) Demand curve
 - (c) Supply curve
 - (d) Average cost curve.
- (1 mark)

Answer:

- (b) In perfect competition market the same price prevails throughout the market. Since the price is constant hence the demand of the commodity determines the total revenue and average revenue. Due to this reason the A.R. curve can also be called as the demand curve.



2013 - JUNE

[16] Given, AR = 5 and Elasticity of demand = 2 Find MR.

- (a) + 2.5 (b) - 2.5
(c) + 1.5 (d) + 2.0

(1 mark)

Answer:

$$\begin{aligned} \text{(a) } MR &= AR \times \frac{e - 1}{e} \\ &= 5 \times \frac{2 - 1}{2} \\ &= + 2.5 \end{aligned}$$

Hence, option (a) is the correct answer.

2013 - DECEMBER

[17] If a seller obtains ₹ 3,000 after selling 50 units and ₹ 3,100 after selling 52 units, then marginal revenue will be

- (a) ₹ 59.62 (b) ₹ 50.00
(c) ₹ 60.00 (d) ₹ 59.80

(1 mark)

Answer:

(b) S.P of 50 units = ₹ 3,000
S.P of 52 units = ₹ 3,100

∴ S.P of additional 2 units = ₹ 100 & marginal revenue of 1 unit.
 $= \frac{100}{2} = ₹ 50.$

Thus, option (b) is correct.

2014 - JUNE

[18] A firm will close down in the short period, if its AR is less than :

- (a) AC (b) AVC
(c) MC (d) None of the above (1 mark)

Answer:

(b) In short run, if the firm is able to meet its VC and a part of fixed cost it will try to continue production in the short run. If it recovers a part of FC, it will be beneficial to continue production. However, if a firm is unable to meet its AVC, it will be better for it to shut down.

2016 - JUNE

[19] Which one of the following expressions is correct for Marginal Revenue?

- (a) $MR = AR \left(\frac{1 - e}{e} \right)$ (b) $MR = TR_n - TR_{n+1}$
(c) $MR = \frac{\Delta TR}{\Delta Q}$ (d) $MR = \frac{TR}{Q}$ (1 mark)

Answer:

(c) Marginal revenue is the rate of change in total revenue resulting from the sale of an additional unit.

$$MR = \frac{\Delta TR}{\Delta Q}$$

Where MR is marginal revenue
TR is total revenue
Q is quantity of commodity sold
Δ stands for small change.

2016 - DECEMBER

- [20] The market for ultimate consumer is known as:
- (a) Wholesale market
 - (b) Regulated market
 - (c) Unregulated market
 - (d) Retail market
- (1 mark)
- Answer:**
- (d) The market for ultimate consumer is known as retail market.

2017 - JUNE

- [21] For a firm to become profitable it should expand output whenever:
- (a) Marginal revenue is equal to marginal cost
 - (b) Marginal revenue is less than marginal cost
 - (c) Marginal revenue is greater than marginal cost
 - (d) Average revenue is greater than average cost.
- (1 mark)
- Answer:**
- (c) It will be profitable for the firm to expand output whenever marginal revenue is greater than the marginal cost, and to keep on expanding output until marginal revenue equals marginal cost. Not only marginal cost should be equal to marginal revenue, its curve should cut marginal revenue curve from below.
- [22] On the basis of nature of transactions, a market may be classified into:
- (a) Spot market and future market
 - (b) Regulated market and unregulated market
 - (c) Wholesale market and retail market
 - (d) Local market and national market.
- (1 mark)

Answer:

- (a) On the basis of nature of transactions market may be classified into:-
- a. Spot Market: It refers to those markets where goods are physically transacted on the spot.
 - b. Future Market: It is related to those transaction which involves contracts of a future date.

2018 - MAY

- [23] In very short period market:
- (a) Supply changes but demand remains same
 - (b) Supply changes but price remains same
 - (c) Supply remains fixed
 - (d) Supply and demand both changes
- (1 mark)
- Answer:**
- (c) In very short period market, it is not possible and easy to increase the supply as it is very difficult to install new machinery or increase more labour so, in this market supply is fixed. This leads to only profits commodities like vegetables flower, fish, eggs, fruit, milk etc. which are of perishable nature are examples of very short period market.
- [24] A firm will close down in the short period, if its AR is less than:
- (a) AC
 - (b) AVC
 - (c) MC
 - (d) None of the above.
- (1 mark)
- Answer:**
- (b) In the short run, fixed cost is fixed and variable cost is not fixed and if average revenue or total revenue is less than its average variable cost or total variable cost then firm has to close down its business because no one want to suffer losses by increase cost than revenue.

2018 - NOVEMBER

[25] Which of the following is correct?

- (a) $MR = AR (e - 1)/e$
- (b) $MR = AR (e + 1)/e$
- (c) $MR = AR (1 - e)/e$
- (d) None of the above

(1 mark)

Answer:

- (a) MR, AR and price elasticity of demand are uniquely related to one another through the formula, $MR = AR \times \frac{e-1}{e}$, therefore (a) is the correct option.

2019 - MAY

[26] According to Behavioural Principles.

- (a) a firm should not produce at all if its total variable costs are not met.
- (b) a firm will be making maximum profits by expanding output to the level where marginal revenue is equal to marginal cost.
- (c) Both (a) and (b)
- (d) None of these

(1 mark)

Answer :

(c) **According to Behavioural Principles:**

Principle 1 - A firm should not produce at all if its total variable costs are not met is better to shut down in such case.

Principle 2 - The firm will be making maximum profits by expanding output to the level where marginal revenue is equal to marginal cost as additional units add more to revenue than to cost.

Hence, **option (c)** is correct.

[27] Market consists of _____

- (a) Buyer and Seller
- (b) One price for one product at a given time
- (c) Both (a) and (b)
- (d) None

(1 mark)

Answer :

- (c) A market is a collection of buyers and sellers with the potential to trade. The elements of a market are:

- (i) Buyers and sellers
- (ii) A product or service
- (iii) Bargaining for a price
- (iv) Knowledge about market conditions and
- (v) One price for a product or service at a given time.

Hence, **option (c)** is correct.

[28] Demand for a product is unitary elastic then

- (a) $MR = 0$
- (b) $MR > 0$
- (c) $MR < 0$
- (d) None of the above

(1 mark)

Answer :

- (a) Marginal revenue, average revenue and price elasticity are related through the following formula

$$MR = AR \times \frac{e-1}{e}, \quad e = \text{price elasticity of demand}$$

$$\text{If elasticity} = 1, \quad MR = AR \times \frac{(1-1)}{1} = 0$$

Hence, **option (a)** is correct.

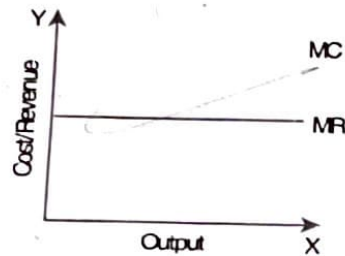
[29] Which of the following is true, when the firm is at equilibrium?

- (a) $MC < MR$
- (b) MC curve cuts the MR curve from below
- (c) Both (a) and (b)
- (d) None of the above

(1 mark)

Answer :

- (b) At the point of equilibrium, $MC = MR$ and MC curves cuts the MR curve from below. At this point a firm will earn maximum profits,



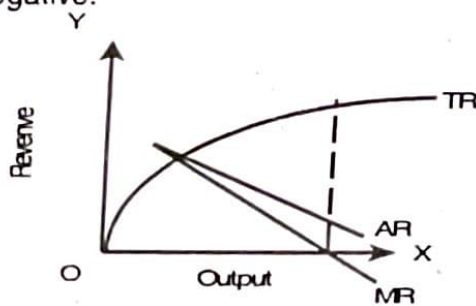
[30] When TR is at its peak then MR is equal to –

- (a) Zero
- (b) Positive
- (c) Negative
- (d) None of the above

(1 mark)

Answer:

- (a) The relationship between TR and MR is that initially,
1. Total Revenue curve increases at a diminishing rate due to diminishing marginal revenue.
 2. When marginal revenue becomes zero, total revenue is maximum.
 3. Total revenue starts falling again when marginal revenue is negative.



[31] When price is ₹ 20, Quantity demanded is 10 units and price is decreased by 5% then quantity demand increased by 10% then Marginal revenue is _____.

- (a) ₹ 10
- (b) ₹ 11
- (c) ₹ 9
- (d) ₹ 20

(1 mark)

Answer:

(c) $MR = \frac{\Delta TR}{\Delta Q}$; $TR = P \times Q$

TR (existing) = $20 \times 10 = 200$

TR (new) = $[20 - (5\% \text{ of } 20)] \times [10 + (10\% \text{ of } 10)]$
 $= 19 \times 11 = 209$

$\Delta TR = 209 - 200 = 9$

$\Delta Q = 20 - 19 = 1$

$MR = \frac{9}{1} = 9$

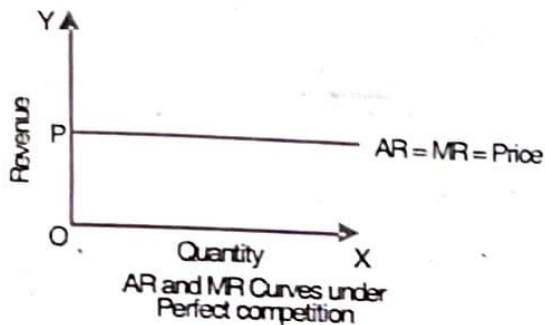
2019 - NOVEMBER

[32] Which of the following represents the supply curve in a perfect competitive market.

- (a) MC curve
- (b) AC curve
- (c) AR curve
- (d) MR curve

Answer:

- (c) Under perfect competition, since the firms are price takers, the Average Revenue Curve or Demand Curve are perfectly elastic. Therefore, AR curve means that an individual firm has constant average revenue. When price remains constant, marginal revenue will be equal to average revenue and thus, AR curve and MR curve will coincide and will be horizontal curves.

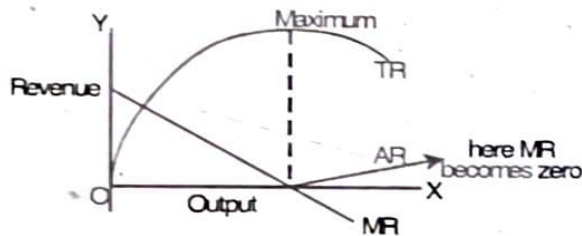


[33] When TR is max, then MR is

- (a) Zero
- (b) One
- (c) Both (a) & (b)
- (d) None

Answer:

(a) When Total Revenue is max, then Marginal Revenue is zero.



[34] _____ is also called a free market as there are no stipulations on the transactions

- (a) Unregulated
- (b) Regulated
- (c) Retail
- (d) Spot

Answer:

(a) **Unregulated Market:** It is also called a free market as there are no stipulations on the transactions.

Regulated Market: In this market, transactions are statutorily regulated so as to put an end to unfair practices. Such markets may be established for specific products or for a group of products. Eg. Stock exchange.

[35] In this market, transactions involve contracts with a promise to pay and deliver goods at some future date

- (a) Spot market
- (b) Future market
- (c) Unregulated market
- (d) Retail market

Answer:

(b) On the basis of Nature of Transactions

(a) **Spot or cash Market:** Spot transactions or spot markets refers to those markets where goods are exchanged for money payable either immediately or within a short span of time.

(b) **Forward or Future Market:** In this market, transaction involve contracts with a promise to pay and deliver goods at some future date.

[36] A firm reaches its shut down point

- (a) When price is less than AVC in long run.
- (b) When price is less than AVC in short run.
- (c) When price is more than AC in long run.
- (d) When price is more than AC in short run.

Answer:

(a) A firm reaches its shut down point when price is less than AVC in long run *

i.e. $AR < AVC$

AVC = Average Variable Cost

AR = Average Revenue

It is a matter of common sense that a firm should produce only if it will do better by producing than by not producing. The firm always has the option of not producing at all.

If a firm's total revenues are not enough to make good even the total variable cost, it is better for the firm to shut down.

In other words, a competitive firm should shut down if the price is below AVC.

Shutting down is temporary and does not necessarily mean going out of business.

[37] Demand of good increases from 15 units to 16 units if price decreases from ₹ 40 to ₹ 38. What will be MR of 16th units.

- (a) 8
- (b) 16
- (c) 38
- (d) 15

Answer:

(a)

Price (P)	Quantity (Q)	Total Revenue (P × Q)
40	15	600
38	16	608

$$MR_n = TR_n - TR_{n-1}$$

$$MR_{16} = TR_{16} - TR_{15}$$

$$MR_{16} = 608 - 600$$

$$MR_{16} = 8$$

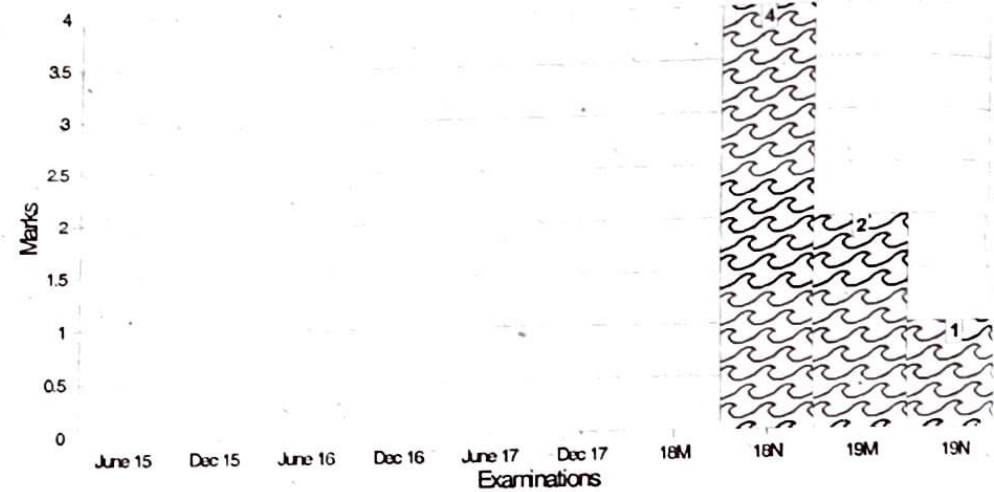
4

MEANING AND TYPES OF MARKET

Unit:2

Determination of Prices

Marks of Objective, Short Notes, Distinguish Between, Descriptive & Practical Questions



For detailed analysis Login at www.scannerclasses.com for registration and password see first page of this book.

PAST YEAR QUESTIONS AND ANSWERS

2006 - NOVEMBER

- [1] For maximum profit, the condition is :
- (a) $AR = AC$ (b) $MR = MC$
 (c) $MR = AR$ (d) $MC = AR$ (1 mark)

Answer:

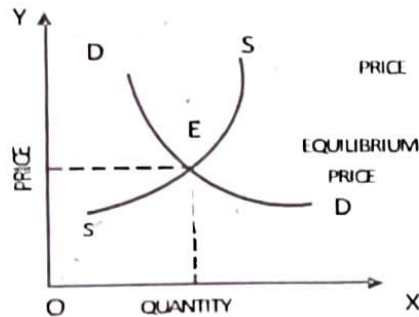
- (b) Profit maximization level of a firm is the level at which its marginal revenue is equal to marginal cost. The condition for maximum profit is: $MC = MR$.

2007 - MAY

- [2] Equilibrium price may be determined through:
- (a) Only demand (b) Only supply
 (c) Both demand & supply (d) None (1 mark)

Answer:

- (c) Equilibrium price is the price of a product when its demand equals supply. The point of intersection of demand and supply curves is the equilibrium price.



Equilibrium price involves both demand and supply.

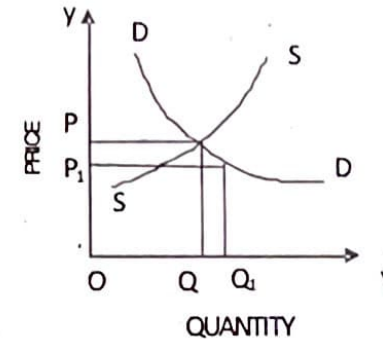
2007 - AUGUST

- [3] If price is forced to stay below equilibrium price then consequently it can be said that:

- (a) Excess supply exists. (b) Excess demand exists
 (c) Either (a) or (b) (d) Neither (a) nor (b) (1 mark)

Answer:

- (b) If the price is below equilibrium price, supply remaining the same, the demand of the commodity increases.



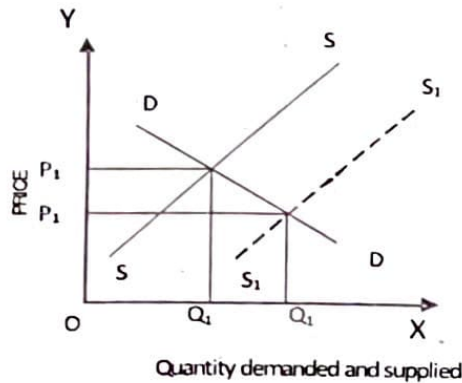
2007 - NOVEMBER

- [4] An increase in supply with unchanged demand leads to :

- (a) Rise in price and fall in quantity
 (b) Fall in both price and quantity
 (c) Rise in both price and quantity
 (d) Fall in price and rise in quantity (1 mark)

Answer:

- (d) When there is an increase in supply, demand remaining the same, the price of the good decreases and quantity demanded increases. It is evident from the following diagram:



2008 - FEBRUARY

[5] In the long run :

- (a) Only demand can change
- (b) Only supply can change
- (c) Both demand and supply can change
- (d) None of these

(1 mark)

Answer:

- (c) Long run is the period when both buyers and sellers get sufficient time to adjust their demand and supply. Hence, both demand and supply can change in long run.

2008 - JUNE

[6] Condition for producer equilibrium is :

- (a) $TR = TVC$
- (b) $MC = MR$
- (c) $TC = TAC$
- (d) None of these

(1 mark)

Answer:

- (b) Conditions for producer's equilibrium are :
 - a. $MC = MR$
 - b. MC should cut MR from below.

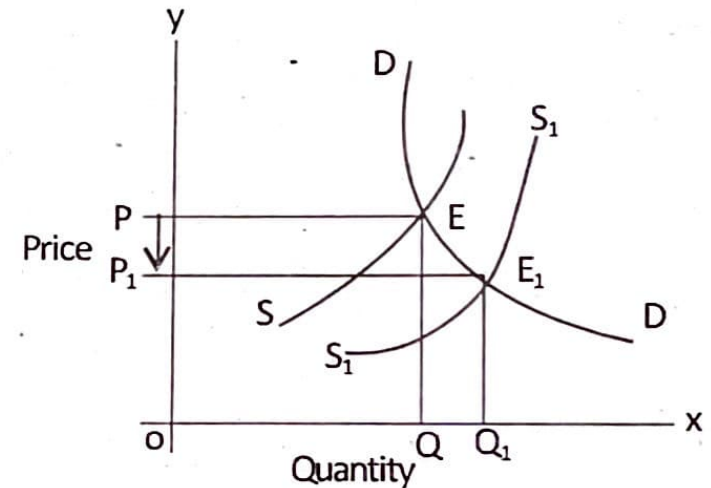
2010 - JUNE

- [7] An increase in supply with demand remaining the same, brings about.
- (a) An increase in equilibrium quantity and decrease in equilibrium price.
 - (b) An increase in equilibrium price and decrease in equilibrium quantity.
 - (c) Decrease in both equilibrium price and quantity .
 - (d) None of these.

(1 mark)

Answer:

- (a) When there is an increase in supply, demand remaining the same the equilibrium price of good decreases and equilibrium quantity increases. It is evident from the following diagram.



2014 - DECEMBER

- [8] When the price of a commodity is ₹ 20, the quantity demanded is 9 units and when its price is ₹ 19, the Quantity demanded is 10 units. Based on this information what will be the marginal revenue resulting from an increase in output from 9 units to 10 units?

- (a) ₹ 20 (b) ₹ 19
(c) ₹ 10 (d) ₹ 01 (1 mark)

Answer:

- (c) The marginal revenue resulting from an increase in output from 9 units to 10 units is ₹ 10.

Price	Quantity	Revenue
20	9	180
19	10	190

Marginal Revenue is $[190 - 180] = ₹ 10$.

2016 - NOVEMBER

- [9] From the following table, what will be equilibrium market price?

Price (in ₹)	Demand (Tonnes per annum)	Supply (Tonner per annum)
1	500	200
2	450	250
3	400	300
4	350	350
5	300	400
6	250	450
7	200	500
8	150	550

- (a) ₹ 2 (b) ₹ 3
(c) ₹ 4 (d) ₹ 5 (1 mark)

Answer:

- (c) Equilibrium Market price is ₹ 4 because at this price demand and price are equal so market price will tend to settle at this figure.

2017 - DECEMBER

- [10] If the price of a commodity is fixed, then with every increase in its sold quantity the total revenue will _____ and the marginal revenue will _____.

- (a) increase, also increase (b) increase, remain unchanged
(c) increase, decline (d) remain fixed, increase. (1 mark)

Answer:

- (b) If the price of a commodity is fixed, then with every increase in its sold quantity the total revenue will increase and the marginal revenue will remain unchanged. As marginal revenue is the change in total revenue. Resulting from the sale of an additional unit of the commodity.

2018 - NOVEMBER

- [11] If supply decreases and demand remains constant, then equilibrium price will be?

- (a) Increases
(b) Decreases
(c) No change
(d) Become Negative (1 mark)

Answer:

(a) When supply falls and demand remains constant, then there will be excess demand in the economy and in order to meet the demand the price of the commodity will rise (Increase).

[12] According to pigou, first degree price discrimination charges price to;

- (a) Individual capacity
 - (b) Quantities sold
 - (c) Location
 - (d) None of the above
- (1 mark)

Answer:

(a) Under first degree price discrimination, the monopolist separates the market into each individual consumer and charges them the price they are willing and able to pay and thereby extract the entire consumer surplus.

Therefore, (a) is the correct option, individual capacity.

[13] What is the shape of monopolist Average Revenue Curve?

- (a) Falls from left to right
 - (b) Is parallel to X – axis
 - (c) Is parallel to Y – axis
 - (d) Rise from left to right
- (1 mark)

Answer:

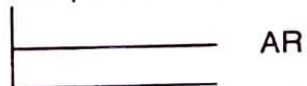
(a) The shape of monopolist average revenue curve falls from left to right.

[14] What is the shape of perfectly competitive Average Revenue Curve?

- (a) Parallel to X axis
 - (b) Parallel to Y axis
 - (c) Fall from left to right
 - (d) Rise from left to right
- (1 mark)

Answer:

(a) Curve of average revenue is parallel to X axis as per perfect competition market.



2019 - MAY

[15] Monopsony means

- (a) Where there are large firms
 - (b) There is a single buyer
 - (c) Small number of large buyers
 - (d) Single seller and single buyer
- (1 mark)

Answer :

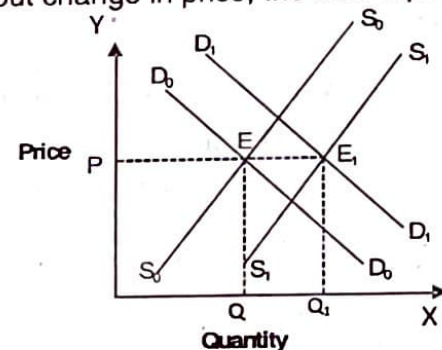
(b) A monopsony is a market condition in which there is only a single buyer - A single buyer dominates the market.

[16] When increase in demand is equal to increase in supply and equilibrium price remains constant, then what about equilibrium quantity?

- (a) Increases
 - (b) Decreases
 - (c) Remains Constant
 - (d) None of the above
- (1 mark)

Answer:

(a) In case there is a simultaneous increase in demand as well as supply without change in price, the new equilibrium point will be

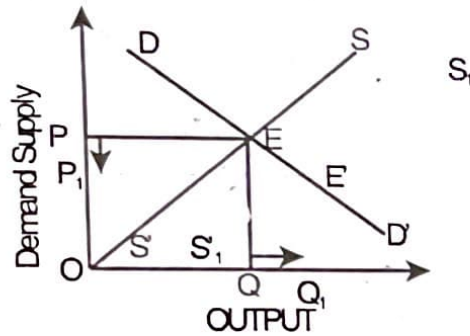


It can be observed that the quantity has moved from Q to Q₁, changing the equilibrium point from E to E₁, i.e. if the equilibrium price remains unchanged/constant, the equilibrium quantity will increase.

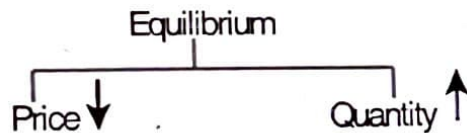
- [17] An increase in supply with demand remaining the same, brings about
- (a) An increase in equilibrium quantity and decrease in equilibrium price.
 - (b) An increase in equilibrium price and decrease in equilibrium quantity.
 - (c) Decrease in both equilibrium price and quantity.
 - (d) None of these

Answer:

- (a) An increase in supply with demand remaining the same brings about.



In the above diagram we can see that when there is increase in supply curve i.e. from SS' to $S_1S'_1$, where demand curve remaining the same i.e. DD' with price ' P ' and quantity ' Q '. Then as a result there is an increase in equilibrium quantity i.e., from Q to Q_1 and price decreased i.e., from P to P_1 . And equilibrium point shifted downwards i.e. from E to E' .



4

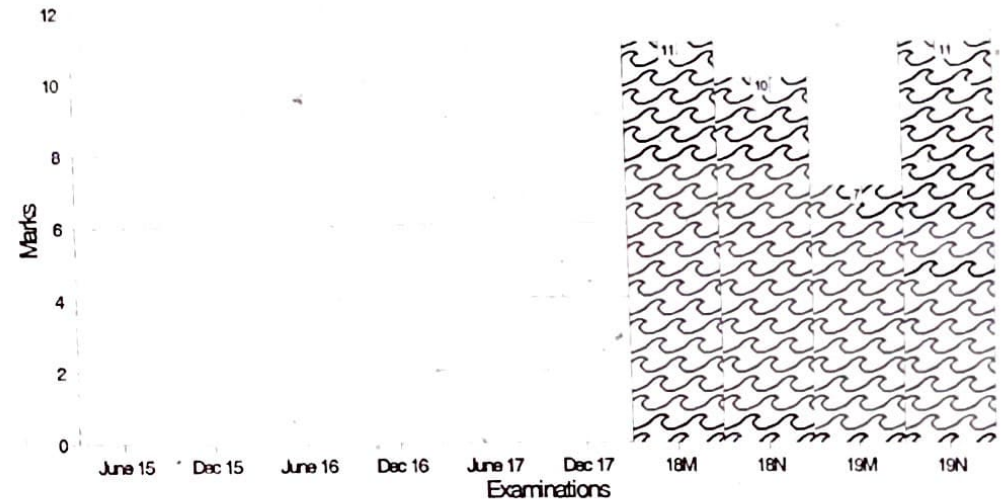
MEANING AND TYPES OF MARKET

Unit:3 Price Output Determination Under Different Market Forms

Marks of Objective, Short Notes, Distinguish Between, Descriptive & Practical Questions

Legend

Objective
 Short Notes
 Distinguish
 Descriptive
 Practical



For detailed analysis Login at www.scannerclasses.com for registration and password see first page of this book.

PAST YEAR QUESTIONS AND ANSWERS

2006 - NOVEMBER

[1] A competitive firm in the short run incur losses. The firm continues production, if:

- (a) $P > AVC$ (b) $P = AVC$
(c) $P < AVC$ (d) $P \geq AVC$ (1 mark)

Answer:

(d) In short run if the competitive firm is incurring losses then it will continue production only if its price is greater or equal to average variable cost. If price is less than variable cost it means neither the fixed cost nor the variable cost can be covered. In such a situation, the producer shall stop production.

[2] Under _____ market condition, firms make normal profits in the long run:

- (a) perfect competition (b) monopoly
(c) oligopoly (d) none (1 mark)

Answer:

(a) Perfect competitive market is characterized by free entry and exit of firms. In the long run if the firm makes profit, more seller enter the industry and hence the profits are reduced to the equilibrium level. If there are losses, then and more firms leave the industry resulting into increase in profits to the equilibrium level. Hence, competitive firms always incur normal profits.

4.208 ■

2007 - FEBRUARY

[3] A monopolist is able to maximize his profits when :

- (a) His output is maximum
(b) He charges a high price
(c) His average cost is minimum
(d) His marginal cost is equal to marginal revenue (1 mark)

Answer:

(d) Profit maximization level is the level at which :
 $MC = MR$

[4] Under which of the following market structure AR of the firm will be equal to MR?

- (a) Monopoly (b) Monopolistic Competition
(c) Oligopoly (d) Perfect Competition (1 mark)

Answer:

(d) In perfect competition firms are price taker. Hence they offer same price i.e. the prices are same throughout the market. Since the prices are same or the AR and MR are also equal.

2007 - MAY

[5] Under Monopolistic competition the cross elasticity of demand for the product of a single firm would be :

- (a) Infinite (b) Highly elastic
(c) Highly inelastic (d) Zero (1 mark)

Answer:

(b) In case of monopolistic competition, the products are less differentiated and all the brands are close substitutes of one another hence it has highly elastic of cross elasticity.

- [6] When $AR = ₹ 10$ and $AC = ₹ 8$ the firm makes _____ :
- (a) normal profit (b) net profit
(c) gross profit (d) supernormal profit (1 mark)

Answer:

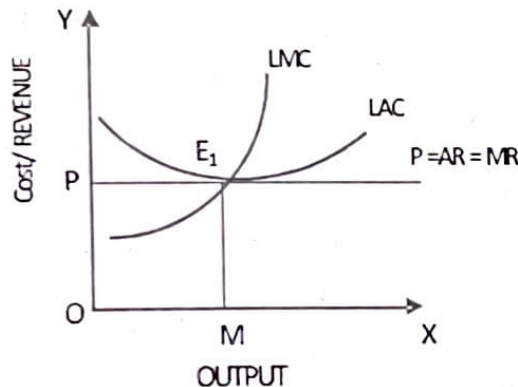
- (d) A firm makes normal profit when $AC = AR$.
In the given question $AR = 10$ and $AC = 8$ i.e. average revenue is greater than average cost. So the firm makes super normal profit. (Profit above normal profit is super normal profit).

2007 - AUGUST

- [7] What are the conditions for the long run equilibrium of the competitive firm?
- (a) $LMC = LAC = P$ (b) $SMC = SAC = LMC$
(c) $P = MR$ (d) All of these (1 mark)

Answer:

- (d) In the long run, a competitive will be at equilibrium at $LMC = LAC = P$
(When long run marginal cost, long run average cost and price are equal)
Also in long run in the firms operating under perfect competition is efficient at point E' where $P = MR$ and $SMC = SAC = LMC$.



- [8] Kinked demand curve hypothesis is given by:
- (a) Alfred marshal (b) A.C Pigou
(c) Sweezy (d) Hicks & Allen (1 mark)

Answer:

- (c) Kinked Demand hypothesis was given by Sweezy, an American economist.

2007 - NOVEMBER

- [9] Supernormal profits occur, when :
- (a) Total revenue is equal to total cost
(b) Total revenue is equal to variable cost
(c) Average revenue is more than average cost
(d) Average revenue is equal to average cost (1 mark)

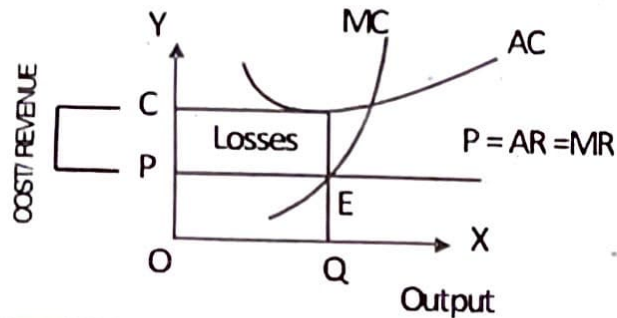
Answer:

- (c) Super normal profits are the profits over and above the normal profit. Normal profit is included in the cost of the product (This profit is for recovering the fixed cost). If the product is sold above its cost supernormal profits occurs. In other words, when $AR > AC$, supernormal profits occurs.

- [10] If under perfect competition, the price line lies below the average cost curve, the firm would :
- (a) Make only Normal profits (b) Incur losses
(c) Make abnormal profit (d) Profit cannot be determined (1 mark)

Answer:

- (b) In the perfect competition if the price line (AR and MR curve) are below AC curve so the firm incurs losses i.e. AR or MR is less than AC .



2008 - FEBRUARY

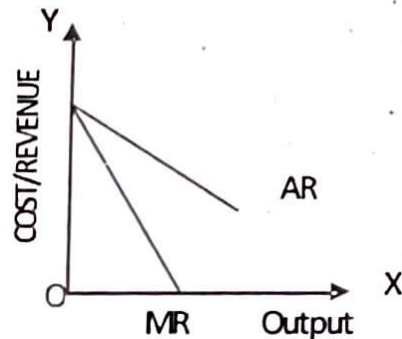
[11] The MR curve cuts the horizontal line between Y axis and demand curve into:

- (a) Two unequal parts
- (b) Two equal parts
- (c) May be equal or unequal parts
- (d) None of these

(1 mark)

Answer:

(b) The slope of average revenue curve is twice the slope of marginal revenue curve hence MR curve units it into two equal parts.



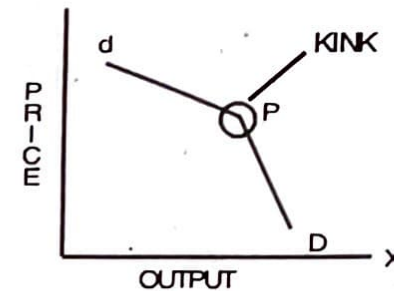
[12] Kinked demand curve is observed in _____.

- (a) duopoly market
- (b) monopoly market
- (c) competitive market
- (d) oligopoly market.

(1 mark)

Answer:

(d) In oligopolistic industries prices remain sticky or inflexible for a long time. They tend to change infrequently even if in the face of declining cost. These inflexibilities lead to kink shape of the demand curve. Therefore, oligopolistic markets have kinked demand curve.



[13] Competitive firms in the long run earn:

- (a) Super normal profit
- (b) Normal profit
- (c) Losses
- (d) None

(1 mark)

Answer:

(b) Same as Ans. 2

2008 - JUNE

[14] For a monopolist, the necessary condition for equilibrium is:

- (a) $P = MC$
- (b) $P = MR = AR$
- (c) $MR = MC$
- (d) None

(1 mark)

Answer:

(c) A firm is in equilibrium when:
 $MC = MR$

[15] A firm will shut down in the short run if :

- (a) It is suffering a loss
- (b) Fixed costs exceeds revenue
- (c) Variable costs exceed revenues
- (d) Total costs exceed revenues

(1 mark)

Answer:

(c) In the short run if the firms will be in break even point when variable cost = revenues. When variable cost is above revenues it means that the firm can neither recover its variable cost nor fixed cost. With this situation, the producer cannot survive for a long so he may shut down.

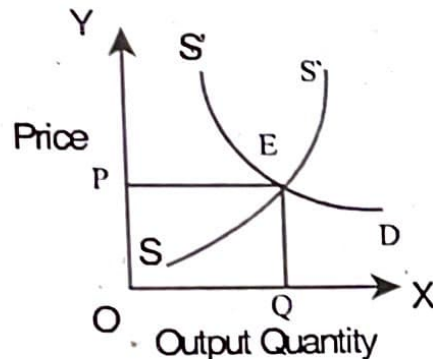
[16] _____ is the price at which demand for a commodity is equal to its supply :

- (a) Normal Price
- (b) Equilibrium Price
- (c) Short run Price
- (d) Secular Price

(1 mark)

Answer:

(b) Equilibrium price is the price at which demand of a commodity is equal to its supply.



Point E is the equilibrium price.

2008 - DECEMBER

[17] OPEC is an example of :

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

(1 mark)

Answer:

(c) OPEC [Organisation for Petroleum Exporting Countries] is an example of oligopoly market because there are few seller for petroleum in the world.

[18] _____ is a ideal Market.

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

(1 mark)

Answer:

(c) Perfectly Competitive Market is an ideal Market because it is characterized by many sellers selling identical products to many buyers and there is a freedom of entry and exit.

[19] Under which Market Situation demand curve is linear and parallel to X axis :

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

(1 mark)

Answer:

(a) Under Perfect competition demand curve is Linear and parallel to X axis because there are huge number of buyers selling the same commodity at a particular price and as a result each buyer and seller makes transactions in the market at a prevailing price.

[20] Which market have characteristic of product differentiation?

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

(1 mark)

Answer:

(c) Monopolistic markets have a characteristic of product differentiation which is the most prominent feature of such a form of market where firms do not produce identical goods. They rather produce different varieties of a commodity which are close substitutes of each other.

[21] Which of these are characteristics of Perfect Competition.

- (a) Many Sellers & Buyers (b) Homogeneous Product
(c) Free Entry and Exit (d) All of the above (1 mark)

Answer:

(d) Under perfect competition there are large number of buyers and sellers. A particular buyer has a negligible role to determine the price.

The product sold under this type of market structure is a homogenous product i.e. all units of a good are identical colour, shape, size or packing of the product of each seller. Lastly, there is no legal or social restriction upon the entry of new firms into the industry. The choice of entering or leaving an industry lies on individual firms.

[22] The demand curve of oligopoly is :

- (a) Horizontal (b) Vertical
(c) Kinked (d) Rising left to right (1 mark)

Answer:

(c) In many oligopolistic industries, prices remain sticky or inflexible for a long time. This price rigidity has been clearly explained by the kinked demand curve hypothesis. The demand curve of an oligopoly market has a 'Kink' at the level of the prevailing prices. The kink is formed at the prevailing price level. It is because the segment of the demand curve above the prevailing price level is highly elastic and the segment of the demand curve below the prevailing price level is inelastic.

Therefore, the demand curve formed under an oligopolistic market is kinked.

[23] MR Curve = AR = Demand Curve is a feature of which kind of Market?
(a) Perfect Competition (b) Monopoly
(c) Monopolistic (d) Oligopoly (1 mark)

Answer:

(a) In perfect competition, all the goods are sold at a single price, by which average revenue (AR) equals marginal revenue (MR). This price is determined by the industry through the forces of demand and supply and this price is adopted by the firms. All the goods are sold at a prevailing price in the market by which AR equals MR at each level of quantity sold.

2009 - JUNE

[24] In the long-run monopolist can:

- (a) Incur losses (b) Must earn super normal profits
(c) Wants to shut-down (d) Earns only normal profits. (1 mark)

Answer:

(b) Long run is a period long enough to allow the monopolist to adjust his plant size or use his existing plant at any level that maximizes his profit. In the absence of competition the monopolist need not produce at the optimum level.

Therefore, the monopolist will not continue if he makes losses in the long run. He will continue to make super normal profits even in the long run as entry of outside firm is blocked.

[25] The demand curve of the firm and industry will be same in which form of market :

- (a) Monopolistic Competition (b) Perfect Competition
(c) Monopoly (d) Oligopoly. (1 mark)

Answer:

(c) In case of monopoly market, the firm and the industry are same as there is only one seller in the market. Hence the demand curve of the firm and industry are same.

- [26] Oligopoly having identical products is:
- (a) Pure oligopoly
 - (b) Imperfect oligopoly
 - (c) Price leadership
 - (d) Collusion.
- (1 mark)

Answer:

- (a) Oligopoly is a market situation when there are few sellers in the market. When the sellers in the market sell homogeneous products, such oligopoly is termed as pure oligopoly.

2009 - DECEMBER

- [27] The demand curve of oligopoly is :
- (a) Horizontal
 - (b) Vertical
 - (c) Kinked
 - (d) Rising left to right

Answer:

- (c) Same as Ans. 22

- [28] Demand curve is equal to M. R. curve in which market?
- (a) Oligopoly
 - (b) Monopoly
 - (c) Monopolistic Competition
 - (d) Perfect Competition
- (1 mark)

Answer:

- (d) In a perfectly competitive market, all units are priced at the same level.

Therefore, $P = MR = AR$. Since every demand curve is the average revenue curve, so in a perfectly competitive market, the demand curve is a straight line parallel to X axis, i.e. demand is perfectly elastic.

- [29] Kinked demand hypothesis is designed to explain _____ in context of oligopoly.
- (a) price and output determination
 - (b) price rigidity
 - (c) collusion between firm
 - (d) all of the above
- (1 mark)

Answer:

- (b) Kinked demand hypothesis is designed to explain the rigidity of price under oligopolistic market. It helps to determine the price and output of the firm.

- [30] Price discrimination can take place only in _____.
- (a) monopolistic competition
 - (b) oligopoly
 - (c) perfect competition
 - (d) monopoly
- (1 mark)

Answer:

- (d) Price discrimination refers to charging different prices from different customers. This is a feature of monopoly, as this situation is possible only in case of monopoly as there is only one seller in the market and there is no competition.

2010 - JUNE

- [31] In oligopoly, the kink on the demand curve is more due to _____.
- (a) discontinuity in MR.
 - (b) discontinuity in AR.
 - (c) Fulfillment of the assumption that a price cut is followed by others and a price increase by a firm is not followed by others.
 - (d) price war amongst the firms.
- (1 mark)

Answer:

- (c) In case of oligopoly there is a 'kink' on the demand curve because the Segment of demand curve above prevailing price is highly elastic and segment of the demand curve below prevailing price level is inelastic.

The reason for the above is that the oligopolist believes if he lowers the price below prevailing level its competitors will follow him but if he raises the price above the prevailing level, its competitors will not follow him.

[32] Price Discrimination is possible only when.

- (a) Seller is alone.
- (b) Goods are homogeneous.
- (c) Market is controlled by the government.
- (d) None of the above.

Answer:

(1 mark)

(a) In case of price discrimination there is a condition that the seller should have some control over the supply of his product i.e. monopoly power in some form is necessary (not sufficient) to discriminate price.

So it can be said that in order to have monopoly power the seller should be alone to exercise price discrimination.

[33] Which of the following is not the feature of an imperfect competition?

- (a) Product differentiation.
- (b) Few sellers.
- (c) Homogeneous products.
- (d) Price wars.

(1 mark)

Answer:

(c) Features of imperfect competition are:

- (i) Large number of sellers.
- (ii) Product differentiation
- (iii) Freedom of Entry or Exit
- (iv) Non-price competition.

[34] Price taker firms _____.

- (a) do not advertise their product because it misleads the customers.
- (b) advertise their products to boost the level of demand.
- (c) do not advertise but give gifts along with the sold items to attract customers.
- (d) do not advertise because they can sell as much as they wish at the prevailing price.

(1 mark)

Answer:

(d) In case of perfect competition firms are price takers which need not advertise their products because they can sell as much as they wish at the prevailing prices.

[35] Price rigidity is a situation found in which of the following market forms?

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

(1 mark)

Answer:

(d) Oligopoly is a market structure having few sellers characterized by price rigidity which helps to determine the price and output of the firm.

2010 - DECEMBER

[36] When elasticity of demand is Equal to one in monopoly, marginal Revenue will be _____.

- (a) equal to one.
- (b) greater than one.
- (c) less than one.
- (d) zero.

(1 mark)

Answer:

$$(d) MR = AR \left[\frac{e-1}{e} \right]$$

Where, $e = 1$

$$\therefore MR = AR \left[\frac{1-1}{1} \right] = AR \left[\frac{0}{1} \right]$$

$$MR = 0$$

[37] Which one of the following statement is Incorrect?

- (a) Competitive firms are price takers and not price makers.
- (b) Price discrimination is possible in monopoly only.
- (c) Duopoly may lead to monopoly.
- (d) Competitive firm always seeks to discriminate prices.

(1 mark)

Answer:

(d) Monopoly control over the product gives rise to price-discrimination, hence it can take place only in monopoly and not in competitive firms.

[38] Under which of the following market structure AR of the firm will be equal to MR?

- (a) Monopoly (b) Monopolistic Competition
(c) Oligopoly (d) Perfect Competition (1 mark)

Answer:

Same as Ans. 4

[39] Tooth paste industry is an example of _____.

- (a) monopoly (b) monopolistic competition
(c) oligopoly (d) perfect competition. (1 mark)

Answer:

(b) Monopolistic competition is a market in which many sellers offering differentiated products to many buyers Example- Toothpaste industry where product differential is only slight, and the degree of control over price is only some.

[40] OPEC is an example of :

- (a) Monopolistic competition (b) Monopoly
(c) Oligopoly (d) Duopoly (1 mark)

Answer:

(c) Same as Ans. 17

[41] Monopolistic Competitive firms _____.

- (a) are small in size (b) have small share in total market
(c) are very large in size (d) both (A) and (B) (1 mark)

Answer:

(d) Monopolistic competitive firms are small in size as compared to monopolies and every monopolistic competitive firms have small share in the total market Example – Soap industry

[42] The price discrimination under monopoly will be possible under which of the following conditions?

- (a) The seller has no control over the supply of his product
(b) The market has the same condition all over
(c) The price elasticity of demand is different in different markets
(d) The price elasticity of demand is uniform. (1 mark)

Answer:

- (c) Conditions for price discrimination under monopoly are:
(i) seller should have control over the supply of his product
(ii) seller should be able to divide his market into sub-markets
(iii) price elasticity of product should be different in different markets
(iv) not possible for buyers of low-priced market to resell the product to the buyers of high priced market.

2011 - JUNE

[43] Oligopoly having identical products is known as _____.

- (a) pure oligopoly (b) collusive oligopoly
(c) independent oligopoly (d) none of these. (1 mark)

Answer:

(a) Oligopoly having identical products is known as pure oligopoly. For example-aluminium industry.

[44] Which of these is the best example of oligopoly?

- (a) OPEC (b) SAARC
(c) WTO (d) GATT. (1 mark)

Answer:

(a) Oligopoly is defined as 'competition among few'. In other words when there are few sellers in the market selling homogeneous or differentiated products, oligopoly is said to exist. OPEC (Oil and Petroleum Exporting Countries) is the best example of oligopoly.

[45] Monopolist can fix his price of goods whose elasticity is _____.

- (a) less than 1 (b) more than 1
(c) elastic (d) inelastic. (1 mark)

Answer:

(a) Monopoly is a situation when there is a single seller in the market. Here the firm is the price maker. The price elasticity demand for monopolist is less than one hence he can fix price of the goods whose elasticity is less than one.

- [46] Kinked demand curve is observed in _____.
- (a) duopoly market (b) monopoly market
(c) competitive market (d) oligopoly market.

Answer:

(d) Same as Ans. 12

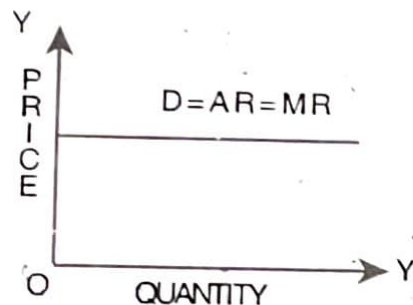
(1 mark)

- [47] Perfectly competitive firm faces:
- (a) Perfectly elastic demand curve
(b) Perfectly inelastic demand curve
(c) Zero
(d) Negative.

Answer:

(1 mark)

- (a) Firms in a competitive market are price takers. This is because there are a large number of firms in the market who are producing identical or homogeneous products. As such these firms cannot influence the price of their products and hence they have a perfectly elastic demand curve.



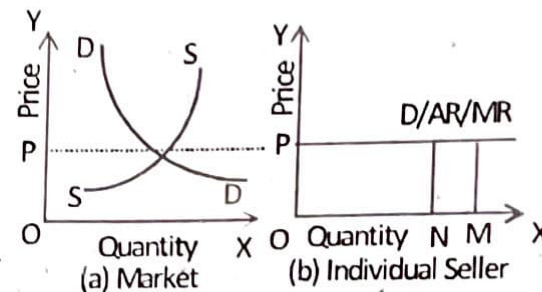
2011 - DECEMBER

- [48] In perfect Competition when the firm is a price taker, which curve among the following will be a straight line?
- (a) Marginal Cost (b) Average Cost
(c) Total Cost (d) Marginal Revenue

(1 mark)

Answer:

- (d) In a perfect competitive market the firms are price-takers and the marginal revenue curve is a straight line.



Firm's Demand Curve Under Perfect Competition

- [49] "Price Discrimination" can be best exercised by the Seller in _____.
- (a) oligopoly
(b) monopoly
(c) monopolistic competition
(d) perfect competition

(1 mark)

Answer:

- (b) Price discrimination cannot persist under perfect competition because the seller has no influence over market determined rate. Price Discrimination requires an element of monopoly so that the seller can influence the price of his product.

- [50] In Oligopoly the kink in the demand curve is more due to _____.
- (a) discontinuity in MR
(b) discontinuity in AR
(c) fulfillment of the assumption that a price fall is followed by the other and a price increase by a firm is not followed by the other
(d) price war among the firms

(1 mark)

Answer:

- (c) In oligopoly, the kinked demand curve is based on the assumption that:

Each oligopolist believes that if he lowers the price below the prevailing level, its competitors will follow him and will accordingly lower the prices, whereas if he raises the price above the prevailing level, its competitors will not follow its increase in price. This feature gives a kink shape to the demand curve.

- [51] A firm encounters "shut down" point when _____.
- (a) marginal cost equals the price of the profit maximising level of output
 - (b) average fixed cost equals the price at the profit maximising level of output
 - (c) average variable cost equals the price at the profit maximising level of output
 - (d) average total cost equals the price at the profit maximising level of output (1 mark)

Answer:

- (c) A firm reaches a shutdown level when it is not being able to meet its variable cost. This means that the firm will not be able to make payment to labour, raw material suppliers etc. In such a situation, the firm will not be able to recover its variable cost even in the long run. Hence at this stage the firm should stop production and shut down.
- [52] Under which market Condition firms make only normal profits in the long run?
- (a) Oligopoly
 - (b) Monopoly
 - (c) Monopolistic competition
 - (d) Duopoly (1 mark)

Answer:

- (c) In short-run, firm earn super-normal profits in the monopolistic competition thus giving incentives to new firms to enter the industry. As more firms enter, profits per firm will go on decreasing as the total demand will be shared among large number of firms. This will happen till all the profits are wiped away and all the firms earn only normal profits.

- [53] In monopolistic competition excess capacity in the firm _____.
- (a) always exists
 - (b) sometimes exists
 - (c) never exists
 - (d) none of the above (1 mark)

Answer:

- (a) An individual firm in the long run is in equilibrium position at a position where it has excess capacity. Thus, the firms in monopolistic competition are not of optimum size and there exists excess capacity of production with each firm.

2012 - JUNE

- [54] Selling costs have to be incurred in case of:
- (a) Perfect Competition
 - (b) Monopolistic Competition
 - (c) Monopoly
 - (d) None of these. (1 mark)

Answer:

- (b) Non price competition is an essential feature of monopolistic competition. Here the firms compete not on basis of price but on other factors such as aggressive marketing, product development, after sale services etc. Hence incurring of selling cost is an essential feature of monopolistic competition.

- [55] In market, the price and output equilibrium is determined on the basis of:
- (a) Total revenue and total cost
 - (b) Total cost and marginal cost
 - (c) Marginal revenue and marginal cost
 - (d) Only marginal cost. (1 mark)

Answer:

- (c) For the condition of equilibrium two conditions are necessary –
- (i) Marginal revenue should be equal to marginal cost.
 - (ii) Marginal cost curve should cut MR from below.

Hence, equilibrium is determined on the basis of marginal cost and marginal revenue.

2012 - DECEMBER

[56] A perfect market is characterised by :-

- (a) Existence of large number of buyers and sellers
- (b) Homogenous products
- (c) Perfect knowledge of the market
- (d) All of the above.

Answer:

(d) A perfect market has following characteristics :

1. Large number of buyers and sellers
2. Homogeneous products
3. Free entry and exit Perfect knowledge of the market
5. Movement of goods from one centre to another
6. Uniform price.

(1 mark)

[57] Which of the following is not a feature of oligopoly market?

- (a) Interdependence of the firms in decision making
- (b) Price rigidity
- (c) Group behaviour
- (d) Existence of large number of firms.

Answer:

(d) Oligopoly is described as 'competition among the few'. It has the following characteristics:

1. Interdependence of few firms in decision making
2. Great importance of advertising and selling cost, firms compete on non-price basis.
3. Group behaviour.

(1 mark)

[58] A monopolist can fix:

- (a) Both price and output
- (b) Either price or output
- (c) Neither price nor output
- (d) None of the above.

(1 mark)

Answer:

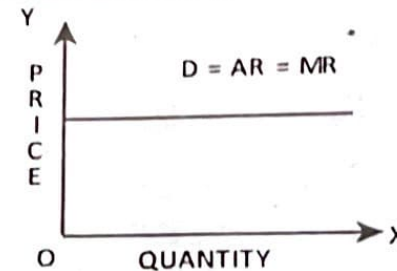
(a) The term 'monopoly' means 'alone to sell'. In a monopoly market there is only one firm producing or supplying a product. Thus, the monopolist is free to determine both his price and output.

[59] In a perfectly competitive market, the demand curve of a firm is:-

- (a) Elastic
 - (b) Perfectly elastic
 - (c) Inelastic
 - (d) Perfectly inelastic
- (1 mark)

Answer:

(b) Firms in a competitive market are price takers. This is because there are a large number of firms in the market who are producing identical or homogeneous products. As such these firms cannot influence the price of their products and hence, they have a perfectly elastic demand curve.



[60] In a competitive market, if price exceeds Average Variable Cost (AVC) but remains less than Average Cost (AC) at the equilibrium, the firm is:

- (a) Making a profit
 - (b) Planning to quit
 - (c) Experiencing loss but should continue production
 - (d) Experiencing loss but should discontinue production.
- (1 mark)

Answer:

(c) The firm can be in an equilibrium position and still make losses. When the firm is able to meet its VC and a part of FC, it will try to continue production in short run. If it recovers a part of FC, it will be beneficial for it to continue production because FC are already incurred and in such a case, it will be able to recover a part of them.

Thus, if price exceeds the AVC but remains less than AC at equilibrium in a competitive market, the firm is experiencing loss but should continue production.

2013 - JUNE

- [61] Price under perfect competition is determined by the _____.
- (a) firm
(b) industry
(c) government
(d) society.

Answer:

(b) An industry consist of a large number of independent firms, having a number of factories, firms or mines under its control. Each such unit in the industry produces a homogeneous product so that there is competition amongst goods produced by different units called firms. When the total output of the industry is equal to the total demand, we say the industry is in equilibrium, the price prevailing is equilibrium price. Thus it can be said that price under perfect competition is determined by industry.

- [62] Under monopoly, which of the following is correct:
- (a) AR and MR both are downward sloping
(b) MR lies halfway between AR and Y-axis
(c) MR can be zero or even negative
(d) All of the above.

Answer:

(d) The relationship between AR and MR of a monopoly firm can be stated as follows:

(i) AR and MR are both negative sloped (downward sloping) curves.
(ii) MR curve lies half way between the AR curve and Y axis, i.e. it cuts the horizontal line between Y axis and AR into two equal parts.
(iii) AR cannot be zero, but MR can be zero or even negative.

Thus, all of the above statements are correct under monopoly.

- [63] Non-price competition is very popular in:
- (a) Monopoly market
(b) Monopolistic competition
(c) Oligopolistic market
(d) Perfect competition.

4.230

Solved Scanner CA Foundation Paper - 4A (New Syllabus)

Answer:

(b) In a monopolistically competitive market, seller try to compete on basis other than price, as for example aggressive advertising, product development, better distribution arrangements, efficient after-sale service, and so on. A key base of non-price competition is a deliberate policy of product differentiation.

- [64] In the 'kinked-demand' curve model, the upper portion of the demand curve is:
- (a) Elastic
(b) Inelastic
(c) Perfectly Elastic
(d) Unitary Elastic.

Answer:

(a) The demand curve faced by an oligopolist according to kinked demand curve hypothesis, has a 'kink' at the level of prevailing price. It is because the segment of the demand curve above the prevailing price level is highly elastic and the segment of the demand curve below the prevailing price level is inelastic.

- [65] Equilibrium price for an industry in perfect competition is fixed through.
- (a) Input and Output
(b) Market demand and market Supply
(c) Market demand and firms supply
(d) None of the above.

Answer:

(b) Firms in a competitive market are price takers. This is because there are a large number of firms in the market who are producing identical or homogeneous products. As such these firms cannot influence the price in their individual capacities. They have to accept the price fixed (through interaction of market demand and supply) by the industry as a whole.

2013 - DECEMBER

[66] In a perfectly competitive market, if MR is greater than MC, then a firm should—

- (a) Increase its production (b) Decrease its production
(c) Decrease its sales (d) Increase its sales (1 mark)

Answer:

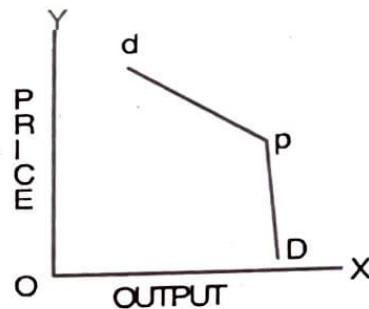
(a) In a perfectly competitive market, if MR is greater than MC, there is always an incentive for the firm to expand its production further and gain by sale additional units. Thus, the firm should increase its production if MR is greater than MC.

[67] Kinked demand curve is related to which market structure

- (a) Oligopoly (b) Monopoly
(c) Monopsony (d) Monopolistic competition. (1 mark)

Answer:

(a) In oligopolistic industries prices remain sticky or inflexible for a long time. They tend to change infrequently even if in the face of declining cost. These inflexibilities lead to kink shape of the demand curve. Therefore, oligopolistic markets have kinked demand curve.



Thus, option a is correct.

[68] In the long run a monopolist always earns

- (a) Normal profit (b) Abnormal profit
(c) Zero profit (d) Loss (1 mark)

Answer:

(b) Long run is a period long enough to allow the monopolist to adjust his plant size or use his existing plant at any level that maximizes his profit. In the absence of competition the monopolist need not produce at the optimum level. Therefore, the monopolist will not continue if he makes losses in the long run. He will continue to make super normal profits abnormal even in the long run as entry of outside firm is blocked. Thus, option b is correct.

[69] Under which of the following forms of market structure does a firm has a very considerable control over the price of its product?

- (a) Monopoly
(b) Monopolistic Competition
(c) Oligopoly
(d) Perfect Competition (1 mark)

Answer:

(a) In monopoly since there is a single seller and there is only one firm producing and supplying a product. Each firm is a price maker and is in a position to determine price of its own product.

2014 - JUNE

[70] One of the essential conditions of Perfect Competition is :

- (a) Product differentiation
(b) Many sellers and few buyers
(c) Only one price for identical goods at any one time
(d) Multiplicity of prices for identical product at any one time (1 mark)

Answer:

(c) In case of perfect competition, the commodity or the goods are sold at uniform price throughout the market at any given point of time. In other words, all firms individually are price takers; they have to accept the price determined by the market forces of demand and supply.

[71] The demand curve of an oligopolist is :

- (a) Determinate (b) Indeterminate
(c) Circular (d) Vertical (1 mark)

Answer:

(b) When an oligopolistic firm changes its price, its rival firms will retaliate or react and change their prices which in turn would affect the demand of the former firm. Therefore, an oligopolistic firm cannot have sure and definite demand curve, since it keeps shifting as the rivals changes their prices in reaction to the price changes made by it.

Hence, option (b) is correct.

[72] Abnormal profits exist in the long run only under _____

- (a) perfect competition (b) monopoly
(c) monopolistic competition (d) oligopoly (1 mark)

Answer:

(b) Abnormal profits exist in the long run only under monopoly. He will continue to make supernormal profits even in the long run as entry of outside firms is blocked.

Thus, option (b) is correct.

[73] The distinction between a single firm and an Industry vanishes in which of the following market conditions?

- (a) Perfect Competition (b) Imperfect Competition
(c) Pure Competition (d) Monopoly (1 mark)

Answer:

(d) In a monopoly market, there is only one firm producing or supplying a product. This single firm constitutes the industry and as such there is no distinction between firm and industry in a monopolistic market or monopoly.

[74] Selling outlay is an essential part of which of the following market situations?

- (a) Perfect Competition (b) Monopoly
(c) Monopolistic Competition (d) Pure Competition. (1 mark)

Answer:

(c) In a monopolistically competitive market, sellers try to compete on bases of selling cost/outlay. Sellers attempt to promote their product not by cutting prices but by incurring high expenditure on publicity and advertisement and sales promoting techniques. Thus, selling outlay is an essential part of monopolistic competitive market.

[75] The Kinked demand curve model explains the market situation

- (a) Pure Oligopoly (b) Differentiated Oligopoly
(c) Collusive Oligopoly (d) Price Rigidity (1 mark)

Answer:

(d) In many oligopolistic industries prices remain sticky or inflexible for a long time. They tend to change infrequently, even in the face of declining costs. The most popular explanation given for this price rigidity is the kinked demand curve hypothesis given by Paul A. Sweezy.

[76] For price discrimination to be successful, the elasticity of demand for the commodity in the two markets should be :

- (a) Same (b) Different
(c) Constant (d) Zero (1 mark)

Answer:

(b) Conditions for price discrimination:

- (i) Seller should have some control over the supply of his product.
- (ii) Seller should be able to divide his market into two or more sub-markets.
- (iii) Price-elasticity of the product should be different in different sub-market.
- (iv) It should not be possible for buyers of low-priced market to resell the product to buyers of high-priced market.

2014 - DECEMBER

- [77] The firm in a perfectly competitive market is a price taker. This designation as a price taker is based on the assumption that:
- The firm has some but not complete control over its product price
 - There are so many buyers and sellers in the market that any one buyer or seller cannot affect the market
 - Each firm produces a homogeneous product
 - There is easy entry into or exit from the market place. (1 mark)

Answer:

- (b) The firm in a perfectly competitive market is a price taker. The designation as a price taker is based on the assumption that there are large number of buyers and sellers who compete among themselves and their number is so large that no buyer or seller is in a position to influence the demand or supply in the market.

- [78] A market structure in which many firms sell products that are similar and identical is known as _____.
- monopolistic competition
 - monopoly
 - perfect competition
 - oligopoly (1 mark)

Answer:

- (c) Perfect competition is a market where firm sells homogenous product that are similar and identical in nature.

- [79] A firm having kinked demand curve indicates that:
- If the firm reduces the price, competitive firms also reduce the price
 - If the firm increases the price, competitive firms also increases the price
 - If the firm reduces the price, competitive firms do not reduce the price
 - If the firm increases the price, competitive firms do not increase the price
- Only (i) above
 - Both (i) and (iv) above
 - Both (ii) and (iv) above
 - Both (ii) and (iii) above (1 mark)

Answer:

- (b) In a firm having kinked demand curve indicates that, the firm has reduces, the price and the competitive firm also reduces the price but if the firm increases the price, competitive firms do not increase the price.

So, option B is correct answer i.e. Both (i) and (iv) above.

- [80] Price discrimination will not be profitable, if the elasticity of demand is _____ in different markets
- uniform
 - different
 - less
 - zero (1 mark)

Answer:

- (a) Price discrimination is a method of pricing adopted by the monopolist in order to earn abnormal profits. It refers to the practices of charging different prices for different units of the same commodity. Thus, it will not be profitable, if the elasticity of demand is uniform in different market.

- [81] In the long run, which of the following statement is true for a firm in a perfectly competitive industry?
- It operates at its minimum average cost
 - The price is more than the average fixed cost
 - The marginal cost is greatest than marginal revenue
 - The fixed cost is lower than the total variable cost (1 mark)

Answer:

- (a) In the long run, plants are used at full capacity, so that there is no wastage of resources i.e. $MC = AC$. The firm adjusts its plant size so as to produce that level of output at which the LAC is the minimum.

Thus, we can say that a firm in a perfectly competitive industry operates at its minimum average cost.

2015 - JUNE

[82] The firm will attain equilibrium at a point where MC curve cuts _____ from below.

- (a) AR curve (b) MR curve
(c) AC curve (d) AVC curve. (1 mark)

Answer:

(b) The MC curve cuts MR curve from below. In other words, MC should have a positive slope.

[83] In a monopoly market, a producer has control only over:

- (a) Price of the commodity (b) Demand of the commodity
(c) Both (a) and (b) (d) Utility of the product. (1 mark)

Answer:

(a) The monopolist or the producers in a monopoly market may use their monopolistic power to realize maximum revenue and may also adopt price discrimination. Therefore they have control only over price of the commodity.

[84] One of the following is not correct about perfect competition:

- (a) Purchase and Sale of homogeneous goods
(b) Existence of marketing costs
(c) Absence of transportation costs
(d) Perfect mobility of factors of production. (1 mark)

Answer:

(b) Perfect competition has following features:

- Large number of buyers and sellers of a commodity
- Homogeneous Product
- Perfect Knowledge
- Freedom of Entry and Exit
- No Extra Transport Cost
- Independent Decision Making
- Perfect Mobility

4.238 ■

[85] Kinked demand curve under oligopoly is designed to show:

- (a) Price and output determination
(b) Price rigidity
(c) Price leadership
(d) Collusion among rivals. (1 mark)

Answer:

(b) Kinked demand curve hypothesis has a 'kink' at the level of the prevailing price. This kink is formed to show price rigidity.

2015 - DECEMBER

[86] "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.

- (a) Rational, if the firm is covering its variable cost
(b) Rational, if the firm is covering its fixed cost
(c) Irrational, since plant closing is necessary to eliminate losses
(d) Irrational, since fixed costs are eliminated if a firm shut down. (1 mark)

Answer:

(a) A point of operation where a firm is indifferent between continuing operation and shutting down temporarily. The shutdown point is the combination of output and price where a firm earns just enough revenue to cover its total variable costs.

[87] Kinked demand curve is the demand curve of

- (a) Perfect Competition (b) Monopoly
(c) Monopolistic Competition (d) None of the above. (1 mark)

Answer:

(d) Kinked demand curve is the demand curve of oligopoly.

[88] Price discrimination will be profitable only if the elasticity of demand in different markets is

- (a) Uniform (b) Different
(c) Less (d) Zero (1 mark)

Answer:

(b) Price discrimination will be profitable only if the elasticity of demand in different markets is different because Monopolist fixes a high price for his product for those buyers whose price Elasticity of demand for a product is less than one. This implies that when the monopolist charges a higher price from them, they do not significantly reduce their purchases in response to high price.

[89] Under which of the following form of market structure does a firm have no control over the price of its production?

- (a) Monopoly (b) Monopolistic Competition
(c) Oligopoly (d) Perfect Competition. (1 mark)

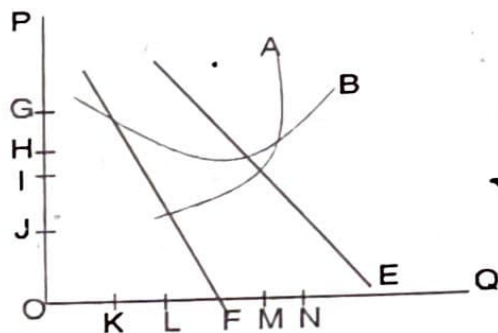
Answer:

(d) In perfect competition, a firm has no control over the price of its product because there are large number of sellers and each seller produces such a small share of the total output so that any change in his output will not have a significant effect on the market price and there are large number of buyers so that no buyer can change its output by its individual action. The firms are said to be 'price takers'.

[90] _____ is that situation in which a firm bases its market policy, in part on the expected behaviour of a few close rivals.

- (a) Oligopoly (b) Monopolistic Competition
(c) Monopoly (d) Perfect Competition. (1 mark)

Solve the question No. 91, 92 and 93 on the base of following figure:



Answer:

(a) Oligopoly is a market structure in which there is interdependence of firms in decision making. This is because when the number of competitors are few any change in price, output or product by a firm will have a direct effect on the fortunes of the rivals, who will then retaliate by changing their own price.

[91] In the above figure, curve E is the firm's
(a) Marginal Cost Curve (b) Average Cost Curve
(c) Demand Curve (d) Marginal revenue Curve. (1 mark)

Answer:

(c) Curve-E is Average Revenue curve which is also known as Demand Curve.

[92] Above figure represents a
(a) Monopolist
(b) Perfectly competition industry
(c) Perfectly competitive firm
(d) None of the above. (1 mark)

Answer:

(a) Given curve is Monopolist curve because:
(i) AR and MR are both negatively sloped
(ii) MR curve lies half-way between the AR curve and the Y-axis. i.e. it cuts the Horizontal line between Y-axis and AR into two equal parts.
(iii) AR cannot be zero, but MR can be zero or negative.

[93] In above figure, firms marginal revenue curve is curve
(a) E (b) A
(c) F (d) B (1 mark)

Answer:

(c) Marginal revenue curve is curve F because it lies half-way between the AR curve and the Y-axis.

2016 - JUNE

- [94] The price elasticity of demand for a product is infinite under:
- (a) Perfect competition
 - (b) Monopolistic competition
 - (c) Monopoly
 - (d) Oligopoly.

(1 mark)

Answer:

- (a) The price elasticity of demand for a product is infinite under perfect competition as there are large number of buyers and sellers who compete among themselves and their number is so large that no buyer or seller is in a position to influence the demand or supply in the market.

- [95] Comparing a Monopoly and Competitive firm the Monopolist will:

- (a) Produce less and sell at a lower price
- (b) Produce more and sell at a lower price
- (c) Produce less and sell at a higher price
- (d) Produce zero and sell at a lower price.

(1 mark)

Answer:

- (c) Monopoly is an extreme form of imperfect competition with a single seller of a product which has no close substitute as compared with the perfectly competitive market. In perfect competition, average and marginal revenue are identical but this is not the case in monopoly as monopolist knows that if he wishes to increase his sales he will have to reduce the price of a product. Thus, produce less at a higher price at times.

- [96] The reason for the kinked demand curve is that:

- (a) the oligopolist believe that competitors will follow output increases but not output reductions.
- (b) the oligopolist believe that competitors will follow price increases but not output reductions.
- (c) the oligopolist believe that competitors will follow price cuts but not price rises.
- (d) the oligopolist believe that competitors will follow price increases but not output increases.

(1 mark)

Answer:

- (c) The reason for the Kinked Demand curve is that the oligopolist believe that competitors will follow price cuts but not price rises. This kink is formed at a prevailing price level. This is because the segment of the demand curve above the prevailing price level is highly elastic and the segment of the demand curve below the prevailing price level is inelastic.

- [97] A discriminating monopolist will charge a higher price in the market in which the demand for its product is _____.

- (a) highly elastic
- (b) relatively elastic
- (c) relatively inelastic
- (d) perfectly elastic.

(1 mark)

Answer:

- (c) A discriminating monopolist charge a higher price in a market which has a relatively in elastic demand. The market which is highly responsive to price changes is charged less. On the whole, the monopolist benefits from such discrimination.

- [98] If a firm under monopoly wants to sell more, its average revenue curve will be a _____ line.

- (a) horizontal
- (b) vertical
- (c) downward sloping
- (d) upward sloping

(1 mark)

Answer:

- (c) If a firm under monopoly wants to sell more, its average revenue curve will be a downward sloping line because the seller charges a single price for all units he sells, average revenue per unit is identical with price, and thus the market demand curve is the average revenue curve for the monopolist.

2016 - DECEMBER

- [99] Who sets the price of the product under perfect competition?

- (a) Government
- (b) Consumers
- (c) Sellers
- (d) Both buyers and sellers

(1 mark)

Answer:

(d) Price of the product under perfect competition is set by both buyers and sellers.

[100] Which is the first order condition for the firm to maximise the profit.

- (a) $AC = MR$ (b) $AC = AR$
(c) $MC = MR$ (d) $MR = AR$ (1 mark)

Answer:

(c) The first order condition for the firm to maximise the profits is when marginal cost is equal to the marginal revenue.

[101] Which market has the concept of 'group' equilibrium in the long run?

- (a) Oligopoly (b) Monopoly
(c) Monopolistic competition (d) Perfect competition. (1 mark)

Answer:

(c) In the long run monopolistic competition has the concept of group equilibrium. Group equilibrium represents the price and output of organizations having close substitutes.

[102] Which of the following is incorrect?

- (a) Even monopolistic can earn losses.
(b) Firms in perfect competitive market is price taker.
(c) It is always beneficial for a firm in a perfectly competitive market to discriminative prices.
(d) Kinked demand curve is related to an oligopolistic market. (1 mark)

Answer:

(c) It is always beneficial for a firm in a perfectly competitive market to discriminate prices. This statement is incorrect.

[103] Average revenue curve is also known as:

- (a) Profit Curve (b) Demand Curve
(c) Average Cost Curve (d) Indifference Curve (1 mark)

Answer:

(b) Average Revenue curve is also known as Demand Curve.

[104] Which is not characteristic of monopoly?

- (a) The firm is price taker
(b) There is a single firm
(c) The firm produces a unique product
(d) The existence of some advertising. (1 mark)

Answer:

(a) A monopoly is not a price taker but a price maker.

[105] Price discrimination is profitable only when:

- (a) Different markets are kept separate
(b) Distance between the consumer and the market is more
(c) Elasticity of demand in different markets is different
(d) The consumers are segregated on the basis of their purpose of use of the commodity. (1 mark)

Answer:

(c) Price discrimination is profitable only when elasticity of demand in different markets is different.

2017 - JUNE

[106] When the industry is dominated by one large firm which is considered as the leader of the group, the market is described as:

- (a) Open oligopoly
(b) Perfect oligopoly
(c) Partial oligopoly
(d) Organised oligopoly. (1 mark)

Answer:

(c) Oligopoly is partial when the industry is dominated by one large firm which is considered or looked upon as the leader of the group. The dominating firm will be the price leader. In partial oligopoly. The market will be conspicuous by the absence of price leadership.

- [107] Which amongst the following is not an objective of price discrimination?
 (a) To hold the extra stocks
 (b) To earn maximum profits
 (c) To enjoy economies of scale
 (d) To secure equity through pricing. (1 mark)

Answer:

- (a) The objectives of price discrimination are here under:
 1. to earn maximum profit
 2. to dispose off surplus stock
 3. to enjoy economies of scale
 4. to capture foreign market
 5. to secure equity through pricing
 Thus, option (a) is the correct answer.

- [108] Which of the following statement is not correct?
 (a) Under monopoly there is no difference between a firm and 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. (1 mark)

Answer:

- (c) Commodities offered for sale under a perfect competition will be homogenous. There are large number of buyers and sellers who compete among themselves and their number is so large that no buyer or seller is in a position to influence the demand and supply in the market being the commodity dealt in it is homogeneous, in the sense that the goods produced by different firms are identical in nature.

- [109] Under perfect competition firm is described as:
 (a) price taker and not price maker
 (b) price maker and not price taker
 (c) neither price maker nor price taker
 (d) none of the above. (1 mark)

Answer:

- (a) Under perfect competition firm is described as price takers and not price makers. This is because there are large number of firms in the market who are producing identical or homogenous products. As such these firms cannot influence the price in their individual capacities. They have to accept the price fixed (through interaction of total demand and total supply) by the industry as a whole.

- [110] 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. (1 mark)

Answer:

- (d) Under perfect competition, a firm have no control over the price of its product. Firm have to accept the price as given and as such they are price takers rather than price makers. They cannot increase the price individually because of the fear of losing the customer to other firms.
 Thus, option (d) is correct.

2018 - MAY

- [111] Condition for equilibrium of firm:
 (a) $MR = MC$
 (b) $AR = AC$
 (c) MC curve cuts MR curve from below
 (d) Both (a) and (c) (1 mark)
- Answer:**
 (d) Conditions for Equilibrium of firm are:
 (i) Marginal revenue should be equal to marginal cost i.e. $MR = MC$
 (ii) MC curve should cut MR curve from below i.e. MC should have positive slope. Hence both conditions.

[112] What is/ are feature (s) of oligopoly

- (a) Kinked Demand curve
- (b) Cartel
- (c) Downward sloping demand curve
- (d) Both (a) and (b) are correct

(1 mark)

Answer:

(d) Oligopoly is type of market in which there are only few buyers and sellers (generally 2 to 10) and it was so many features also and these are as follows:

- (a) Cartel
- (b) Kinked Demand Curve
- (c) Inter dependence
- (d) Group Behaviour
- (e) Importance of advertising and selling costs

[113] Monopoly is undesirable due to:

- (a) It has prices higher than competitive firms
- (b) It produces less output than competitive firms
- (c) It discriminates on prices
- (d) All of the above.

Answer:

(d) Monopoly means where only one seller exist and take all the profits. It has some features from his point of view and undesirable also from public point of view these are:

- (a) Price Discrimination
- (b) Produced less output than competitive firms
- (c) Prices higher, than competitive firm

(1 mark)

[114] In long run equilibrium undue perfect competition is/are satisfied by which condition

- (a) $MC = MR$
- (b) $AC = AR$
- (c) $CMC = LAC = P$
- (d) All of the above.

(1 mark)

Answer:

(d) Equilibrium point is judged in long run when there is/are following conditions given

- (a) Marginal Cost = Marginal Revenue or $MC = MR$
- (b) Average Cost = Average Revenue or $AC = AR$
- (c) Long run Marginal Cost = Long Run Average Cost = Price or $LMC = LAC = P$

[115] In the long run monopolist

- (a) Incur losses
- (b) Must earn super normal profits
- (c) Wants to shut down
- (d) Earns only normal profits.

(1 mark)

Answer:

(b) Monopoly means one seller and many buyers. Monopoly is kind of market in which seller is known as monopolist and as his business gross for long time then he not only earns normal profits but also abnormal profits and which is known as super profits. So, the must earn super normal profits in long run.

[116] The demand curve of the firm and industry will be same in which form of market:

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

(1 mark)

Answer:

(c) Demand curve of firm and industry will same in monopoly market as price set by industry and firm have to choose that level of output which yields maximum profits.

[117] Which of these is the best example of oligopoly?

- (a) OPEC
- (b) SAARC
- (c) WTO
- (d) GATT

(1 mark)

Answer:

(a) Oligopoly market is type of market in which there are only 2 to 10 sellers.

For Ex: OPEC, cold-drink seller, water supplier etc.

Answer:

(a) In long run, firms will 'just be earning normal profit because if in short run they earning supernormal profit new firms will be attracted and supply will rise which lead to fall in prices and *vice versa*.

[126] Which one of the following is not the feature of Oligopoly?

- (a) Interdependency
- (b) Selling cost
- (c) Free Entry
- (d) None of the above/ group behaviour (1 mark)

Answer:

(c) Feature of oligopoly are:

1. Strategic Interdependence
2. Importance of advertising and selling cost
3. Group behaviour.

Therefore, free entry is not a feature of oligopoly market.

[127] Price leadership is the characteristic of

- (a) Oligopoly
- (b) Monopoly
- (c) Perfect competition
- (d) Discriminating Monopoly (1 mark)

Answer:

(a) Price leadership can be by dominant firm, a low cost firm or it can be barometric price leadership.

[128] MR Curve in perfect competition is

- (a) Parallel to X- axis
- (b) Parallel to Y- axis
- (c) Fall from left to right
- (d) Rise from left to right (1 mark)

Answer:

(a) MR curve in perfect competition is parallel to x-axis. Because a perfectly competitive firm is a price taker and faces a horizontal demand curve, its MC curve is also horizontal and coincides with its AC curve.

[129] Which of the following is not the characteristic of MR?

- (a) When TR is maximum, then MR is zero
- (b) MR cannot be negative
- (c) MR slopes downward from left to right
- (d) MR Curve is below AR Curve (1 mark)

Answer:

(b) Properties of MR is:

- (i) When TR is maximum, then MR is zero
- (ii) MR cannot be negative
- (iii) MR slopes downward
- (iv) MR curve is below AR curve

Therefore, (b) is the correct option, because MR cannot be negative.

[130] Which out of these are not a feature of perfect competition?

- (a) Homogeneous
- (b) Large number of buyer and sellers
- (c) Free entry and exit
- (d) Selling cost. (1 mark)

Answer:

(d) Feature of perfectly competitive market

1. Large number of buyers and sellers
2. Products are homogenous in nature
3. Firms are free to enter and exit
4. Consumer have perfect knowledge.

Therefore selling cost is not included in perfectly competitive market

[131] Which of the following statement is correct?

- (a) Price rigidity is an important feature of monopoly
- (b) Selling cost are possible under perfect competition
- (c) An industry consists of many firm
- (d) Under perfect competition factor of production do not move freely as these are legal restriction (1 mark)

Answer:

- (d) Under perfect competition factor of production do not move freely as there are legal restriction. Therefore this is correct statement.

2019 - MAY

[132] Which is the characteristic feature of monopoly ?

- (a) Homogeneous goods
 (b) Strong barriers to entry
 (c) Perfect competition
 (d) Perfectly elastic demand curve (1 mark)

Answer :

- (b) Monopoly is a market situation in which there is a single seller and large number of buyers. Its features are:
 (i) Single seller of the product
 (ii) Barriers to entry
 (iii) No close-substitutes of product
 (iv) Market power.

[133] A discriminating monopolist to reach equilibrium position, his decision on total output depends upon

- (a) How much total output should be produce ?
 (b) How the total output should be distributed between the two sub-market ?
 (c) Both (a) and (b)
 (d) None (1 mark)

Answer:

- (c) In order to attain equilibrium position, a discriminating monopolist has to make three main decisions regarding his output.
 1. How much total output should be produce?
 2. How the total output should be distributed between the two sub-markets? and.
 3. What price he should change in the two sub-markets?

Thus, **option (c)** is correct.

[134] Price discrimination is possible only in _____

- (a) Monopoly
 (b) Perfect Competition
 (c) Oligopoly
 (d) Monopolistic Competition (1 mark)

Answer:

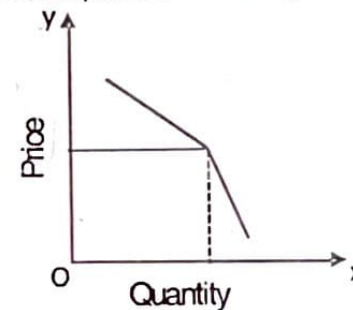
- (a) Price discrimination is a method of pricing which is adopted by a monopolist in order to earn abnormal profits. It is a method in which different prices are charged for different units of same commodity. Thus, this method is only possible in monopoly market situation.

[135] Kinked demand curve is

- (a) Highly elastic at above the prevailing price
 (b) Inelastic at below the prevailing price
 (c) Both (a) and (b)
 (d) None of the above (1 mark)

Answer:

- (c) In oligopoly market, the demand curve is kinked shaped at the level of the prevailing price. The reason behind this is that the demand curve above prevailing price level is highly elastic and the segment below the prevailing price level is inelastic. In other words, a high prices, the firm faces the relatively elastic demand and at low prices, relatively inelastic demand.



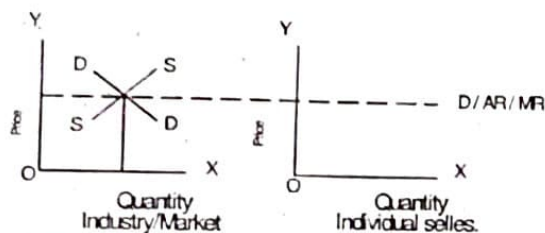
[136] Demand curve is horizontal in the case of _____

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

Answer:

(1 mark)

- (b) In perfect competitive market firms are price taker i.e. they cannot influence the price in their individual capacity. Price is determined by the industry. Thus, the demand curve of this market is horizontal i.e. parallel to x-axis.



[137] What is the characteristic of monopolistic competition?

- (a) Price elasticity is low for the product concerned
- (b) Large number of sellers
- (c) No degree of control over price
- (d) One buyer

(1 mark)

Answer:

- (b) Monopolistic competition is an imperfect market where many producers sell differentiated products. Its characteristics are
1. Large number of sellers.
 2. Product differentiation
 3. Freedom of entry and exit
 4. Non-price competition

[138] If a perfectly competitive firm earns super normal profits then _____

- (a) $AR > MR$
- (b) $AR < MR$
- (c) $AR = MR$
- (d) None of the above

(1 mark)

Answer:

- (c) In case of perfect competition super normal profit arises when its average revenue is more than its average total cost. There is no change in Demand curve, i.e.
 $AR = MR = Demand.$

2019 - NOVEMBER

[139] Live and let live is characteristics of which of the following market?

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

Answer:

- (d) Oligopoly market which forms cartels because there are a few firms, all of which are similar in size. One strategy is to adopt a 'live and let live philosophy'. Specifically the dominant firm accepts the presence of fringe firms and sets the price to maximize its profit, taking into account the fringe firms' behaviour. This is called price leadership by dominant firm.

[140] In which of the following market there are only two sellers?

- (a) Duopoly Competition
- (b) Perfect Competition
- (c) Monopoly Competition
- (d) Perfect Competition and Duopoly

Answer:

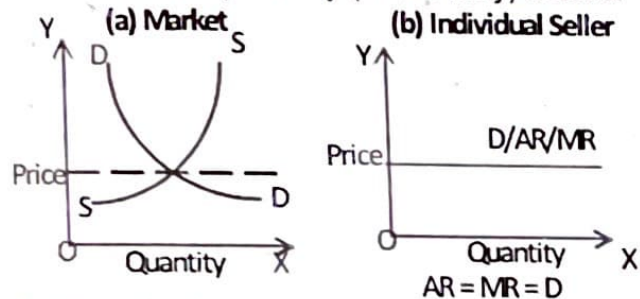
- (a) Duopoly is a subset of oligopoly, is a market situation in which there are only two firm in the market.
 Whereas in oligopoly market there are few firms and large number of buyers with some degree of control over its price.

[141] The degree of elasticity in perfect competition market.

- (a) Perfectly elastic
- (b) Inelastic
- (c) Perfectly inelastic
- (d) Elastic

Answer:

- (a) The degree of elasticity in perfect competition market is perfectly elastic because firm is a price taker, the demand curve 'D' facing an individual competitive firm is given by a horizontal line at the level of market price set by the industry. In other words the demand curve of each firm is perfectly (or infinitely) elastic.

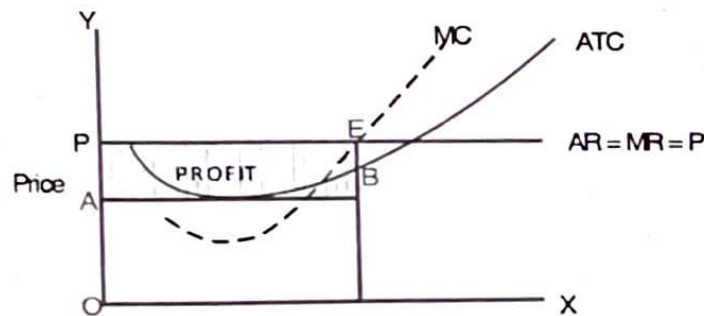


- [142] A perfect competitive firm earns super-normal profits when

- (a) $ATC < MC$
- (b) $ATC > MC$
- (c) $MR < AR$
- (d) $MR > AR$

Answer:

- (a) When a firm earns supernormal profits its average revenues are more than its average total cost. Thus, in addition to normal rate of profit the firm earns some additional profits. Therein short run perfect competitive firm earns super normal profits. But in long run it earns normal profits only.



- [143] A firm is said to earn normal profit when

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

Answer:

- (a) When the average revenue of a firm is just equal to its average cost, a firm earns normal profits or zero economic profits. i.e. $AC = AR$
It is to be noted that here a normal profit percentage for entrepreneur for his managerial services is already included in the cost of production.

- [144] Two firms are selling cold-drinks and competing with some identical characteristics, This is an example of

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

Answer:

- (a) Duopoly market is the subset of oligopoly market where two and only two firms are there in the market. Therefore, when there are two firms of cold-drink are selling cold-drink and competing with some identical characteristics. This is an example of Duopoly market.

- [145] Group Behaviour is a characteristics of _____.

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

Answer:

- (a) Group behaviour is a characteristics of oligopoly market. The theory of oligopoly is a theory of group behaviour, not mass or individual behaviour and to assume profit maximising behaviour on the oligopolists' part may not be very valid. The firms may agree to pull together as a group in promotion of their common interest. And each oligopolist closely watches the business behaviour of the

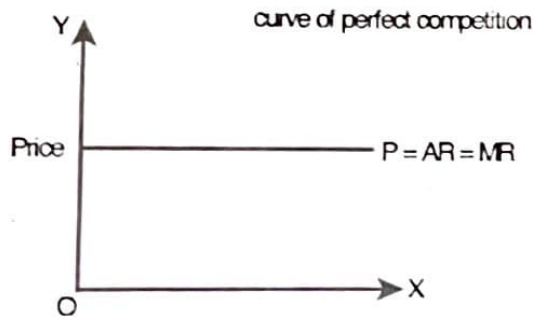
other oligopolists in the industry and designs his moves on the basis of some assumptions of how they behave are likely to behave.

[146] Myth in Real world

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

Answer:

(c) Myth in Real world is perfect competition market as in this market there are large number of buyers and sellers but they sell all homogenous goods which is not possible in real situation. And here all firms are price-takers.



[147] _____ oligopoly refers to that situation where the firms sell their products through a centralized body

- (a) Syndicate oligopoly
- (b) Organized oligopoly
- (c) Collusive oligopoly
- (d) Partial oligopoly

Answer:

(a) Syndicated oligopoly refers to that situation where the firms sell their products through a centralized body. Organized oligopoly refers to the situation where the firms organize themselves into a central association for fixing prices, output, quotas, etc.

[148] The similarity between monopolistic and perfect competition is _____

- (a) In short run both earn super normal profit
- (b) In long term both earn normal profit
- (c) In short run their prices remain constant
- (d) None

Answer:

(b) The similarity between monopolistic and perfect competition is in long run both earn normal profits.

As long run is a period long enough to allow monopolistic to adjust his plant size or use his existing plant at any level that maximizes his profit. In the absence of competition the monopolist need not produce at optimum level.

Therefore, the monopolistic will not continue if he makes losses in the long run. He will continue to make normal profits even in long run.

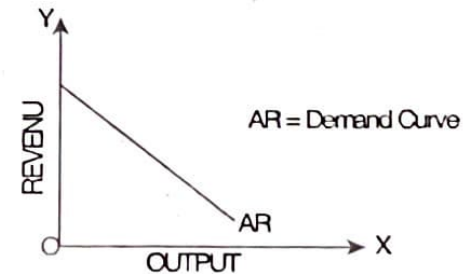
[149] Which Market has a downward demand curve?

- (a) Monopolistic competition
- (b) Monopoly
- (c) Perfect competition
- (d) Both (a) and (b)

Answer:

(d) Monopolistic Competition and Perfect Monopoly competition market both have downward sloping demand curve.

In all forms of imperfect competition, the average revenue curve of an individual firm slopes downwards as in these market forms when a firm increase the price of its product, its quantity demanded decreases and *vice versa*.



Oligopolistic Competition

- ◆ Oligopoly is also referred to as 'competition among the few' as a few big firms produce and compete in this market.
- ◆ There are different types of oligopoly like pure and differentiated oligopoly, open and closed oligopoly, collusive and competitive oligopoly, partial and full oligopoly and syndicated and organized oligopoly.
- ◆ The main characteristics of oligopoly are strategic interdependence, importance of advertising and selling costs and group behaviour. Different oligopoly settings give rise to different optimal strategies and diverse outcomes.
- ◆ Price-leadership can be by dominant firm, a low cost firm or it can be barometric price leadership.
- ◆ A group of firms that explicitly agree (collude) to coordinate their activities is called a cartel.
- ◆ Paul A. Sweezy propounded the kinked demand curve model of oligopoly. The price will be kept unchanged for a long time due to fear of retaliation and price tend to be sticky and inflexible.
- ◆ Other important market forms are : Duopoly, Monopsony, Oligopsony and Bilateral monopoly.

TEST YOUR KNOWLEDGE

Multiple Choice Questions

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

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

- (a) ₹ 2
(b) ₹ 3
(c) ₹ 4
(d) ₹ 5
2. Assume that when price is ₹ 20, the quantity demanded is 9 units, and when price is ₹ 19, the quantity demanded is 10 units. Based on this information, what is the marginal revenue resulting from an increase in output from 9 units to 10 units.
- (a) ₹ 20
(b) ₹ 19
(c) ₹ 10
(d) ₹ 1
3. Assume that when price is ₹ 20, the quantity demanded is 15 units, and when price is ₹ 18, the quantity demanded is 16 units. Based on this information, what is the marginal revenue resulting from an increase in output from 15 units to 16 units?
- (a) ₹ 18
(b) ₹ 16
(c) -₹ 12
(d) ₹ 28
4. Suppose a firm is producing a level of output such that $MR > MC$, what should be firm do to maximize its profits?
- (a) The firm should do nothing.
(b) The firm should hire less labour.
(c) The firm should increase price.
(d) The firm should increase output.
5. Marginal Revenue is equal to:
- (a) The change in price divided by the change in output.
(b) The change in quantity divided by the change in price.
(c) The change in $P \times Q$ due to a one unit change in output.
(d) Price, but only if the firm is a price searcher.

6. Suppose that a sole proprietorship is earning total revenues of ₹ 1,00,000 and is incurring explicit costs of ₹ 75,000. If the owner could work for another company for ₹ 30,000 a year, we would conclude that :
- (a) The firm is incurring an economic loss.
 - (b) Implicit costs are ₹ 25,000.
 - (c) The total economic costs are ₹ 1,00,000.
 - (d) The individual is earning an economic profit of ₹ 25,000.
7. Which of the following is not an essential condition of pure competition?
- (a) Large number of buyers and sellers
 - (b) Homogeneous product
 - (c) Freedom of entry
 - (d) Absence of transport cost
8. What is the shape of the demand curve faced by a firm under perfect competition?
- (a) Horizontal
 - (b) Vertical
 - (c) Positively sloped
 - (d) Negatively sloped
9. Which is the first order condition for the profit of a firm to be maximum?
- (a) $AC = MR$
 - (b) $MC = MR$
 - (c) $MR = AR$
 - (d) $AC = AR$
10. Which of the following is not a characteristic of a "price-taker"?
- (a) $TR = P \times Q$
 - (b) $AR = Price$
 - (c) Negatively – sloped demand curve
 - (d) $Marginal Revenue = Price$
11. Which of the following statements is false?
- (a) Economic costs include the opportunity costs of the resources owned by the firm.

- (b) Accounting costs include only explicit costs.
- (c) Economic profit will always be less than accounting profit if resources owned and used by the firm have any opportunity costs.
- (d) Accounting profit is equal to total revenue less implicit costs.
12. With a given supply curve, a decrease in demand causes
- (a) an overall decrease in price but an increase in equilibrium quantity.
- (b) an overall increase in price but a decrease in equilibrium quantity.
- (c) an overall decrease in price and a decrease in equilibrium quantity.
- (d) no change in overall price but a reduction in equilibrium quantity.
13. It is assumed in economic theory that
- (a) decision making within the firm is usually undertaken by managers, but never by the owners.
- (b) the ultimate goal of the firm is to maximise profits, regardless of firm size or type of business organisation.
- (c) as the firm's size increases, so do its goals.
- (d) the basic decision making unit of any firm is its owners.
14. Assume that consumers' incomes and the number of sellers in the market for good A both decrease. Based upon this information, we can conclude, with certainty, that the equilibrium:
- (a) price will increase.
- (b) price will decrease.
- (c) quantity will increase.
- (d) quantity will decrease.
15. If supply increases in a greater proportion than demand
- (a) The new equilibrium price and quantity will be greater than the original equilibrium price and quantity.
- (b) The new equilibrium price will be greater than the original equilibrium price but equilibrium quantity will be higher.
- (c) The new equilibrium price and quantity will be lower than the original equilibrium price and quantity.

- (d) *The new equilibrium price will be lower than the original equilibrium and the new equilibrium quantity will be higher.*
16. *Assume that in the market for good Z there is a simultaneous increase in demand and the quantity supplied. The result will be:*
- (a) *an increase in equilibrium price and quantity.*
- (b) *a decrease in equilibrium price and quantity.*
- (c) *an increase in equilibrium quantity and uncertain effect on equilibrium price.*
- (d) *a decrease in equilibrium price and increase in equilibrium quantity.*
17. *Suppose the technology for producing personal computers improves and, at the same time, individuals discover new uses for personal computers so that there is greater utilisation of personal computers. Which of the following will happen to equilibrium price and equilibrium quantity?*
- (a) *Price will increase; quantity cannot be determined.*
- (b) *Price will decrease; quantity cannot be determined.*
- (c) *Quantity will increase; price cannot be determined.*
- (d) *Quantity will decrease; price cannot be determined.*
18. *Which of the following is not a condition of perfect competition?*
- (a) *A large number of firms.*
- (b) *Perfect mobility of factors.*
- (c) *Informative advertising to ensure that consumers have good information.*
- (d) *Freedom of entry and exit into and out of the market.*
19. *Which of the following is not a characteristic of a perfectly competitive market?*
- (a) *Large number of firms in the industry.*
- (b) *Outputs of the firms are perfect substitutes for one another.*
- (c) *Firms face downward-sloping demand curves.*
- (d) *Resources are very mobile.*
20. *Which of the following is not a characteristic of monopolistic competition?*
- (a) *Ease of entry into the industry.*
- (b) *Product differentiation.*
- (c) *A relatively large number of sellers.*

- (d) A homogeneous product.
21. Monopoly may arise in a product market because
- (a) A significantly important resource for the production of the commodity is owned by a single firm.
- (b) The government has given the firm patent right to produce the commodity.
- (c) The costs of production and economies of scale makes production by a single producer more efficient.
- (d) All the above.
22. Oligopolistic industries are characterized by:
- (a) a few dominant firms and substantial barriers to entry.
- (b) a few large firms and no entry barriers.
- (c) a large number of small firms and no entry barriers.
- (d) one dominant firm and low entry barriers.
23. Price-taking firms, i.e., firms that operate in a perfectly competitive market, are said to be "small" relative to the market. Which of the following best describes this smallness?
- (a) The individual firm must have fewer than 10 employees.
- (b) The individual firm faces a downward-sloping demand curve.
- (c) The individual firm has assets of less than ₹ 20 lakhs.
- (d) The individual firm is unable to affect market price through its output decisions.
24. For a price-taking firm:
- (a) marginal revenue is less than price.
- (b) marginal revenue is equal to price.
- (c) marginal revenue is greater than price.
- (d) the relationship between marginal revenue and price is indeterminate.
25. Monopolistic competition differs from perfect competition primarily because
- (a) in monopolistic competition, firms can differentiate their products.
- (b) in perfect competition, firms can differentiate their products.
- (c) in monopolistic competition, entry into the industry is blocked.
- (d) in monopolistic competition, there are relatively few barriers to entry.

26. *The long-run equilibrium outcomes in monopolistic competition and perfect competition are similar, because in both market structures*
- (a) *the efficient output level will be produced in the long run.*
 - (b) *firms will be producing at minimum average cost.*
 - (c) *firms will only earn a normal profit.*
 - (d) *firms realise all economies of scale.*
27. *Which of the following is the distinguishing characteristic of oligopolies?*
- (a) *A standardized product*
 - (b) *The goal of profit maximization*
 - (c) *The interdependence among firms*
 - (d) *Downward-sloping demand curves faced by firms.*
28. *In which form of the market structure is the degree of control over the price of its product by a firm very large?*
- (a) *Monopoly*
 - (b) *Imperfect Competition*
 - (c) *Oligopoly*
 - (d) *Perfect competition*
29. *Average revenue curve is also known as:*
- (a) *Profit Curve*
 - (b) *Demand Curve*
 - (c) *Average Cost Curve*
 - (d) *Indifference Curve*
30. *Under which of the following forms of market structure does a firm have no control over the price of its product?*
- (a) *Monopoly*
 - (b) *Monopolistic competition*
 - (c) *Oligopoly*
 - (d) *Perfect competition*

31. *Discriminating monopoly implies that the monopolist charges different prices for his commodity:*
- (a) *from different groups of consumers*
 - (b) *for different uses*
 - (c) *at different places*
 - (d) *any of the above.*
32. *Price discrimination will be profitable only if the elasticity of demand in different sub-markets is:*
- (a) *uniform*
 - (b) *different*
 - (c) *less*
 - (d) *zero*
33. *In the context of oligopoly, the kinked demand hypothesis is designed to explain*
- (a) *Price and output determination*
 - (b) *Price rigidity*
 - (c) *Price leadership*
 - (d) *Collusion among rivals.*
34. *The firm in a perfectly competitive market is a price-taker. This designation as a price-taker is based on the assumption that -*
- (a) *the firm has some, but not complete, control over its product price.*
 - (b) *there are so many buyers and sellers in the market that any individual firm cannot affect the market.*
 - (c) *each firm produces a homogeneous product.*
 - (d) *there is easy entry into or exit from the market place.*
35. *Suppose that the demand curve for the XYZ Co. slopes downward and to the right. We can conclude that*
- (a) *the firm operates in a perfectly competitive market.*
 - (b) *the firm can sell all that it wants to at the established market price.*
 - (c) *the XYZ Co. is not a price-taker in the market because it must lower price to sell additional units of output.*

(d) the XYZ Co. will not be able to maximise profits because price and revenue are subject to change.

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

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

(a) Perfect competition.

(b) Monopolistic competition.

(c) Oligopoly.

(d) Monopoly.

37. The kinked demand curve model of oligopoly assumes that

(a) the response (of consumers) to a price increase is less than the response to a price decrease.

(b) the response (of consumers) to a price increase is more than the response to a price decrease.

(c) the elasticity of demand is constant regardless of whether price increases or decreases.

(d) the elasticity of demand is perfectly elastic if price increases and perfectly inelastic if price decreases.

38. A firm encounters its "shutdown point" when:

(a) average total cost equals price at the profit-maximising level of output.

(b) average variable cost equals price at the profit-maximising level of output.

(c) average fixed cost equals price at the profit-maximising level of output.

(d) marginal cost equals price at the profit-maximising level of output.

39. Suppose that, at the profit-maximizing level of output, a firm finds that market price is less than average total cost, but greater than average variable cost. Which of the following statements is correct?
- (a) The firm should shutdown in order to minimise its losses.
 - (b) The firm should raise its price enough to cover its losses.
 - (c) The firm should move its resources to another industry.
 - (d) The firm should continue to operate in the short run in order to minimize its losses.
40. When price is less than average variable cost at the profit-maximising level of output, a firm should:
- (a) produce where marginal revenue equals marginal cost if it is operating in the short run.
 - (b) produce where marginal revenue equals marginal cost if it is operating in the long run.
 - (c) shut down, since it will lose nothing in that case.
 - (d) shut down, since it cannot even cover its variable costs if it stays in business.
41. A purely competitive firm's supply schedule in the short run is determined by
- (a) its average revenue.
 - (b) its marginal revenue.
 - (c) its marginal utility for money curve.
 - (d) its marginal cost curve.
42. One characteristic not typical of oligopolistic industry is
- (a) horizontal demand curve.
 - (b) too much importance to non-price competition.
 - (c) price leadership.
 - (d) a small number of firms in the industry.
43. The structure of the toothpaste industry in India is best described as
- (a) perfectly competitive.
 - (b) monopolistic.
 - (c) monopolistically competitive.

- (d) *oligopolistic.*
44. *The structure of the cold drink industry in India is best described as*
- (a) *perfectly competitive.*
(b) *monopolistic.*
(c) *monopolistically competitive.*
(d) *oligopolistic.*
45. *Which of the following statements is incorrect?*
- (a) *Even a monopolistic firm can have losses.*
(b) *Firms in a perfectly competitive market are price takers.*
(c) *It is always beneficial for a firm in a perfectly competitive market to discriminate prices.*
(d) *Kinked demand curve is related to an oligopolistic market.*
46. *Under perfect competition, in the long run, there will be no _____ .*
- (a) *normal profits*
(b) *supernormal profits.*
(c) *production*
(d) *costs.*
47. *When _____, we know that the firms are earning just normal profits.*
- (a) $AC = AR$
(b) $MC = MR$
(c) $MC = AC$
(d) $AR = MR$
48. *When _____, we know that the firms under perfect competition must be producing at the minimum point of the average cost curve and so there will be productive efficiency.*
- (a) $AC = AR$
(b) $MC = AC$
(c) $MC = MR$

- (d) $AR = MR$
49. When _____, there will be allocative efficiency meaning thereby that the cost of the last unit is exactly equal to the price consumers are willing to pay for it and so that the right goods are being sold to the right people at the right price.
- (a) $MC = MR$
- (b) $MC = AC$
- (c) $MC = AR$
- (d) $AR = MR$
50. Agricultural goods markets depict characteristics close to
- (a) perfect competition.
- (b) oligopoly.
- (c) monopoly.
- (d) monopolistic competition.
51. Which of the following is not a characteristic of a competitive market?
- (a) There are many buyers and sellers in the market.
- (b) The goods offered for sales are largely the same.
- (c) Firms generate small but positive supernormal profits in the long run.
- (d) Firms can freely enter or exit the market.
52. Which of the following markets would most closely satisfy the requirements for a perfectly competitive market?
- (a) Electricity
- (b) Cable television
- (c) Cola
- (d) Milk
53. Which of the following statements is accurate regarding a perfectly competitive firm?
- (a) Demand curve is downward sloping
- (b) The demand curve always lies above the marginal revenue curve
- (c) Average revenue need not be equal to price
- (d) Price is given and is determined by the equilibrium in the entire market

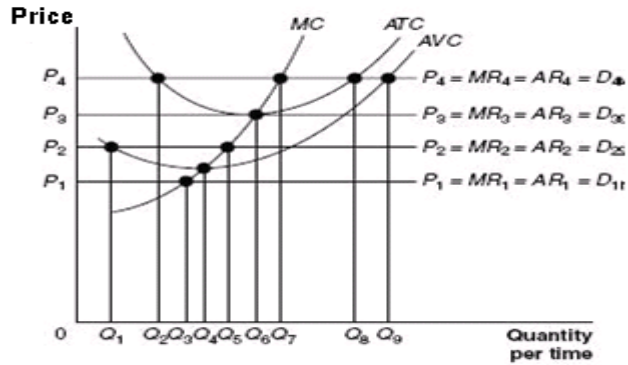
54. *The market for hand tools (such as hammers and screwdrivers) is dominated by Draper, Stanley, and Craftsman. This market is best described as*
- (a) *Monopolistically competitive*
 - (b) *a monopoly*
 - (c) *an oligopoly*
 - (d) *perfectly competitive*
55. *A market structure in which many firms sell products that are similar but not identical is known as*
- (a) *monopolistic competition*
 - (b) *monopoly*
 - (c) *perfect competition*
 - (d) *oligopoly*
56. *When an oligopolist individually chooses its level of production to maximize its profits, it charges a price that is*
- (a) *more than the price charged by either monopoly or a competitive market*
 - (b) *less than the price charged by either monopoly or a competitive market*
 - (c) *more than the price charged by a monopoly and less than the price charged by a competitive market*
 - (d) *less than the price charged by a monopoly and more than the price charged by a competitive market.*
57. *In the long-run equilibrium of a competitive market, firms operate at*
- (a) *the intersection of the marginal cost and marginal revenue*
 - (b) *their efficient scale*
 - (c) *zero economic profit*
 - (d) *all of these answers are correct*
58. *Which of the following is not a characteristic of a monopolistically competitive market?*
- (a) *Free entry and exit*
 - (b) *Abnormal profits in the long run*
 - (c) *Many sellers*
 - (d) *Differentiated products*

59. *In a very short period market:*
- (a) *the supply is fixed*
 - (b) *the demand is fixed*
 - (c) *demand and supply are fixed*
 - (d) *none of the above*
60. *Time element was conceived by*
- (a) *Adam Smith*
 - (b) *Alfred Marshall*
 - (c) *Pigou*
 - (d) *Lionel Robinson*
61. *Total revenue =*
- (a) *price × quantity*
 - (b) *price × income*
 - (c) *income × quantity*
 - (d) *none of the above*
62. *Average revenue is the revenue earned*
- (a) *per unit of input*
 - (b) *per unit of output*
 - (c) *different units of input*
 - (d) *different units of output*
63. *AR can be symbolically written as:*
- (a) *MR / Q*
 - (b) *Price × quantity*
 - (c) *TR / Q*
 - (d) *none of the above*
64. *AR is also known as:*
- (a) *price*

- (b) *income*
 - (c) *revenue*
 - (d) *none of the above*
65. *Marginal revenue can be defined as the change in total revenue resulting from the:*
- (a) *purchase of an additional unit of a commodity*
 - (b) *sales of an additional unit of a commodity*
 - (c) *sale of subsequent units of a product*
 - (d) *none of the above*
66. *When $e > 1$ then MR is*
- (a) *zero*
 - (b) *negative*
 - (c) *positive*
 - (d) *one*
67. *When $e = 1$ then MR is*
- (a) *positive*
 - (b) *zero*
 - (c) *one*
 - (d) *negative*
68. *When $e < 1$ then MR is*
- (a) *negative*
 - (b) *zero*
 - (c) *positive*
 - (d) *one*
69. *In Economics, the term 'market' refers to a:*
- (a) *place where buyer and seller bargain a product or service for a price*
 - (b) *place where buyer does not bargain*
 - (c) *place where seller does not bargain*

- (d) *none of the above*
70. Under perfect competition a firm is the _____
- (a) *price-maker and not price-taker*
(b) *price-taker and not price-maker*
(c) *neither price-maker nor price-taker*
(d) *none of the above*
71. A Monopolist is a
- (a) *price-maker*
(b) *price-taker*
(c) *price-adjuster*
(d) *none of the above*
72. Price discrimination is one of the features of _____
- (a) *monopolistic competition*
(b) *monopoly*
(c) *perfect competition*
(d) *oligopoly*
73. Under monopoly, the degree of control over price is:
- (a) *none*
(b) *some*
(c) *very considerable*
(d) *none of the above*
74. Generally, perishable goods like butter, eggs, milk, vegetables etc., will have
- (a) *regional market*
(b) *local market*
(c) *national market*
(d) *none of the above*

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



- (a) Zero output
 - (b) Q_3 .
 - (c) Q_5 .
 - (d) Q_6 .
76. Secular period is also known as
- (a) very short period
 - (b) short period
 - (c) very long period
 - (d) long period
77. Stock exchange market is an example of
- (a) unregulated market
 - (b) regulated market
 - (c) spot market
 - (d) none of the above
78. The market for the ultimate consumers is known as
- (a) whole sale market
 - (b) regulated market
 - (c) unregulated market
 - (d) retail market

79. The condition for pure competition is
- (a) large number of buyer and seller, free entry and exist
 - (b) homogeneous product
 - (c) both (a) and (b)
 - (d) large number of buyer and seller, homogeneous product, perfect knowledge about the product
80. Pure oligopoly is based on the _____ products
- (a) differentiated
 - (b) homogeneous
 - (c) unrelated
 - (d) none of the above
81. In oligopoly, when the industry is dominated by one large firm which is considered as leader of the group, Then it is called:
- (a) full oligopoly
 - (b) collusive oligopoly
 - (c) partial oligopoly
 - (d) syndicated oligopoly
82. When the products are sold through a centralized body, oligopoly is known as
- (a) organized oligopoly
 - (b) partial oligopoly
 - (c) competitive oligopoly
 - (d) syndicated oligopoly
83. When the monopolist divides the consumers into separate sub markets and charges different prices in different sub-markets it is known as
- (a) first degree of price discrimination
 - (b) second degree of price discrimination
 - (c) third degree of price discrimination
 - (d) none of the above.

84. Under _____ the monopolist will fix a price which will take away the entire consumers' surplus.
- (a) second degree of price discrimination
 - (b) first degree of price discrimination
 - (c) third degree of price discrimination
 - (d) none of the above.
85. Price discrimination is related to
- (a) time
 - (b) size of the purchase
 - (c) income
 - (d) any of the above
86. The firm and the industry are one and the same in _____
- (a) Perfect competition
 - (b) Monopolistic competition
 - (c) Duopoly
 - (d) Monopoly
87. The demand curve of a monopoly firm will be _____
- (a) Upward sloping
 - (b) Downward sloping
 - (c) Horizontal
 - (d) Vertical
88. If the average cost is higher than the average revenue then the firm incurs _____
- (a) Normal profit
 - (b) Abnormal profit
 - (c) Loss
 - (d) No profit, no loss
89. Which of the following statements is correct?
- (a) Price rigidity is an important feature of monopoly.
 - (b) Selling costs are possible under perfect competition.

- (c) Under perfect competition factors of production do not move freely as there are legal restrictions.
- (d) An industry consists of many firms.
90. Which of the following statements is incorrect?
- (a) Under monopoly there is no difference between a firm and an industry.
- (b) A monopolist may restrict the output and raise the price.
- (c) Commodities offered for sale under a perfect competition will be heterogeneous.
- (d) Product differentiation is peculiar to monopolistic competition.
91. For market the essential condition is –
- (a) A particular geographical place
- (b) Control of the government
- (c) Close contact between buyers and sellers
- (d) None of these
92. Assume that when Price is ₹ 10, the quantity demanded is 5 units and when Price is ₹ 12 the quantity demanded is 4 units. Based on this information, what is the Marginal Revenue resulting from increase in output from 4 units to 5 units.
- (a) ₹ 5
- (b) ₹ 4
- (c) ₹ 2
- (d) ₹ 3
93. Average revenue is equal to.
- (a) The change in P & Q due to a one unit change in output.
- (b) Nothing but price of one unit of output.
- (c) The change in quantity divided by change in price.
- (d) Graphically it denotes the firm's supply curve.
94. Example of a commodity said to have an International Market.
- (a) Perishable Goods.
- (b) High Value and Small Bulk Commodities.
- (c) Product whose trading is restricted by government.

- (d) *Bulky Articles.*
95. *Weekly market is example of _____ Market:*
- (a) *Regulated Market*
 - (b) *Spot Market*
 - (c) *Forward Market*
 - (d) *Unregulated Market*
96. *Conditions for equilibrium of a firm are:*
- (a) *MR = MC*
 - (b) *MC should cut MR from below.*
 - (c) *MR = AR and MC should cut MR from below.*
 - (d) *MR = MC and MC should have a positive slope.*
97. *Natural Monopoly arises when*
- (a) *There is enormous goodwill enjoyed by a firm.*
 - (b) *There are stringent legal and regulatory requirement.*
 - (c) *There are very large Economies of Scale.*
 - (d) *There are Business Combinations and Cartels.*
98. *Price Discrimination cannot persist under the following market form:*
- (a) *Perfect Competition*
 - (b) *Monopoly*
 - (c) *Monopolistic*
 - (d) *Oligopoly*
99. *Sweezy's Model explains the concept of price rigidity relating to following market form:*
- (a) *Oligopoly Market*
 - (b) *Perfect Competition Market*
 - (c) *Monopoly Market*
 - (d) *Monopolistic Market*
100. *Combination of Monopoly Market and Monopsony Market is called as:*
- (a) *Duopoly Market*

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

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

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

ANSWERS

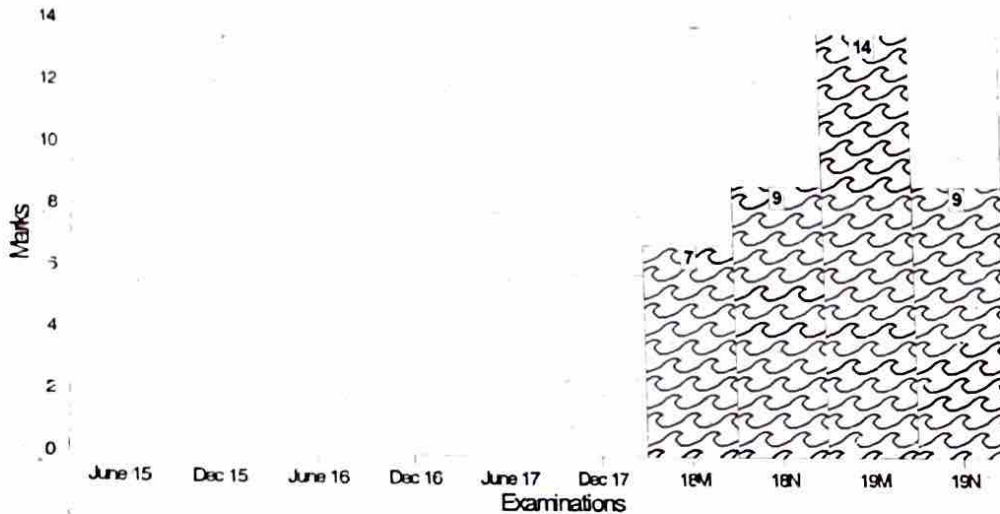
1.	(c)	2.	(c)	3.	(c)	4.	(d)	5.	(c)	6.	(a)
7.	(d)	8.	(a)	9.	(b)	10.	(c)	11.	(d)	12.	(c)
13.	(b)	14.	(d)	15.	(d)	16.	(c)	17.	(c)	18.	(c)
19.	(c)	20.	(d)	21.	(d)	22.	(a)	23.	(d)	24.	(b)
25.	(a)	26.	(c)	27.	(c)	28.	(a)	29.	(b)	30.	(d)
31.	(d)	32.	(b)	33.	(b)	34.	(b)	35.	(c)	36.	(c)
37.	(b)	38.	(b)	39.	(d)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

1

NATURE AND SCOPE OF ECONOMICS

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PAST YEAR QUESTIONS AND ANSWERS

2006 - NOVEMBER

- [1] 'Economics is the study of mankind in the ordinary business of life' was given by:
- (a) Adam Smith
 - (b) Lord Robbins
 - (c) Alfred Marshall
 - (d) Samuelson
- (1 mark)

Answer:

(c) 'Economics is a study of mankind in the ordinary business of life' is the welfare definition given by Alfred Marshall.

- [2] The branch of economic theory that deals with the problem of allocation of resources is :
- (a) Microeconomics
 - (b) Macroeconomics
 - (c) Econometrics
 - (d) None of these
- (1 mark)

Answer:

(a) The study of microeconomics deals with how a producer allocates his resources and fixes the price of his product for the optimum utilization of resources.

- [3] Capitalistic Economy uses _____ as principal means of allocating resources.
- (a) demand
 - (b) supply
 - (c) price
 - (d) all of the above
- (1 mark)

Answer:

- (c) A capitalistic economy is characterized by the absence of state intervention. This economy uses price mechanism (forces of demand and supply) to solve their basic economic problems. Demand and supply both depend upon price and therefore capitalistic economy uses price as principal means of allocating resources.

2007 - FEBRUARY

- [4] A study of how an increase in the corporate income tax rate will affect the natural unemployment rate is an example of :
- (a) Macroeconomics
 - (b) Descriptive Economics
 - (c) Microeconomics
 - (d) Normative Economics
- (1 mark)

Answer:

- (a) Macroeconomics studies the economy as a whole. Therefore, increase in corporate income tax rate and its effect on unemployment is at the macro-level.

- [5] In which type of economy do consumers and producers make their choices based on the market forces of demand and supply?
- (a) Open Economy
 - (b) Controlled Economy
 - (c) Command Economy
 - (d) Market Economy
- (1 mark)

Answer:

- (d) In a capitalistic economy, producers make their choices based on market forces of demand and supply. The capitalist economy works under the price mechanism i.e. prices are determined by free interplay of demand and supply forces. A capitalist economy is also known as Market Economy.

2007 - MAY

- [6] Under a free economy, prices are:
- (a) Regulated
 - (b) Determined through a free interplay of demand and supply
 - (c) Partly regulated
 - (d) None of these
- (1 mark)

Answer:

- (b) Under the free economy (capitalist economy) prices are determined by the price or the market mechanism i.e. there is no authority to determine prices but they are decided by forces of demand and supply.

- [7] Which of the following falls under microeconomics?
- (a) National income
 - (b) General price level
 - (c) Factor pricing
 - (d) National saving and investment
- (1 mark)

Answer:

- (c) Microeconomics studies the economic behavior of individual economic units. Factor pricing is pricing of every factor, and hence is a micro concept.

2007 - AUGUST

- [8] In a free-market economy, when consumers increase their purchase of a goods and the level of _____ exceeds _____ then prices tend to rise :
- (a) demand, supply
 - (b) supply, demand
 - (c) prices, demand
 - (d) profits, supply
- (1 mark)

Answer:

- (a) In a market (capitalist) economy prices are determined by market forces of demand and supply. When the demand for goods increases, the supply remaining the same, the prices of goods rise.

2007 - NOVEMBER

[9] Under the Inductive method, the logic proceeds from :

- (a) General to particulars (b) Particular to general
(c) Both (a) and (b) (d) None (1 mark)

Answer:

- (b) Under the inductive method, conclusions are drawn on the basis of collection and analysis of facts relevant to the inquiry. The logic proceeds from particular to general. The generalizations are based on the observations of individual examples.

[10] According to Robbins, 'means' are:

- (a) Scarce (b) Unlimited
(c) Undefined (d) All of these (1 mark)

Answer:

- (a) Robbins in his definition of scarcity explains that there are unlimited ends (wants) and limited means (resources). Resources are limited in nature and have alternative uses.

2008 - JUNE

[11] Economics is the study of :

- (a) How society manages its unlimited resources
(b) How to reduce our wants until we are satisfied
(c) How society manages its scarce resources
(d) How to fully satisfy our unlimited wants. (1 mark)

Answer:

- (c) Society has scarce resources and unlimited wants. Economics is the study of how to manage the scarce resources to fulfill the unlimited ends. Economics deals with how to make optimum utilization of scarce resources.

[12] A mixed economy means :

- (a) Co-existence of small and large industries
(b) Promoting both agriculture and industries in the economy
(c) Co-existence of rich and poor
(d) Co-existence of public and private sectors (1 mark)

Answer:

- (d) Mixed economy is characterized by the presence of both the private and the public sectors. Under this economy prices are determined both by planning authority and market forces.

2008 - DECEMBER

[13] Who defines Economics in terms of Dynamic Growth and Development?

- (a) Robbins (b) Paul A Samuelson
(c) Adam Smith (d) None (1 mark)

Answer:

- (b) Economics in terms of Dynamic Growth and Development was given by Paul A. Samuelson. Who states that "Economics is the study of how men and society choose, with or without the use of money to enjoy scarce productive resources which could have alternative uses, to produce various commodities over time and to distribute them for consumption now and in the future of amongst various people and groups of society.

[14] A Free Market- economy, solves its Central Problems through _____

- (a) planning authority (b) market mechanism
(c) both (d) none (1 mark)

Answer:

(b) A free market economy also known as a capitalist economy, has no central planning authority to decide what, how and for whom to produce. Such an economy uses the impersonal market forces of demand and supply or the price mechanism to solve its central problems.

[15] Normative aspect of Economics is given by :

- (a) Marshall (b) Robbins
(c) Adam Smith (d) Samuelson (1 mark)

Answer:

(a) Normative aspect is concerned with welfare propositions. Such an aspect of economics is prescriptive in nature and describes 'what should be the thing'. Example, the question like what should be the level of national income, how the fruits of national product be distributed among people. An aspect of economics given by 'Alfred Marshall'.

2009 - JUNE

[16] Which one is not the characteristic of a capitalistic economy?

- (a) Profit motive (b) Income inequality
(c) Free employment (d) Collective ownership (1 mark)

Answer:

(d) The characteristic of collective ownership does not belong to capitalistic economy. The characteristic of collective ownership is that of a socialistic economy where the entire control is of the Government.

[17] Mixed economy means

- (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 private entrepreneurs
(d) None of these (1 mark)

Answer:

(c) A mixed economy is characterised by the presence of both private and public enterprises. In this economy, the government as well as private enterprises, exist and hence economic decisions are taken by the government and private enterprises both.

2009 - DECEMBER

[18] Capitalistic Economy uses _____ as principal means of allocating resources.

- (a) demand (b) supply
(c) price (d) all of the above (1 mark)

Answer:

Same as Answer 3

[19] Economic Problem arises when :

- (a) Wants are unlimited
(b) Resources are limited
(c) Alternative uses of resources
(d) All of the above (1 mark)

Answer:

(d) Economic problem arises when wants are unlimited, resources are limited and resources have alternative uses. These reasons give rise to basic economic problems of "what to produce", "How to produce" and "For whom to produce".

2010 - JUNE

[20] Micro economics is also known as _____.

- (a) public economics (b) price theory
(c) income theory (d) demand theory (1 mark)

Answer:

(b) Micro Economics is also known as Price Theory. (Self Explanatory).

- [21] A developed economy uses _____ technique in production.
(a) labour intensive (b) capital intensive
(c) home-based (d) traditional (1 mark)

Answer:

(b) Developed Economies have more of technology so they use capital intensive techniques in production to minimize the cost of production.

- [22] Which one is the feature of Marshall's definition?
(a) Limited ends
(b) Scarce means
(c) Study of wealth as well as study of man
(d) Study of allocation of resources (1 mark)

Answer:

(c) Alfred Marshall clearly pointed out that economics is on the one side a study of wealth and on the other and more important side a part of study of man.

2010 - DECEMBER

- [23] Which one in the following is not correct :
(a) There are limited wants
(b) Means are scarce
(c) Resources have alternative uses
(d) Economics is science (1 mark)

Answer:

(a) According to two fundamental facts, human beings have unlimited wants and the means of satisfying the wants are scarce.

- [24] Micro Economics is concerned with:
(a) Consumer Behaviour (b) Product pricing
(c) Factor Pricing (d) All of the above (1 mark)

Answer:

- (d) Micro-economics is concerned with:
(i) Product pricing
(ii) Consumer behaviour
(iii) Factor pricing
(iv) Economic conditions of a section of the people
(v) Study of firms
(vi) Location of an industry

2011 - JUNE

- [25] Who gave the positive aspect of science?
(a) Alfred Marshall
(b) A.C. Pigou
(c) Adam Smith
(d) Robbins (1 mark)

Answer:

(d) A positive or pure science analyses cause and effect relationship between variables but it does not pass value judgments. This positive aspect of science was emphasized by Professor Robbins.

- [26] A mixed economy means :
(a) Coexistence of both private and public sector
(b) Coexistence of poor and rich people
(c) Both (a) and (b)
(d) None (1 mark)

Answer:

(a) A mixed economy is an economy that includes the best features of both the controlled economy and the market economy. The most important feature of a mixed economy is the co-existence of both private and public enterprises.

- [27] Which of these is a part of microeconomics?
(a) Factor pricing (b) National Income
(c) Balance of payment (d) None (1 mark)

Answer:

(a) Microeconomics is the study of the economic behaviour of an individual, firm or industry in the national economy. It is the study of a particular unit. Factor pricing relates to the pricing of individual factors and hence is a subject of microeconomics.

[28] Which of these is an example of macroeconomics :

- (a) The problem of unemployment in India
- (b) The rising price level in the country
- (c) Increase in disparities of income
- (d) All of the above

(1 mark)

Answer:

(d) In macroeconomics we study the economic behaviour of large aggregates such as overall conditions of the economy, total production etc. Therefore, all these are a subject of macroeconomics.

2011 - DECEMBER

[29] In a capitalist economy the allocation of resources is performed by:

- (a) Producers
- (b) Government
- (c) Planners
- (d) Price mechanism

(1 mark)

Answer:

(d) A capitalistic economy has no central planning authority to decide what, how and for whom to produce. Thus, the allocation of resources is performed by the market forces of demand and supply known as price mechanism.

[30] Which of the following statements is incorrect?

- (a) Alfred Marshall propagated the wealth definition of Economics
- (b) L. Robbins introduced the "Scarcity" definition of Economics
- (c) Samuelson emphasized upon the "growth" aspect of Economics
- (d) A.C Pigou believed in the "welfare" aspect of Economics

(1 mark)

Answer:

(a) The 'wealth' definition of Economics was given by Adam Smith and JB Say:

"An inquiry into the nature and causes of the wealth of the nations" – Adam Smith.

"Science which deals with wealth" – JB Say.

[31] Inequalities of income do not perpetuate in_____.

- (a) socialism
- (b) mixed economy
- (c) capitalism
- (d) none

(1 mark)

Answer:

(a) The relative equality of income is an important feature of a socialistic economy. Educational and other facilities are enjoyed more or less equally, thus the basic causes of inequalities are removed.

2012 - JUNE

[32] Which of the following are the features of a mixed economy?

- (a) Planned economy
- (b) Dual system of pricing exists
- (c) Balanced regional development
- (d) All of the above.

(1 mark)

Answer:

(d) An economy that incorporates the features of capitalist and socialist both the economies is called a mixed economy. It has the following features –

- (a) A mixed economy is a planned economy where the government has a clear and definite economic plan.
- (b) In a mixed economy, the prices are determined both by price mechanism and central planning authority. Hence a dual system of pricing exists.
- (c) There is a balanced regional development in a mixed economy as the public sector enterprises will be set up in backward areas for balanced development.

Hence, the answer will be all of these.

[33] Normative Economics is based on:

- (a) Ethical Considerations (b) Facts and Generalisation
(c) What is? (d) All of the above. (1 mark)

Answer:

(a) Normative economics is concerned with welfare propositions. It states "what should be the things." It does not deal with facts but involves value judgments. The ethical aspect of economics is normative economics.

Example: What should be the wage rate level? This is a normative statement.

[34] The dual system of pricing exists in:

- (a) Free market economy (b) Socialistic economy
(c) Mixed economy (d) None of the above (1 mark)

Answer:

(c) A mixed economy is a type of economy which combines the features of both capitalistic and socialistic economy. In this economy, the dual system of pricing exists i.e. prices of essential commodities are determined by the government while the prices of others commodities are fixed by the price mechanism (by the interaction of demand and supply)

[35] In the Inductive method, logic proceeds from:

- (a) General to Particular (b) Particular to General
(c) Both (a) and (b) (d) None of these. (1 mark)

Answer:

(b) Under the inductive method, conclusions are drawn on the basis of collection and analysis of facts relevant to the inquiry. Here the logic proceeds from particular to general. This means generalizations are made based on facts collected.

[36] In a capitalist economy, allocation of resources is done by:

- (a) Producers (b) Government
(c) Planners (d) Price mechanism (1 mark)

Answer:

(d) In a capitalist economy, there is no government intervention. In this economy, the resources are allocated based on the demand of the consumers. Producers will produce those goods which are in demand without thinking about the public welfare. Hence, this economy is guided by the price mechanism.

2012 - DECEMBER

[37] A Capitalist Economy follows the policy of:

- (a) Laissez- faire (b) Regulated markets
(c) Promoting public sector (d) None of the above. (1 mark)

Answer:

(a) One of the guiding principles of the capitalistic economy is that the economic system should be **free from government interventions** and be driven by market forces. Laissez- faire means **allow to pass**. Thus, the capitalistic economy follows the policy of laissez- faire.

[38] 'Economics is the science of choice- making' implies:-

- (a) No choice is to be made
(b) The choice to be made between alternative uses
(c) The choice to be made between means and ends
(d) None of the above (1 mark)

Answer:

(b) Robbins gave the following definition of economics —

"Economics is the science which studies human behaviour as a relationship between ends and scarce means which have alternative uses".

Thus, economics is a science of choice which is to be made between alternative uses.

- [39] Which of the following is a part of the subject matter of macro economics?
- (a) Study of firms
 - (b) Aggregate profits of a firm
 - (c) Market demand for a product
 - (d) Net national product. (1 mark)

Answer:

(d) In macroeconomics, we study the economic behaviour of large aggregates such as overall conditions of the economy, total production etc. Out of the given options, only NNP studies the national income which is related to the entire economy.

- [40] A capitalist economy is by and large _____

- (a) a closed economy
- (b) a free market economy
- (c) a centrally controlled economy
- (d) an economy in which a government neither collects any taxes nor incurs any expenditure (1 mark)

Answer:

(b) A capitalist economy also known as free- market economy has no central planning authority to decide what, how and for whom to produce. Such an economy uses the impersonal force of the market demand and supply or the price mechanism to solve its central problems.

2013 - JUNE

- [41] Deductive and Inductive methods are complementary to each other. It is:
- (a) Absolutely correct
 - (b) Absolutely incorrect
 - (c) Partially incorrect
 - (d) None of the above (1 mark)

Answer:

(a) Deductive and inductive methods are not mutually exclusive and are used side by side in any scientific inquiry. Conclusions drawn from the deductive method of reasoning are verified by the inductive method of observing concrete facts of life. Thus, it can be said that Deductive and inductive methods are **complementary** to each other is **absolutely correct**.

- [42] A free- market economy's driving force is:

- (a) Profit motive
- (b) Welfare of the people
- (c) Rising income and levels of living
- (d) None of the above (1 mark)

Answer:

(a) A free market economy or a capitalist economy is one in which all the means of production are owned and controlled by private individuals for profit. Thus, **the profit motive** is the driving force of a free market economy.

- [43] "Economics is neutral between ends". The statement is given by:

- (a) L. Robbins
- (b) Mrs. Joan
- (c) Alfred Marshall
- (d) A.C. Pigou (1 mark)

Answer:

(a) According to Prof. Lionel Robbins "economics is neutral between ends" Ends refer to wants. Human wants are unlimited. When one want is satisfied, other wants crop up.

- [44] A system of economy in which all the means of production are owned and controlled by the private individuals for the purpose of profit is called:

- (a) Socialist Economy
- (b) Capitalist Economy
- (c) Mixed Economy
- (d) All of the above (1 mark)

Answer:

(b) **Capitalistic** economic system is one in which all the means of production are owned and controlled by private individuals for profit. In this system, the government does not interfere in the management of economic affairs.

2013 - DECEMBER

- [45] Where does the price mechanism exist?
 (a) Capitalist Economy (b) Socialist Economy
 (c) Both types of economies (d) None of the above (1 mark)

Answer:

(a) A **capitalistic economy** has no central planning authority to decide what, how and for whom to produce. This economy uses the impersonal forces of the market demand and supply or price mechanism to solve its central problems.

- [46] Economics which is concerned with welfare propositions is called
 (a) Socialistic economics (b) Capitalistic economics
 (c) Positive economics (d) Normative economics (1 mark)

Answer:

(d) Normative aspect is concerned with welfare propositions. It involves value judgements. It is prescriptive in nature and describes 'what should be the things'. **E.g.** what should be the level of national income, what should be the wage rate.
 Thus **Normative economics** is the correct option.

- [47] In which among the following systems the 'right to property' exists
 (a) Mixed economy
 (b) Capitalist economy
 (c) Socialist economy
 (d) Traditional economy (1 mark)

Answer:

(b) Capitalism is an economic system in which all the means of production are owned and controlled by private individuals for profit. The right of private property means that productive factors such as land, factories, machinery, mines etc are under private ownership. The owners of these factors are free to use them in the manner they like.

Thus **option (B)** is correct.

- [48] Positive science only explains
 (a) What is? (b) What ought to be?
 (c) What is right or wrong (d) None of the above (1 mark)

Answer:

(a) A positive or pure science analyses cause and effect relationship between variables but it does not pass value judgement. It states **what is** and not what ought to be.

Thus, **option (A)** is correct.

- [49] Socialist Economy is also known as
 (a) Mixed Economy (b) Planned Economy
 (c) Capitalist Economy (d) None of the above (1 mark)

Answer:

(d) A mixed economy is a planned economy in which the government has a clear and definite economic plan.

Socialist economy is also known as centrally planned economy because there is central authority to set and accomplish socio-economic goals.

Thus, the correct option is **none of the above**.

2014 - JUNE

- [50] Who has defined economics as "Science which deals with wealth"?
 (a) Adam Smith (b) Canon
 (c) J.B. Say (d) A.C. Pigou (1 mark)

Answer:

(c) Many classical economists defined economics in terms of wealth. **JB Say** is one of them. He said Economics is a "Science which deals with wealth."

- [51] Which of the following is not a feature of a capitalist economy?
 (a) Right to private property
 (b) Restrictions on consumers right to choose
 (c) Profit motive
 (d) Freedom of enterprise (1 mark)

Answer:

- (b) The features of a capitalist economy are:
- (1) The right of private property
 - (2) Freedom of enterprise
 - (3) Freedom to choice by the consumers
 - (4) Profit motive
 - (5) Competition
 - (6) Inequalities of income

Hence, **restrictions on consumers right to choose** is not a feature of a capitalistic economy.

[52] The term "Mixed Economy" denotes:

- (a) Co-existence of both consumers and producers good's industries in the economy.
- (b) Co-existence of both private and public sectors in the economy.
- (c) Co-existence of both rural and urban sectors in the economy.
- (d) Co-existence of both large and small industries in the economy. (1 mark)

Answer:

(b) The term "Mixed Economy" denotes **the co-existence of both private & public sectors in the economy**. In fact, in a mixed economy, there are three sectors of industries:

- (a) Private sector
- (b) Public sector
- (c) Combined sector

2014 - DECEMBER

[53] The most important function of an entrepreneur is to _____.

- (a) innovate
- (b) bear the sense of responsibility
- (c) finance
- (d) earn profit (1 mark)

Answer:

(a) An entrepreneur is one of the factors of production. He is the one who co-ordinates with other factors like land, labour, capital, etc.

Various functions of entrepreneurs are decision-making, managerial function, organizational functions, etc. while the most important function of an entrepreneur is to innovate.

[54] Under Inductive method logic proceeds from:

- (a) General to particular
- (b) Positive to normative
- (c) Normative to positive
- (d) Particular to general (1 mark)

Answer:

(d) Under inductive method conclusions are drawn on the basis of collection and analysis of facts relevant to the inquiry. The logic in this case proceeds from the **particular to general**.

2015 - JUNE

[55] The meaning of time element in economics is:

- (a) Calendar time
- (b) Clock time
- (c) Operational time in which supply adjusts with the market demand (1 mark)
- (d) None of the above

Answer:

(c) Operational time in which supply adjusts with the market demand.

[56] All wants of an individual are not of:

- (a) Equal importance
- (b) Immediate importance
- (c) Fixed importance
- (d) All of the above (1 mark)

Answer:

(a) All wants of individuals are not of **equal importance** as all cannot be fulfilled.

[57] _____ is another name of production possibility curve.

- (a) Indifference Curve
- (b) ISO-Product Curve
- (c) Transformation Curve
- (d) Diminishing Utility Curve (1 mark)

Answer:

(c) PPC is also known as Production Possibility Curve, Production Possibility Boundary, Transformation Line/Curve.

2015 - DECEMBER

- [58] Who is the author of "The Nature and Causes of Wealth of Nations"?
- (a) Karl Marx (b) Adam Smith
(c) J B Say (d) A C Pigou (1 mark)

Answer:

(b) Science of wealth:

Although the activity of acquiring and increasing material wealth is as old as civilisation, a disciplined study of the wealth-producing activities commenced about 235 years back (in 1776) when **Adam Smith**, the father of Economics, published "The Nature and Causes of Wealth of Nations".

- [59] Microeconomics does not study

- (a) Consumer behaviour
(b) Factor pricing
(c) General price level
(d) Firms equilibrium. (1 mark)

Answer:

(c) Microeconomics is the study of particular firms, particular households, individual price, wage income, individual industries and particular commodities.

We mainly study the following:

- (i) Product Pricing
(ii) Consumer Behaviour
(iii) Factor Pricing
(iv) Economic conditions of a section of the people
(v) Study of firms
(vi) Location of industry

- [60] Find out the correct statement

- (a) Higher the prices, lower the quality demanded of a product is a normative statement
(b) Micro and macro-economics are interdependent

- (c) In a capitalist economy, the economic problems are solved by planning commission
(d) In deductive method logic proceeds from particular to the general (1 mark)

Answer:

(b) Micro and Macro Economics are interdependent on each other because they both play a vital and in most cases they play a complementary role. Ex. National income cannot grow unless the production in individual firms and factories rises.

- [61] Which of the following illustrate a decrease in unemployment using the PPF?

- (a) A movement down along the PPF
(b) A rightward shift of the PPF
(c) A movement from a point on the PPF to a point inside the PPF
(d) A movement from a point inside the PPF to a point on the PPF (1 mark)

Answer:

(d) A movement of point inside PPF to on the PPF indicates the actual growth in an economy and wherever there is a decrease in unemployment, it shows that an economy is making progress towards growth by optimizing its full resources.

2016 - JUNE

- [62] Microeconomics is the study of:

- (a) Individual parts of the economy
(b) The economy as a whole
(c) Choice making
(d) Development of the economy

Answer:

(a) The term microeconomics is derived from the Greek word mikros, meaning "small". In microeconomics we study the economic behaviour of an individual, firm or industry. It is thus a study of a particular unit rather than all the units combined. (1 mark)

2016 - DECEMBER

- [63] According to _____ "Economics is a science which deals with wealth".
(a) Walker (b) Fairchild
(c) Adam Smith (d) J.B. Say (1 mark)

Answer:

(d) According to J. B. Say "Economics is a science which deals with wealth".

- [64] Freedom of choice is the advantage of
(a) Socialism (b) Capitalism
(c) Mixed Economy (d) Communism (1 mark)

Answer:

(b) Freedom of choice is the advantage of capitalism.

- [65] The definition of economics given by Robbins does not deal with one of the following aspects. Indicate that aspect.

- (a) Scarce means (b) Limited ends
(c) Alternative uses (d) Economics is a science (1 mark)

Answer:

(b) The definition of economics given by Robbins does not deal with limited ends as in the definition, he deals with unlimited ends.

- [66] An economic system in which all means of production are owned and controlled by private individuals for profit is called:

- (a) Mixed Economy (b) Socialist Economy
(c) Capitalist Economy (d) Developed Economy (1 mark)

Answer:

(c) A capitalist economy is an economy system in which all means of production are owned and controlled by private individuals for profit.

2017 - JUNE

- [67] In which of the following methods conclusions are drawn on the basis of collection and analysis of facts?

- (a) Deductive method (b) Scientific method
(c) Inductive method (d) Experimental method. (1 mark)

Answer:

(c) **Inductive Method:** Under this method, conclusions are drawn on the basis of collection and analysis of facts relevant to the inquiry. The logic, in this case, proceeds from particular to general. The generalizations are based on observation of individual examples. Thus, **option (c)** is correct.

- [68] Which Economic System is described by Schumpeter as 'capitalism in the oxygen tent'?

- (a) Laissez-Faire Economy (b) Command Economy
(c) Mixed Economy (d) Agrarian Economy. (1 mark)

Answer:

(c) Mixed economy is described by Schumpeter as "Capitalism in the oxygen tent". According to him, it is only a trick of the capitalists to cheat the working class by offering them some temporary advantages like social security, upliftment of the depressed classes etc. Thus, option c is correct.

- [69] The production Possibility Curve (PPC) is also known as:

- (a) Indifference Curve (b) Supply Curve
(c) Transformation Curve (d) Demand Curve. (1 mark)

Answer:

(c) The production-possibility curve is also known as the transformation curve. It is a graph that shows the different rates of production of two goods that an individual or group can efficiently produce with limited productive resources.

- [70] The Central problem in every economic society is:
- To ensure a minimum level of income for every individual.
 - To allocate scarce resources in such a manner that society's unlimited wants are satisfied in the best possible manner.
 - To ensure that production occurs in the most efficient manner.
 - To provide job to every job seeker. (1 mark)

Answer:

- (b) Every economic system, be it capitalist, socialist or mixed, has to deal with this central problem of scarcity of resources relative to wants for them. The central economic problem is further divided into four basic economic problems.

These are:

- What to produce
- How to produce
- For whom to produce

What provisions (if any) are to be made for economic growth?

2018 - MAY

- [71] Socialist Economy was propounded by:
- Karl Marx
 - Samuelson
 - A.C. Pigou
 - Adam Smith (1 mark)

Answer:

- (a) Karl Marx gave the theory of socialist economy.

- [72] Concept of Business Economics was given by:
- Joel Dean
 - Alfred Marshall
 - Adam Smith
 - L. Robbins (1 mark)

Answer:

- (a) Concept of Business economics was given by Joel Dean.

- [73] Features of the book wealth of nations:
- It was the first book written on economics
 - It was created in 1776
 - It was also known as 'wealth of nations'
 - All of the above. (1 mark)

Answer:

- (d) Adam Smith was the father of Economics. He wrote the book 'the Nature and Causes of Wealth of Nations' in 1776. This book was also known as 'Wealth of Nations'. He defined economics in 'An Inquiry into the Nature and Causes of wealth of nations'

- [74] In India, Mixed Economy exists due to:

- coexistence of public sector and private sector
- individual forces of demand and supply
- orders by government
- None of these. (1 mark)

Answer:

- (a) There are three types of economy. These are:

- Capitalist economy (private enterprises)
- Socialist economy (governed by government)
- Mixed economy (public and private enterprises)

Mixed economy means a co-relation or co-existence of public and private sector.

- [75] Which economic system is described by Schumpeter as capitalism in the oxygen tent?

- Laissez-faire Economy
- Command Economy
- Mixed Economy
- Agrarian Economy (1 mark)

Answer:

- (c) Mixed Economy is described by Schumpeter as 'capitalism in oxygen tent'. According to him it is only a trick of capitalism to cheat the working class by offering them some temporary advantages like social security, upliftment of depressed classes etc.

- [76] Capitalistic Economy uses _____ as principal means of allocating resources:

- demand
- supply
- price
- all of the above. (1 mark)

Answer:

(c) Price is principal means of allocating resources in a capitalist economy while it is not so in a socialist economy. Price Mechanism is a characteristic of capitalist economy.

[77] Under inductive method logic proceeds from:

- (a) General to particular
- (b) Positive to narrative
- (c) Normative to positive
- (d) Particular to general

(1 mark)

Answer:

(d) Inductive Method is based on facts and in this method logic proceeds from particular to general. While deductive method is based on assumptions and in this, logic proceeds from general to particular.

2018 - NOVEMBER

[78] Human wants are _____ in response to satisfy their wants?

- (a) Unlimited
- (b) Limited
- (c) Scarce
- (d) Multiple

(1 mark)

Answer:

(a) 'Human beings have unlimited wants and the means to satisfy these unlimited wants are relatively scarce' form the subject matter of Economics.

[79] Price Mechanism is the main feature of which economy?

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

(1 mark)

Answer:

(a) Capitalism is self-regulating and works automatically through the price mechanism.

[80] Business Economics is also known as?

- (a) Applied Economics
- (b) Managerial Economics
- (c) Micro Economics
- (d) All of the above

(1 mark)

Answer:

(b) Business economics, also referred to as managerial economics, generally refers to the integration of economic theory with business practice.

[81] A business economy involves the theory of Business economics with _____.

- (a) Normative Economics
- (b) Business practices
- (c) Micro Economics
- (d) Macro Economics

(1 mark)

Answer:

(b) Business economy involves theory of business with business practices. (application of theory)

[82] Which is not included in Economics?

- (a) Family Structure
- (b) Managerial Economics
- (c) Micro Economics
- (d) Macro Economics

(1 mark)

Answer:

(a) Family structure in no sense affects economics, therefore, it is not included in economics.

[83] Business Economics involves the elements of:

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

(1 mark)

Answer:

(c) Business economics involves the economy as a whole and therefore, elements of macroeconomics and microeconomics are included in it.

2019 - MAY

- [84] In which economy market and government both play an important role?
 (a) Mixed economy
 (b) Socialistic economy
 (c) Capitalistic economy
 (d) Business economy

(1 mark)

Answer:

- (a) The mixed economic system depends on market and government for allocation of resources. Infact every economy in the real world makes use of both market and government and therefore is mixed economy in its nature.

- [85] Which factor is included in business Economics?

- (a) Business Economics is an art
 (b) Interdisciplinary in nature
 (c) Normative in nature
 (d) All of the above

(1 mark)

Answer:

- (d) Factors of business economics are

1. It is a science
2. It is normative in nature
3. It is Interdisciplinary in nature
4. It is pragmatic in approach

Therefore answer will be all of the above.

- [86] Which out of these are the features of capitalism?

- (i) Profit motive
 (ii) Human welfare
 (iii) Work through price mechanism

- (a) (i) and (ii)
 (b) (ii) and (iii)
 (c) (i) and (iii)
 (d) All of these.

(1 mark)

Answer:

- (c) Features of a capitalist economy

1. Profit motive
2. Work through the price mechanism
3. A high degree of operative efficiency

Therefore, human welfare is not a feature of capitalist economy.

- [87] Business Economics is

- (a) Normative in nature
 (b) Intradisciplinary in nature
 (c) Both
 (d) None

(1 mark)

Answer:

- (a) The nature of business economics can be explained by the following points:

- (i) Business Economics is a science
- (ii) It is based on microeconomics and also incorporates the elements of macroeconomics.
- (iii) It is normative in nature, i.e. it involves value judgements i.e. it, also deals with 'what should be'.
- (iv) Interdisciplinary in nature i.e. it incorporates tools from other disciplines including Mathematics, Operational Research, Finance, Marketing, etc.

- [88] Socialism ensures

- (a) Rapid growth and balanced development
 (b) Right to work
 (c) Incentives for efficient economic decisions
 (d) Both (a) and (b)

(1 mark)

Answer :

- (d) In a socialist economy, production and distribution of goods are aimed at maximising the welfare of the community as a whole.

It ensures rapid and balanced economic development as the central planning authority coordinates all resources in an efficient manner according to predetermined priorities.

It also ensures the right to work and a minimum standard of living to all people. However, no importance is given to personal efficiency and productivity.

Thus, option (d) is correct.

[89] Macroeconomics includes

- (a) Product pricing
- (b) Consumer behavior
- (c) External value of money
- (d) Location of industry

(1 mark)

Answer :

(c) Macroeconomics is the study of the overall phenomena or the economy as a whole, rather than its individual parts. It includes:

- (i) National income and national output
- (ii) General price level and interest rates
- (iii) Balance of trade and balance of payment
- (iv) The overall level of savings and investment
- (v) The level of employment and rate of economic growth
- (vi) The external value of currency.

[90] Exploitation and inequality will be more in _____

- (a) Socialism
- (b) Capitalism
- (c) Mixed
- (d) All of the above

(1 mark)

Answer :

(b) In a capitalist economy, all means of production are owned and controlled by private individuals for profit.

There is vast economic inequality and social injustice which reduces aggregate economic welfare of the society as a whole.

In a socialist economy, there is an equitable distribution of wealth and equal opportunities for maintaining economic and social justice.

In a mixed economy, there is co-existence of both the public and private sectors which prevents exploitation and inequality. Thus, among the three inequalities and exploitations are the characteristics of capitalism.

[91] **Shyam:** This year due to heavy rainfall my onion crop was damaged

Krishna : Climates affect crop yields. Some years are bad, others are good

Hari : Don't worry - Price increase will compensate for the fall in quantity supplied

Radhe: The Government ought to guarantee that our income will not fall. In this conversation, the normative statement is made by

- (a) Shyam
- (b) Krishna
- (c) Hari
- (d) Radhe

(1 mark)

Answer :

(d) A normative statement is one which involves value judgements and suggests what ought to be or what should be a particular course of action under given circumstances. Statements made by Shyam, Krishna and Hari are positive as they merely show cause and effect relationships and do not involve value judgement. However, Radhe's statement shows a particular course of action should be taken by stating that the government ought to guarantee that income will not fall.

[92] Which of the following is correct?

- (a) 49% FDI is allowed in defence production
- (b) 49% FDI is allowed in private sector banking
- (c) 74% FDI is now allowed in multibrand retails
- (d) 100% FDI is allowed in insurance

(1 mark)

Answer :

(a) In 2016, the government relaxed FDI norms in several sectors including defence. As per the policy, foreign investment upto 49% has been permitted in defence sector through automatic route and 100% via government nod.

[93] A capitalist economy consists of

- (a) Central planning authority
- (b) A mechanism to decide as to what, how and for whom to produce
- (c) Both (a) and (b)
- (d) None of the above

(1 mark)

Answer :

(b) A capitalist economy does not have a central planning authority to decide what, how and for whom to produce. It uses the impersonal forces of market demand and supply or the price mechanism to solve its central problems.

Thus, option (b) is correct.

[94] As per the World Bank's International Debt Statistics 2017, India continues to be amongst the _____ countries.

- (a) more debt
- (b) less debt
- (c) more vulnerable
- (d) less vulnerable

Answer : (1 mark)

(d) As per country comparison based on "International Debt Statistics 2017" of the World Bank, India continues to be among the less vulnerable countries comparing well with other indebted developing countries.

[95] Applied economics includes

- (a) Regression analysis and mathematical linear programming
- (b) Capital budgeting
- (c) Both (a) and (b)
- (d) None

Answer: (1 mark)

(c) Business Economics has a close connection with Economic theory, Operation Research, Statistics, Mathematics, and the theory of Decision Making. It is essentially a component of applied economics as it includes the application of selected quantitative techniques such as linear programming, regression analysis, capital budgeting, cost analysis and breakeven analysis.

[96] Economic goods are considered as scarce resources because _____

- (a) Inadequate quantity to satisfy the needs of the society
- (b) Not possible to increase the quantity
- (c) Limited hands to make goods
- (d) Primary importance in satisfying social requirements

Answer: (1 mark)

(a) An economy exists because of two facts i.e. human wants are unlimited and the resources are scarce, i.e. there is an inadequate quantity to satisfy the needs of the entire society.

[97] Due to recession, employment rate and output _____

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

(1 mark)

Answer:

(b) During the contraction or recession phase of the business cycle, there is a fall in levels of investment and employment. The decrease in demand pulls down prices, investors confidence is at it's lowest. Employment rate falls and so is the output.

[98] Freedom of choice is the advantage of _____.

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

(1 mark)

Answer:

(b) In a Capitalist economy, consumers are benefitted due to competitive forces, a variety of good quality products, and affordable prices. This, not only ensures freedom of choice but also the maximum satisfaction to the consumers.

[99] _____ refers to the work area where surplus manpower is employed out of which some individuals have zero or almost zero marginal productivity, such that if they are removed the total level of output remains unchanged.

- (a) Voluntary
- (b) Disguised
- (c) Structural
- (d) Technological

(1 mark)

Answer:

(b) **Disguised unemployment:** A kind of unemployment where more people are engaged in a work than required. Disguised refers to the work area where surplus manpower is employed out of which some individuals have zero or almost zero marginal productivity, such that if they are removed the total level of output remains unchanged.

- [100] Socialist economy is _____
- Self-regulation
 - Profit Oriented
 - Command economy
 - Allocation of resources as per market requirements (1 mark)

Answer:

- (c) A socialist economy is also called as "Command Economy" or "Centrally Planned Economy". This economy will not provide incentives to hard work in the form of profit. Here, resources are allocated according to the commands of the central planning authority rather than market requirements.

2019 - November

- [101] A study of have increase in the corporate tax rate will affect national unemployment rate is

- Marcoeconomics
- Descriptive economics
- Microeconomics
- Normative economics

Answer:

- (a) Macroeconomic is the study of the overall economic phenomena or the economy as a whole, rather than its individual parts. Therefore, a study of have increase in the corporate tax rate will affect national unemployment rate is of Macro environment.

- [102] A capitalist economy uses _____ as a principal means of allocating resources.

- Demand
- Supply
- Efficiency
- Price

Answer:

- (d) A capitalistic economy uses price as a principal means of allocating resources. It is the economy system in which all the resources are owned and controlled by private individuals for profit.

- [103] In a market economy all assets are held by:

- Investors
- Privately
- Government
- Jointly by government

Answer:

- (b) In market all assets are held by private owners as they fix their own prices and sell the goods at their own fixed price. So all the assets are held by private owners in the market.

- [104] The branch of economic theory that deals with problem of allocating resources.

- Microeconomics
- Marcoeconomics
- Eonometrics
- None

Answer:

- (a) The branch of economic theory that deals with problem of allocation of resources is MICRO ECONOMICS.

As microeconomics involves behaviour of different individuals and organisation within an economic system.

- Product pricing
- Consumer behaviour
- Factor pricing
- The economic conditions of section of people
- Behaviour of firms
- Location of industry.

- [105] Larger production of _____ goods would lead to higher production in future.

- consumer goods
- capital goods
- agricultural goods
- public goods

Answer:

- (b) Larger production of capital goods would lead to higher production in future. Since the resources are limited, every society has to decide which goods and services should be produced and how many units of each goods should be produced. Therefore, company should produce more of capital goods like machines, equipments, dam etc. as these goods makes the economy strong for the higher production in future.

[106] Which of the following is not within the scope of business economics?

- (a) Capital budgeting
- (b) Risk analysis
- (c) Business cycle
- (d) Accounting Standards

Answer:

- (d) Business economics may be defined as the use of economic analysis to make business decision involving the best use of an organisations scarce resources. It involves linear programming, regression analysis, capital budgeting, break even analysis and cost analysis.

Accounting Standards is not within the scope of business economics.

[107] Which is the first book of Economics named as _____

- (a) The Wealth of Nations
- (b) Economics
- (c) Nations of Wealth
- (d) Political Economy

Answer:

- (a) The term Economics owes its origin to the Greek word 'Oikonomia' which means household'. Till 19th century, economics was known as 'Political Economy'. The book named 'An inquiry into the Nature and Causes of the Wealth of Nations' (1776) usually abbreviated as 'The Wealth of Nations' by Adam Smith is considered as the first modern work of Economics.

[108] Which type of scarcity is referred to in economics

- (a) Relative scarcity
- (b) Absolute scarcity
- (c) Both (a) and (b)
- (d) None

Answer:

- (a) The scarcity in economics referred as relative scarcity. As the resources are limited and these resources have alternative uses and wants of people are unlimited. Therefore, all wants cannot be satisfied.

As financial resources can be used for many purposes. If the resources were unlimited, people would be able to satisfy all their wants and there would be no economic problem. Alternatively if a resource has only single use, then all economic problem would not arise.

[109] Consumer sovereignty is which of the following characteristics?

- (a) Capitalist economy
- (b) Mixed economy
- (c) Socialist economy
- (d) Democracy

Answer:

- (a) 'Consumer Sovereignty' is the characteristics of capitalist economy which states that consumer is the king under capitalism. Consumer sovereignty means that buyers ultimately determine which goods and services will be produced and in what quantities. Consumer have unbridled freedom to choose the goods and services which they would consume. In other words based on the purchases they make, consumers decide how the economy's limited resources are allocated.

- ◆ Moreover, it is very difficult to maintain a proper balance between the public and private sectors.
- ◆ In the absence of strong governmental initiatives, the private sector is likely to grow disproportionately. The system would then resemble capitalism with all its disadvantages.

SUMMARY

- ◆ The basic problem of scarcity gives rise to many of the economic problems.
- ◆ Unlimited human wants and scarcity of resources lead to the central economic problems like what to produce, how to produce and for whom to produce.
- ◆ The basic economic problems of what, how and for whom to produce are solved by different economies in different ways.
- ◆ A capitalist economy uses the tool of price mechanism, a socialist economy uses the tool of central planning and a mixed economy uses a mix of both price mechanism and central planning to solve its basic economic problems.

TEST YOUR KNOWLEDGE

Multiple Choice Questions

1. *Economists regard decision making as important because:*
 - (a) *The resources required to satisfy our unlimited wants and needs are finite, or scarce.*
 - (b) *It is crucial to understand how we can best allocate our scarce resources to satisfy society's unlimited wants and needs.*
 - (c) *Resources have alternative uses.*
 - (d) *All the above.*
2. *Business Economics is -*
 - (a) *Abstract and applies the tools of Microeconomics.*
 - (b) *Involves practical application of economic theory in business decision making.*
 - (c) *Incorporates tools from multiple disciplines.*
 - (d) *(b) and (c) above.*

3. *In Economics, we use the term scarcity to mean -*
 - (a) *Absolute scarcity and lack of resources in less developed countries.*
 - (b) *Relative scarcity i.e. scarcity in relation to the wants of the society.*
 - (c) *Scarcity during times of business failure and natural calamities.*
 - (d) *Scarcity caused on account of excessive consumption by the rich.*
4. *What implication(s) does resource scarcity have for the satisfaction of wants?*
 - (a) *Not all wants can be satisfied.*
 - (b) *We will never be faced with the need to make choices.*
 - (c) *We must develop ways to decrease our individual wants.*
 - (d) *The discovery of new natural resources is necessary to increase our ability to satisfy wants.*
5. *Which of the following is a normative statement?*
 - (a) *Planned economies allocate resources via government departments.*
 - (b) *Most transitional economies have experienced problems of falling output and rising prices over the past decade.*
 - (c) *There is a greater degree of consumer sovereignty in market economies than planned economies.*
 - (d) *Reducing inequality should be a major priority for mixed economies.*
6. *In every economic system, scarcity imposes limitations on*
 - (a) *households, business firms, governments, and the nation as a whole.*
 - (b) *households and business firms, but not the governments.*
 - (c) *local and state governments, but not the federal government.*
 - (d) *households and governments, but not business firms.*
7. *Macroeconomics is also called——— economics.*
 - (a) *applied*
 - (b) *aggregate*
 - (c) *experimental*
 - (d) *none of the above*
8. *An example of 'positive' economic analysis would be:*
 - (a) *an analysis of the relationship between the price of food and the quantity purchased.*

- (b) *determining how much income each person should be guaranteed.*
- (c) *determining the 'fair' price for food.*
- (d) *deciding how to distribute the output of the economy.*
9. *A study of how increases in the corporate income tax rate will affect the national unemployment rate is an example of -*
- (a) *Macro-Economics.*
- (b) *Descriptive Economics.*
- (c) *Micro-economics.*
- (d) *Normative economics.*
10. *Which of the following does not suggest a macro approach for India?*
- (a) *Determining the GNP of India.*
- (b) *Finding the causes of failure of ABC Ltd.*
- (c) *Identifying the causes of inflation in India.*
- (d) *Analyse the causes of failure of industry in providing large scale employment*
11. *Ram: My corn harvest this year is poor.*
Krishan: Don't worry. Price increases will compensate for the fall in quantity supplied.
Vinod: Climate affects crop yields. Some years are bad, others are good.
Madhu: The Government ought to guarantee that our income will not fall.
In this conversation, the normative statement is made by -
- (a) *Ram*
- (b) *Krishan*
- (c) *Vinod*
- (d) *Madhu*
12. *Consider the following and decide which, if any, economy is without scarcity:*
- (a) *The pre-independent Indian economy, where most people were farmers.*
- (b) *A mythical economy where everybody is a billionaire.*
- (c) *Any economy where income is distributed equally among its people.*
- (d) *None of the above.*
13. *Which of the following is not a subject matter of Micro-economies?*
- (a) *The price of mangoes.*

- (b) *The cost of producing a fire truck for the fire department of Delhi, India.*
- (c) *The quantity of mangoes produced for the mangoes market.*
- (d) *The national economy's annual rate of growth.*
14. *The branch of economic theory that deals with the problem of allocation of resources is-*
- (a) *Micro-Economic theory.*
- (b) *Macro-economic theory.*
- (c) *Econometrics.*
- (d) *None of the above.*
15. *Which of the following is not the subject matter of Business Economics?*
- (a) *Should our firm be in this business?*
- (b) *How much should be produced and at price should be kept?*
- (c) *How will the product be placed in the market?*
- (d) *How should we decrease unemployment in the economy?*
16. *Which of the following is a normative economic statement?*
- (a) *Unemployment rate decreases with industrialization*
- (b) *Economics is a social science that studies human behaviour.*
- (c) *The minimum wage should be raised to ₹ 200/- per day*
- (d) *India spends a huge amount of money on national defence.*
17. *Which of the following would be considered a topic of study in Macroeconomics?*
- (a) *The effect of increase in wages on the profitability of cotton industry*
- (b) *The effect on steel prices when more steel is imported*
- (c) *The effect of an increasing inflation rate on living standards of people in India*
- (d) *The effect of an increase in the price of coffee on the quantity of tea consumed*
18. *The difference between positive and normative Economics is:*
- (a) *Positive Economics explains the performance of the economy while normative Economics finds out the reasons for poor performance.*
- (b) *Positive Economics describes the facts of the economy while normative Economics involves evaluating whether some of these are good or bad for the welfare of the people.*

- (c) *Normative Economics describes the facts of the economy while positive Economics involves evaluating whether some of these are good or bad for the welfare of the people.*
- (d) *Positive Economics prescribes while normative Economics describes.*
19. *Which of the following is not within the scope of Business Economics?*
- (a) *Capital Budgeting*
- (b) *Risk Analysis*
- (c) *Business Cycles*
- (d) *Accounting Standards*
20. *Which of the following statements is incorrect?*
- (a) *Business economics is normative in nature.*
- (b) *Business Economics has a close connection with statistics.*
- (c) *Business Economist need not worry about macro variables.*
- (d) *Business Economics is also called Managerial Economics.*
21. *Economic goods are considered scarce resources because they.*
- (a) *cannot be increased in quantity.*
- (b) *do not exist in adequate quantity to satisfy the requirements of the society.*
- (c) *are of primary importance in satisfying social requirements.*
- (d) *are limited to man made goods.*
22. *In a free market economy the allocation of resources is determined by*
- (a) *voting done by consumers.*
- (b) *a central planning authority.*
- (c) *consumer preferences.*
- (d) *the level of profits of firms.*
23. *A capitalist economy uses _____ as the principal means of allocating resources.*
- (a) *demand*
- (b) *supply*
- (c) *efficiency*
- (d) *prices*

24. Which of the following is considered as a disadvantage of allocating resources using the market system?
- (a) Income will tend to be unevenly distributed.
 - (b) People do not get goods of their choice.
 - (c) Men of Initiative and enterprise are not rewarded.
 - (d) Profits will tend to be low.
25. Which of the following statements does not apply to a market economy?
- (a) Firms decide whom to hire and what to produce.
 - (b) Firms aim at maximizing profits.
 - (c) Households decide which firms to work for and what to buy with their incomes.
 - (d) Government policies are the primary forces that guide the decisions of firms and households.
26. In a mixed economy -
- (a) all economic decisions are taken by the central authority.
 - (b) all economic decisions are taken by private entrepreneurs.
 - (c) economic decisions are partly taken by the state and partly by the private entrepreneurs.
 - (d) none of the above.
27. The central problem in economics is that of
- (a) comparing the success of command versus market economies.
 - (b) guaranteeing that production occurs in the most efficient manner.
 - (c) guaranteeing a minimum level of income for every citizen.
 - (d) allocating scarce resources in such a manner that society's unlimited needs or wants are satisfied in the best possible manner.
28. Capital intensive technique would get chosen in a
- (a) labour surplus economy where the relative price of capital is lower.
 - (b) capital surplus economy where the relative price of capital is lower.
 - (c) developed economy where technology is better.
 - (d) developing economy where technology is poor.

29. Which of the following is not one of the four central questions that the study of economics is supposed to answer?
- (a) Who produces what?
 - (b) When are goods produced?
 - (c) Who consumes what?
 - (d) How are goods produced?
30. Larger production of ____ goods would lead to higher production in future.
- (a) consumer goods
 - (b) capital goods
 - (c) agricultural goods
 - (d) public goods
31. The economic system in which all the means of production are owned and controlled by private individuals for profit.
- (a) Socialism
 - (b) Capitalism
 - (c) Mixed economy
 - (d) Communism
32. Macro Economics is the study of _____.
- (a) all aspects of scarcity.
 - (b) the national economy and the global economy as a whole.
 - (c) big businesses.
 - (d) the decisions of individual businesses and people.
33. Freedom of choice is the advantage of -
- (a) Socialism
 - (b) Capitalism
 - (c) Communism
 - (d) None of the above
34. Exploitation and inequality are minimal under:
- (a) Socialism
 - (b) Capitalism

- (c) *Mixed economy*
(d) *None of the above*
35. *Administered prices refer to:*
(a) *Prices determined by forces of demand and supply*
(b) *Prices determined by sellers in the market*
(c) *Prices determined by an external authority which is usually the government*
(d) *None of the above*
36. *In Economics, the central economic problem means:*
(a) *Output is restricted to the limited availability of resources*
(b) *Consumer do not have as much money as they would wish*
(c) *There will always be certain level of unemployment*
(d) *Resources are not always allocated in an optimum way*
37. *Scarcity definition of Economics is given by-*
(a) *Alfred Marshall*
(b) *Samuelson*
(c) *Robinson*
(d) *Adam Smith*
38. *The definition "Science which deals with wealth of Nation" was given by:*
(a) *Alfred Marshall*
(b) *A C Pigou*
(c) *Adam Smith*
(d) *J B Say*
39. *Which of the following is not one of the features of capitalist economy?*
(a) *Right of private property*
(b) *Freedom of choice by the consumers*
(c) *No profit, No Loss motive*
(d) *Competition*
40. *There is need of economic study, because –*
(a) *The resources are limited*
(b) *The wants are unlimited*

- (c) *The resources are unlimited*
- (d) *Both a and b*
41. *The benefit of economic study is –*
- (a) *It ensure that all problems will be appropriately tackled*
- (b) *It helps in identifying problems*
- (c) *It enable to examine a problem in its right perspective*
- (d) *It gives exact solutions to every problem*
42. *The managerial economics –*
- (a) *Is Applied Economics that fills the gap between economic theory and business practice*
- (b) *Is just a theory concept*
- (c) *Trains managers how to behave in recession*
- (d) *Provides the tools which explain various concepts*
43. *Which of the following statements is correct?*
- (a) *Micro economics is important for study of a particular household and a particular firm*
- (b) *Macro economics is important for study of economic conditions of a country*
- (c) *None of the above*
- (d) *Both a and b*
44. *Mr. Satish hired a business consultant to guide him for growth of his business. The consultant visited his factory and suggested some changes with respect to staff appointment, loan availability and so on. Which approach is that consultant using?*
- (a) *Micro economics*
- (b) *Macro economics*
- (c) *None of the above*
- (d) *Both a and b*
45. *Profit motive is a merit of*
- (a) *Socialism*
- (b) *Capitalism*
- (c) *Mixed economy*
- (d) *None of the above*

46. _____ is also called as command economy
- (a) Socialist
(b) Capitalist
(c) Mixed economy
(d) None of the above
47. Which of the following statements is/are correct regarding business economics?
- (a) Business economics attempts to indicate how business policies are firmly rooted in economic principles.
(b) Business economics uses micro economic analysis of the business unit and macro economic analysis of business environment.
(c) Business economics takes a pragmatic approach towards facilitating an integration between economic theory and business practices.
(d) All the above.
48. Unlimited ends and limited means together present the problem of _____.
- (a) Scarcity of resources
(b) Choice
(c) Distribution
(d) None of the above

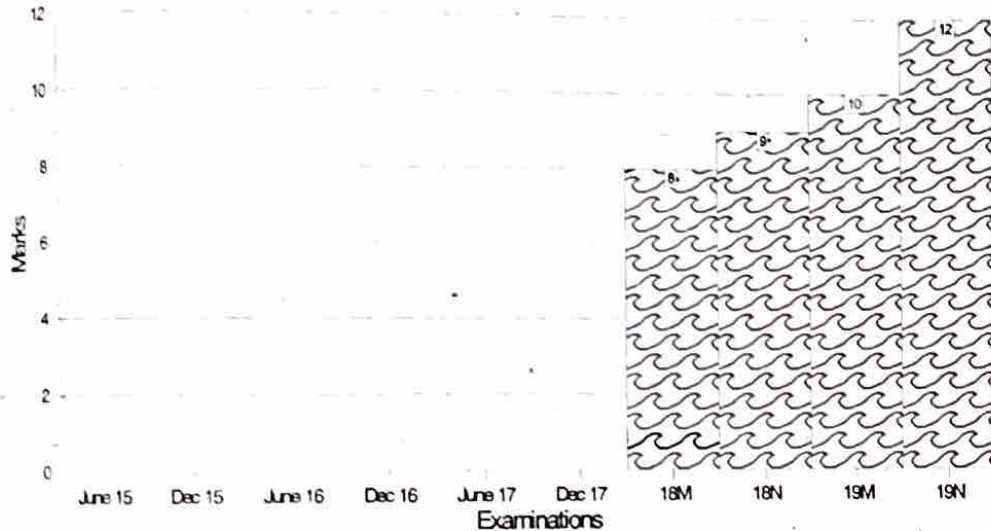
ANSWERS

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

Marks of Objective, Short Notes, Distinguish Between, Descriptive & Practical Questions

Legend

Objective Short Notes Distinguish Descriptive Practical



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PAST YEAR QUESTIONS AND ANSWERS

2018 - MAY

- [1] Rampant unemployment is found in:
 (a) Boom (b) Recovery
 (c) Contraction (d) Depression (1 mark)
Answer:
 (d) Because very much unemployment is seen in depression.
- [2] According to which economist trade cycle is a purely monetary for phenomenon
 (a) Schumpeter (b) Pigou
 (c) Hawtrey (d) Marshall (1 mark)
Answer:
 (c) 'Trade cycle is purely Monetary phenomenon' is said by one and only Hawtrey
- [3] Greatest depression suffered by economy in which year.
 (a) 1924 (b) 1930
 (c) 2008 (d) 2009 (1 mark)
Answer
 (b) 1930 is a year in which greatest depression suffered by economy
- [4] Last stage of recession is called:
 (a) Depression (b) Recovery
 (c) Slowdown (d) All of these. (1 mark)
Answer:
 (a) Depression is the last stage of recession and not slowdown and recovery

- [5] In the long run, a reduction in labour supply would cause output to _____ and the aggregate price level to _____.
- (a) fall; rise (b) fall, fall
(c) rise, fall (d) rise, rise. (1 mark)

Answer:

(a) If firm in long run, reduce supply of labour then it will cause fall in output whereas rise in aggregate price.

- [6] Which of the following macro economic variables would you include in an index of leading economic indicators?
- (a) Employment (b) Inflation
(c) Real interest rates (d) Presidential investment (1 mark)

Answer:

(d) The variables that change before the real output changes are called 'leading indicators'. They often change prior to large economic adjustment. It will include residential investment as one of its variables.

- [7] Industries that are extremely sensitive to the business cycle are the
- (a) durable goods and service sectors
(b) non durable goods and service sectors
(c) capital goods and non-durable goods sectors
(d) capital goods and durable goods sectors (1 mark)

Answer:

(d) Capital goods and durable goods both are of same nature i.e. long term period. These both goods are extremely sensitive to the business cycle. Without these business can not go smooth by.

- [8] An economic variable that moves in the opposite direction as aggregate economic activity down in expansions, up in contractions is called.
- (a) procyclical (b) counter cyclical
(c) a cyclical (d) a leading variable (1 mark)

Answer:

(b) An economic variable that moves in the opposite direction as aggregate economic activity (down in expansion and up in contraction) is called counter cyclical

2018 - NOVEMBER

- [9] How many phases are their in business cycle?

- (a) Four
(b) Five
(c) One
(d) Many (1 mark)

Answer:

(a) Business cycle has 4 Phases; expansion, peak contraction, trough.

- [10] The world economy suffered the longest, deepest and most widespread depression of the 20th century during?

- (a) 1934
(b) 1928
(c) 1930
(d) 1932 (1 mark)

Answer:

(c) The world economy suffered most widespread depression of the 20th Century during 1930s. It started in US.

- [11] Business cycle is contagious and _____ in character?

- (a) Local
(b) Regional
(c) National
(d) International (1 mark)

Answer:

(d) Business cycle is International in character as it effects all over the world.

- [12] Which External Factor affect the business cycle?

- (a) Population growth
(b) Variation in government spending
(c) Money supply
(d) Macro economic policies (1 mark)

Answer:

(a) Population growth is the factor which affects business cycle.

[13] Which internal factor affect the Business cycle?

- (a) Fluctuations in investment
- (b) Natural factors
- (c) Technology shocks
- (d) Population growth

(1 mark)

Answer:

(a) Fluctuations in Investment is the Internal factor which affect business cycle.

[14] Whose statement out of these is false?

- (a) Hawtrey – “Trade cycle is purely Monetary phenomena”
- (b) Keynes – “Fluctuations in aggregate Demand”
- (c) Pigou – “Fluctuations in investment”
- (d) Schumpeter – “Innovations”

(1 mark)

Answer:

(c) According to Pigou, modern business activities are based on anticipation of business community and are affected by waves of optimism or pessimism.

[15] When once peak is reached, increase in demand is halted, then _____ phase begins?

- (a) Trough
- (b) Contraction
- (c) Expansion
- (d) Trend

(1 mark)

Answer:

(b) Once peak is reached, increase in demand is halted and start decreasing in certain sectors and therefore, phase of contraction begins.

[16] Fashion Retailer is business of?

- (a) Cyclical business
- (b) Sun rise business
- (c) Sluggish business
- (d) None of these

(1 mark)

Answer:

(a) Business whose fortunes are closely by related to the rates of economic growth are referred to as cyclical business.

[17] Features of business cycles include?

- (a) Discuss periodically
- (b) Have four different phases
- (c) Originate in free Market Economy
- (d) All of the above.

(1 mark)

Answer:

(d) Feature of business cycle are:

1. It occurs periodically although they do not exhibit same regularity
2. They have four distinction phases.
3. It occurs in free market economy.
4. It is pervasive in nature

Therefore, (d) is the right option all of the above.

2019 - MAY

[18] Which of the following is true about leading indicators?

- (a) Measurable economic factors
- (b) Changes after real output
- (c) Both (a) and (b)
- (d) None

(1 mark)

Answer :

(a) A leading indicator is a measurable economic factor that changes before the economy starts following a particular trend/pattern.

[19] The internal causes of business cycle is

- (a) Fluctuation in effective demand
- (b) Technology shocks
- (c) Both (a) and (b)
- (d) None

(1 mark)

Answer :

(a) Business Cycle is the downward and upward movement of Gross Domestic Product (GDP) around its long term growth trend. The internal causes of such movement includes:

- (i) Fluctuations in effective demand
- (ii) Fluctuations in investment
- (iii) Variation in government spending
- (iv) Macro economic policies
- (v) Money supply
- (vi) Psychological factors

The external causes are:

- (i) Post war reconstruction
- (ii) Technology shocks
- (iii) Natural factors
- (iv) Population growth.

[20] Economics activities will be declining in the phase of _____

- (a) Expansion
- (b) Depression
- (c) Contraction
- (d) Peak

(1 mark)

Answer :

(c) An expansion is characterised by increasing employment, economic growth and upward pressure on prices. A peak is the highest point when the economy is at maximum allowable output, full employment.

Contraction is characterised where growth slows, economic activities declines pricing pressure subside.

Depression is the point where the economy has hit a bottom from which next phase of expansion and contraction will emerge.

[21] Business Cycle occurs

- (a) Periodically
- (b) In different phases
- (c) Both (a) and (b)
- (d) None of the above

(1 mark)

Answer :

(c) Business cycle have certain features such as:

- It occurs periodically although they do not exhibit the same regularity. Its duration and intensity varies.

- It have distinct phases of expansion, peak, contraction and trough with indefinite length.

Thus, **option (c)** is correct.

[22] According to some economists, _____ are the prime causes of business cycles.

- (a) Fluctuations in effective demand
- (b) Fluctuations in investments
- (c) Macroeconomic policies
- (d) All of the above

(1 mark)

Answer :

(d) Business cycles occur due to various causes which can be both external or internal. These includes:

- Fluctuations in effective demand
- Fluctuations in investment
- Variation in Government spending
- Macro economic policies
- Money supply.

Hence, **option (d)** is correct.

[23] Which is not related to great depression of 1930?

- (a) It started in USA
- (b) John Maynard Keynes regarded lower aggregate expenditure as the cause
- (c) Excess Money Supply
- (d) Both (a) and (b)

(1 mark)

Answer :

(c) The Great Depression of 1930 was started in US and became worldwide. The British economist John Maynard Keynes regarded lower aggregate expenditures in the economy to be a cause of massive decline in employment and income. The economies of the world came out of recession and entered the expansion phase due to increase in money supply, international inflow of gold, rise in government spending etc.

Thus, **option (c)** is not related to great depression of 1930.

[24] Which of the following is not the phase of business cycles?

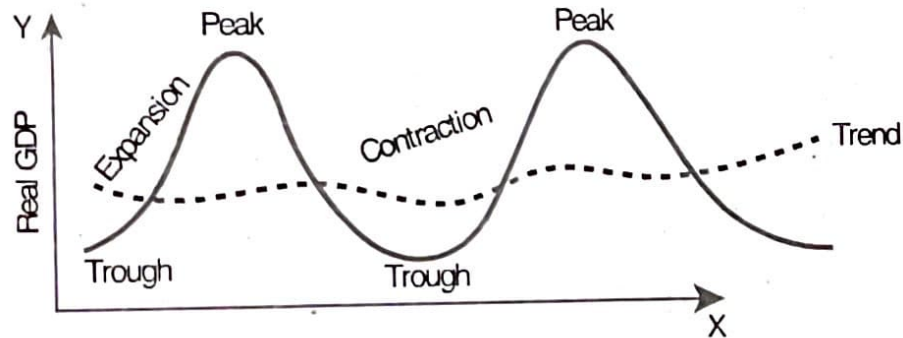
- (a) Prosperity
- (b) Upswing
- (c) Reconstruction
- (d) Depression

(1 mark)

Answer :

(c) A typical business cycle has 4 distinct phases

1. Expansion/upswing
2. Peak/Prosperity
3. Contraction/Downswing/Recession
4. Trough/Depression



[25] Boom and depression in business cycle are

- (a) Turning points
- (b) Equilibrium points
- (c) Both (a) and (b)
- (d) None of the above

(1 mark)

Answer :

(a) Boom and depression are the turning points. Boom or Peak is the highest point where economic growth stabilises for short time and then moves in reverse direction and same is with trough or depression.

[26] Which is not the characteristic feature of expansion phase in business cycle ?

- (a) Increase in national output
- (b) Unemployment
- (c) Rise in price and costs
- (d) Boost in business confidence

(1 mark)

Answer: (b)

(b) Expansion phase in business cycle is characterised by increase in national output, more employment opportunities, sales, profits, rising stock prices. Prices and costs also tend to rise faster. There is an increase in prosperity, high standard of living, business confidence. The growth rate slowly reaches to the peak. Thus, unemployment is not the characteristic feature of this phase

[27] "Modern business activities are based on the anticipations of business community and are affected by waves of optimism or pessimism, according to _____

- (a) Pigou
- (b) Keynes
- (c) Hawtrey
- (d) Schumpeter

(1 mark)

Answer:

(a) According to Pigou, "Modern business activities are based on the anticipations of business community and are affected by waves of optimistic or pessimism".

2019 - NOVEMBER

[28] Find the odd man out:

Which of these is not a coincident factor?

- (a) Retail sale
- (b) Industrial production
- (c) Inflation
- (d) New orders for plant & machine

Answer:

(d) Coincident indicator are also called concurrent indicators, coincide or occur simultaneously with the business - cycle movements.

For Example: (GDP) Gross domestic product

- Industrial production
- Inflation
- Personal income
- Retail sale
- Financial market trends.

But new orders for plant and machine is a leading indicator.

[29] Excess capacity in capital industries leads to

- (a) Peak
- (b) Trough
- (c) Expansion
- (d) Recovery

Answer:

(b) Excess capacity in capital industries leads to trough a typical feature of depression is the fall in the interest rate. With lower interest rate, the demand for holding liquid money (i.e. in cash) increases. Industries, especially capital and consumer durable goods industry, suffer from excess capacity.

[30] Here, growth moves in reverse direction

- (a) Peak
- (b) Expansion
- (c) Contraction
- (d) Recovery

Answer:

(a) The term peak refers to the top or the highest point of the business cycle. In the later stages of expansion, inputs are difficult to find as they are short of their demand and therefore input prices increases. This is the end of expansion and it occurs when economic growth has reached a point where it will stabilize for a short time and then move in the reverse direction.

[31] Frictional unemployment exists in

- (a) Peak
- (b) Contraction
- (c) Expansion
- (d) Recovery

Answer:

(c) Frictional unemployment exists in expansion phase i.e., there is increase in national output there is involuntary unemployment is almost zero and whatever unemployment is there is either frictional (i.e. due to change of jobs, or suspend word due to strikes or due to imperfect mobility of labour etc.

[32] In which stage maximum production occurs.

- (a) Peak
- (b) Expansion
- (c) Boom or Expansion
- (d) Tough or boom

Answer:

(a) The term peak refers to the top or highest point of the business cycle. Here in this stage maximum production occurs. Inputs are difficult to find as they are short of their demand and therefore input prices increases. This stage is the end of expansion and it occurs when economic growth has reached a point where it will stabilize for short period of time.

[33] Unemployment is caused due to structural changes is known as?

- (a) Ethnic unemployment
- (b) Involuntary unemployment
- (c) Structural
- (d) None

Answer:

(c) Unemployment is caused due to structural changes is known as structural unemployment. It is almost zero and whatever unemployment is there is either fictional (i.e. due to change of jobs, strike) or structural unemployment caused due to structural changes in the economy. And all these types of unemployment occur in expansion phase.

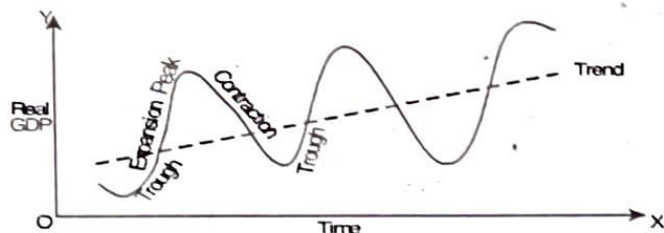
[34] At trough production is?

- (a) High
- (b) Low
- (c) Negative
- (d) None

Answer:

(b) At trough production is low. It is a situation where there is lower rate of interest people's demand for holding liquid money (i.e. in cash) increases.

Despite lower interest rates, the demand for credit declines because investors confidence has fallen. At the depth of depression all economic activities touch the bottom and the phase of trough is reached. It is a very agonizing period causing lots of distress for all.



[35] Stage at which actual demand is stagnated?

- (a) Peak
- (b) Boom or Peak
- (c) Contraction
- (d) Trough

Answer:

(b) Peak is a stage at which actual demand is stagnated. As peak refers to the top or highest point of the business cycle. Output prices also rise rapidly leading to increased cost of living and greater strain on fixed income earners. Consumers begin to review their consumption expenditure on housing, durable goods etc. Actual demand stagnates. This is the end of expansion and it occurs when economic growth has reached a point where it will stabilize for a short time and then move in the reverse direction.

[36] A change of reaction producer cancel their order in which, stage?

- (a) Peak
- (b) Contraction
- (c) Trough
- (d) None

Answer:

(b) Contraction is a stage where economy cannot endlessly by grow. During contraction, there is fall in the levels of investment and employment. Producers being aware of the fact that they have indulged in excessive investment and over production, respond by holding back future investment plans, cancellation and stoppage of orders for equipments and all types of inputs including labour.

[37] Which of the following is true:

- (a) Depression is severe form trough
- (b) Depreciation causes fall in interest rate.
- (c) Both (a) and (b)
- (d) None

Answer:

(a) Depression is the severe form of trough. During this phase of business cycle growth rate becomes negative and the level of national income and expenditure declines rapidly. Demand for products and services decreases, prices are at their lowest and decline rapidly forcing firms to shutdown several production facilities decreases, prices are at their lowest.

It is a very agonizing period causing lots of distress for all.

[38] China's recent slowdown caused

- (a) Cycle of decline and panic across the world.
- (b) Countries across the globe were able to insulate themselves from the crisis.
- (c) Stock Markets in the emerging economics largely remained unaffected
- (d) Old technology fuelled the economic decline.

Answer:

(a) A decline in China's economy had caused adverse affect on other countries. It causes decline and panic across the world.

Business cycles are contagious and are international in character. They begin in one country and mostly spread to other countries through trade relations. For example, the great depression of 1930s in the USA and Great Britain affected almost all the countries, especially the capitalist countries of the world.

[39] What of the following are not external causes?

- (a) Past war reconstruction
- (b) Population growth
- (c) Technology factors
- (d) Fluctuation in effective demand

Answer:

(d) External cause or exogenous factors which may lead to boom or bust are :

- (a) Wars
- (b) Post war Reconstruction
- (c) Technology shocks
- (d) Natural shocks
- (e) Population growth

∴ Illustration in effective demand is a internal cause.

TEST YOUR KNOWLEDGE

Multiple Choice Questions

1. *The term business cycle refers to*
 - (a) *the ups and downs in production of commodities*
 - (b) *the fluctuating levels of economic activity over a period of time*
 - (c) *decline in economic activities over prolonged period of time*
 - (d) *increasing unemployment rate and diminishing rate of savings*
2. *A significant decline in general economic activity extending over a period of time is*
 - (a) *business cycle*
 - (b) *contraction phase*
 - (c) *recession*
 - (d) *recovery*
3. *The trough of a business cycle occurs when _____ hits its lowest point.*
 - (a) *inflation in the economy*
 - (b) *the money supply*
 - (c) *aggregate economic activity*
 - (d) *the unemployment rate*
4. *The lowest point in the business cycle is referred to as the*
 - (a) *Expansion.*
 - (b) *Boom.*
 - (c) *Peak.*
 - (d) *Trough.*
5. *A leading indicator is*
 - (a) *a variable that tends to move along with the level of economic activity*
 - (b) *a variable that tends to move in advance of aggregate economic activity*
 - (c) *a variable that tends to move consequent on the level of aggregate economic activity*
 - (d) *None of the above*

6. *A variable that tends to move later than aggregate economic activity is called*
- (a) *a leading variable.*
 - (b) *a coincident variable.*
 - (c) *a lagging variable.*
 - (d) *a cyclical variable.*
7. *Industries that are extremely sensitive to the business cycle are the*
- (a) *Durable goods and service sectors.*
 - (b) *Non-durable goods and service sectors.*
 - (c) *Capital goods and non-durable goods sectors.*
 - (d) *Capital goods and durable goods sectors.*
8. *A decrease in government spending would cause*
- (a) *the aggregate demand curve to shift to the right.*
 - (b) *the aggregate demand curve to shift to the left.*
 - (c) *a movement down and to the right along the aggregate demand curve.*
 - (d) *a movement up and to the left along the aggregate demand curve.*
9. *Which of the following does not occur during an expansion?*
- (a) *Consumer purchases of all types of goods tend to increase.*
 - (b) *Employment increases as demand for labour rises.*
 - (c) *Business profits and business confidence tend to increase*
 - (d) *None of the above.*
10. *Which of the following best describes a typical business cycle?*
- (a) *Economic expansions are followed by economic contractions.*
 - (b) *Inflation is followed by rising income and unemployment.*
 - (c) *Economic expansions are followed by economic growth and development.*
 - (d) *Stagflation is followed by inflationary economic growth.*
11. *During recession, the unemployment rate _____ and output _____.*
- (a) *Rises; falls*
 - (b) *Rises; rises*

- (c) *Falls; rises*
 - (d) *Falls; falls*
12. *The four phases of the business cycle are*
- (a) *expansion, peak, contraction and trough*
 - (b) *contraction, expansion, trough and boom*
 - (c) *expansion contraction, peak, and trough*
 - (d) *peak, depression, bust, and boom*
13. *Leading economic indicators*
- (a) *are used to forecast probable shifts in economic policies*
 - (b) *are generally used to forecast economic fluctuations*
 - (c) *are indicators of stock prices existing in an economy*
 - (d) *are indicators of probable recession and depression*
14. *When aggregate economic activity is declining, the economy is said to be in*
- (a) *Contraction.*
 - (b) *an expansion.*
 - (c) *a trough.*
 - (d) *a turning point.*
15. *Peaks and troughs of the business cycle are known collectively as*
- (a) *Volatility.*
 - (b) *Turning points.*
 - (c) *Equilibrium points.*
 - (d) *Real business cycle events.*
16. *The most probable outcome of an increase in the money supply is*
- (a) *interest rates to rise, investment spending to rise, and aggregate demand to rise*
 - (b) *interest rates to rise, investment spending to fall, and aggregate demand to fall*
 - (c) *interest rates to fall, investment spending to rise, and aggregate demand to rise*
 - (d) *interest rates to fall, investment spending to fall, and aggregate demand to fall*

17. Which of the following is not a characteristic of business cycles?
- (a) Business cycles have serious consequences on the well-being of the society.
 - (b) Business cycles occur periodically, although they do not exhibit the same regularity.
 - (c) Business cycles have uniform characteristics and causes.
 - (d) Business cycles are contagious and unpredictable.
18. Economic recession shares all of these characteristics except.
- (a) Fall in the levels of investment, employment
 - (b) Incomes of wage and interest earners gradually decline resulting in decreased demand for goods and services
 - (c) Investor confidence is adversely affected and new investments may not be forthcoming
 - (d) Increase in the price of inputs due to increased demand for inputs
19. The different phases of a business cycle
- (a) do not have the same length and severity
 - (b) expansion phase always last more than ten years
 - (c) last many years and are difficult to get over in short periods
 - (d) none of the above
20. Which of the following is not an example of coincident indicator?
- (a) Industrial production
 - (b) inflation
 - (c) Retail sales
 - (d) New orders for plant and equipment
21. According to _____ trade cycles occur due to onset of innovations.
- (a) Hawtrey
 - (b) Adam Smith
 - (c) J M Keynes
 - (d) Schumpeter

22. *Economic indicators are –*
- (a) *A one stroke solution to check the phase of economy*
 - (b) *Indicators showing the movement of economy*
 - (c) *Some activities which predict the direction of economy*
 - (d) *Just an illusion*
23. *Which economic indicator is required to predict the turning point of business cycle?*
- (a) *Leading indicator*
 - (b) *Lagging indicator*
 - (c) *Coincident*
 - (d) *All of the above*
24. *Business cycle generally originates in free market economies, what is a free market economy?*
- (a) *The economy where government is in possession of major assets*
 - (b) *The economy where private firms control major assets*
 - (c) *The economy where decisions of productions are taken by public sector undertakings*
 - (d) *The economy where price is controlled by government.*
25. *Which of the following statements is correct?*
- (a) *The business cycle largely affects the agricultural sector*
 - (b) *The business cycle largely affects small employees*
 - (c) *The business cycle generally affects all sectors of economy but business sector in particular.*
 - (d) *The business cycle affects low wages workers*
26. *According to Keynes, fluctuations in Economic activities are due to-.*
- (a) *Fluctuation in aggregate effective demand.*
 - (b) *Innovations*
 - (c) *Changes in money supply*
 - (d) *Fluctuation in agricultural output*

27. Which of the following is the cause of business cycles?
- (a) Fluctuations in aggregate effective demand
 - (b) Fluctuations in investments
 - (c) Fluctuations in government spending
 - (d) All of the above
28. Economists use changes in a variety of activities to measure the business cycle and to predict where the economy is headed towards which are called _____.
- (a) Signals
 - (b) Indicators
 - (c) Barometer
 - (d) Clues
29. If the growth rate of population is higher than the rate of economic growth, there will be ____ in the economy.
- (a) more savings
 - (b) no effect on savings
 - (c) lesser savings
 - (d) none of these
30. The cobweb theory was propounded by _____
- (a) Hawtrey
 - (b) Adam Smith
 - (c) J M Keynes
 - (d) Nicholas Kaldor

ANSWERS

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

- ◆ Net National Product at Factor Cost (NNP_{FC}) or National Income
 $NNP_{FC} = \text{National Income} = \text{FID (factor income earned in domestic territory)} + \text{NFIA}$.
- ◆ Personal income is a measure of the actual current income receipt of persons from all sources. Disposable Personal Income (DI) that is available for their consumption or savings $DI = PI - \text{Personal Income Taxes}$
- ◆ Circular flow of income refers to the continuous interlinked phases in circulation of production, income generation and expenditure involving different sectors of the economy.
- ◆ Product Method or Value Added Method is also called Industrial Origin Method or Net Output Method and entails the consolidation of the production of each industry less intermediate purchases from all other industries.
- ◆ Under income method, national income is calculated by summation of factor incomes paid out by all production units within the domestic territory of a country as wages and salaries, rent, interest, and profit. Transfer incomes are excluded.
- ◆ Under the expenditure approach, also called Income Disposal Approach, national income is the aggregate final expenditure in an economy during an accounting year composed of final consumption expenditure (private & government), gross domestic capital formation and net exports.

TEST YOUR KNOWLEDGE

Multiple Choice Type Questions

1. The concept of 'resident unit' involved in the definition of GDP denotes
 - (a) A business enterprise which belongs to a citizen of India with production units solely situated in India
 - (b) The unit having predominant economic interest in the economic territory of the country for one year or more irrespective of the nationality or legal status
 - (c) A citizen household which had been living in India during the accounting year and one whose economic interests are solely in India
 - (d) Households and business enterprises composed of citizens of India alone living in India during the accounting year
2. Read the following statements and answer the following question.
 1. Intermediate consumption consists of the value of the goods and services consumed as inputs by a process of production,

- II. *Intermediate consumption excludes fixed assets whose consumption is recorded as consumption of fixed capital.*
- (a) *Only I is true*
(b) *Both I and II are true*
(c) *Only II is true*
(d) *Neither I nor II is true*
3. *Gross Domestic Product (GDP) of any nation*
- (a) *excludes capital consumption and intermediate consumption*
(b) *is inclusive of capital consumption or depreciation*
(c) *is inclusive of indirect taxes but excludes subsidies*
(d) *None of the above*
4. *Read the following statements*
- I. *'Value added' refers to the difference between value of output and purchase of intermediate goods.*
- II. *'Value added' represents the contribution of labour and capital to the production process.*
- (a) *Statements I and II are incorrect*
(b) *Statements I and II are correct*
(c) *Statement I is correct and II is incorrect*
(d) *Statement II is correct and I is incorrect*
5. *Non-economic activities are*
- (a) *those activities whose value is excluded from national income calculation as it will involve double counting*
(b) *those which produce goods and services, but since these are not exchanged in a market transaction they do not command any market value*
(c) *those which do not involve production of goods and services as they are meant to provide hobbies and leisure time activities*
(d) *those which result in production for self consumption and therefore not included in national income calculation*
6. *Which of the following does not enter into the calculation of national income?*
- (a) *Exchange of previously produced goods*

- (b) Exchange of second hand goods
- (c) Exchange of stocks and bonds
- (d) All the above
7. Which of the following enters into the calculation of national income?
- (a) The value of the services that accompany the sale
- (b) Additions to inventory stocks of final goods and materials
- (c) Stocks and bonds sold during the current year
- (d) (a) and (b) above
8. Gross National Product at market prices GNP_{MP} is
- (a) $GDP_{MP} + \text{Net Factor Income from Abroad}$
- (b) $GDP_{MP} - \text{Net Factor Income from Abroad}$
- (c) $GDP_{MP} - \text{Depreciation}$
- (d) $GDP_{MP} + \text{Net Indirect Taxes}$
9. Choose the correct statement
- (a) GNP includes earnings of Indian corporations overseas and Indian residents working overseas; but GDP does not include these
- (b) $NNP_{FC} = \text{National Income} = \text{FID (factor income earned in domestic territory)} - \text{NFIA}$.
- (c) Capital goods and inventory investment are excluded from computation of GDP
- (d) $NDP_{MP} = GDP_{MP} + \text{Depreciation}$
10. The basis of distinction between market price and factor cost is
- (a) net factor income from abroad
- (b) net indirect taxes (i.e., Indirect taxes - Subsidies)
- (c) net indirect taxes (i.e., Indirect taxes + Subsidies)
- (d) depreciation (consumption of fixed capital)
11. If net factor income from abroad is positive, then
- (a) national income will be greater than domestic factor incomes.
- (b) national income will be less than domestic factor incomes.
- (c) net exports will be negative

- (d) *domestic factor incomes will be greater than national income*
12. *The GDP per capita is*
- (a) *a measure of a country's economic output per person*
 - (b) *actual current income receipts of persons*
 - (c) *national income divided by population*
 - (d) *(a)and (c) above*
13. *Which of the following is an example of transfer payment?*
- (a) *Old age pensions and family pensions*
 - (b) *Scholarships given to deserving diligent students.*
 - (c) *Compensation given for loss of property due to floods*
 - (d) *All the above*
14. *Mixed income of the self -employed means*
- (a) *net profits received by self -employed people*
 - (b) *outside wages received by self- employed people*
 - (c) *combined factor payments which are not distinguishable,*
 - (d) *wages due to non- economic activities*
15. *Which of the following is added to national income while calculating personal income?*
- (a) *Transfer payments to individuals*
 - (b) *Undistributed profits of corporate*
 - (c) *Transfer payments made to foreigners*
 - (d) *Mixed income of self employed*

ANSWERS

1.	(b)	2.	(b)	3.	(b)	4.	(b)	5.	(b)
6.	(d)	7.	(d)	8.	(a)	9.	(a)	10.	(b)
11.	(a)	12.	(d)	13.	(d)	14.	(c)	15.	(a)

- ◆ Taxes act as leakage from the economic system. Thus, tax multiplier when, $T = \bar{T} - tY$, is $\frac{1}{1-b(1-t)} < \frac{1}{(1-b)}$
- ◆ The four sector model includes all four macroeconomic sectors, the household sector, the business sector, the government sector, and the foreign sector and in equilibrium, we have $Y = C + I + G + (X-M)$
- ◆ The domestic economy trades goods with the foreign sector through exports and imports.
- ◆ Imports are subtracted from exports to derive net exports, which is the foreign sector's contribution to aggregate expenditures. If net exports are positive ($X > M$), there is net injection and national income increases. Conversely, if $X < M$, there is net withdrawal and national income decreases.
- ◆ The autonomous expenditure multiplier in a four sector model includes the effects of foreign transactions and is stated as $\frac{1}{(1-b+m)}$ against $\frac{1}{(1-b)}$ in a closed economy.
- ◆ The greater the value of m , the lower will be the autonomous expenditure multiplier.
- ◆ An increase in the demand for exports of a country is an increase in aggregate demand for domestically produced output and will increase equilibrium income just as would an increase in government spending or an autonomous increase in investment.

TEST YOUR KNOWLEDGE

Multiple Choice Questions

1. In the Keynesian model, equilibrium aggregate output is determined by
 - (a) aggregate demand
 - (b) consumption function
 - (c) the national demand for labor
 - (d) the price level
2. Keynes believed that an economy may attain equilibrium level of output
 - (a) only at the full-employment level of output
 - (b) below the full-employment level of output
 - (c) only if prices were inflexible
 - (d) a) and c) above

3. According to Keynes, consumption expenditure is determined by
- (a) the level of interest rates
 - (b) extent of government taxes and subsidies
 - (c) disposable income
 - (d) autonomous investment expenditure
4. The marginal propensity to consume (MPC) can be defined as
- (a) a change in spending due to a change in income
 - (b) a change in income that is saved after consumption
 - (c) part of income that is spent on consumption.
 - (d) part of income that is not saved.
5. If the consumption function is expressed as $C = a + bY$ then b represents
- (a) autonomous consumer expenditure when income is zero
 - (b) the marginal propensity to consume.
 - (c) the expenditure multiplier when consumption is increased
 - (d) part of disposable income
6. If the consumption function is expressed as $C = a + bY$ then a represents
- (a) autonomous consumer expenditure.
 - (b) the marginal propensity to consume.
 - (c) the consumption income relationship
 - (d) Non- linear consumption function
7. If the consumption function is $C = 20 + 0.5Y_d$, then an increase in disposable income by ₹ 100 will result in an increase in consumer expenditure by ₹-----
- (a) 25
 - (b) 70
 - (c) 50
 - (d) 100
8. If the autonomous consumption equals ₹ 2,000 and the marginal propensity to consume equals 0.8. If disposable income equals ₹ 10,000, then total consumption will be ₹ ____
- (a) 8,000

- (b) 6,000
 (c) 10,000
 (d) None of the above
9. In the Keynesian cross diagram, the point at which the aggregate demand function crosses the 45-degree line indicates the
- (a) level of full employment income.
 (b) less than full employment level of income.
 (c) equilibrium level of income which may or may not be full employment level of income
 (d) autonomous level of income which may not be full employment level of income
10. In a closed economy, aggregate demand is the sum of
- (a) consumer expenditure, demand for exports and government spending.
 (b) consumer expenditure, planned investment spending and government spending.
 (c) consumer expenditure, actual investment spending, government spending and net exports.
 (d) consumer expenditure, planned investment spending, government spending, and net exports.
11. Under equation $C = a + by$, $b = 0.8$, what is the value of 2 sector expenditure multiplier?
- (a) 4
 (b) 2
 (c) 5
 (d) 1

ANSWERS

1.	(a)	2.	(b)	3.	(c)	4.	(a)	5.	(b)	6.	(a)
7.	(c)	8.	(c)	9.	(c)	10.	(b)	11.	(c)		

- ◆ The central government is entrusted with the responsibilities of provision of nationally important areas like defence, foreign affairs, foreign trade and exchange management, money and banking, cross-state transport and communication.
- ◆ The state governments are entrusted with the responsibility of facilitating agriculture and industry, providing social sector services such as health and education, police protection, state roads and infrastructure.
- ◆ The local self governments such as municipalities and panchayats are entrusted with the responsibility of providing public utility services such as water supply and sanitation, local roads, electricity etc. For items that fall in the concurrent list, both central and state governments are responsible for providing services.

TEST YOUR KNOWLEDGE

Multiple Choice Type Questions

1. *Redistribution policies are likely to have efficiency costs because*
 - (a) *They will reduce the efficiency of governments*
 - (b) *They may create disincentives to work and save*
 - (c) *Governments have to forego taxes*
 - (d) *They are likely to make the poor people dependent on the rich*
2. *Macroeconomic stabilization may be achieved through*
 - (a) *Free market economy*
 - (b) *Fiscal policy*
 - (c) *Monetary policy*
 - (d) *(b) and (c) above*
3. *Which of the following policies of the government fulfils the redistribution function*
 - (a) *Parking the army on the northern borders of the country*
 - (b) *Supply of food grains at subsidized prices to the poor people*
 - (c) *Controlling the supply of money through monetary policy*
 - (d) *All of the above*
4. *Choose the correct statement*
 - (a) *Fiscal policy involves the use of changes in taxation and government spending;*

while monetary policy involves the use of price and profit controls.

- (b) Fiscal policy involves the use of price and profit controls; while monetary policy involves the use of taxation and government spending.*
 - (c) Fiscal policy involves the use of changes in taxation and government spending; while monetary policy involves the use of changes in the supply of money and interest rates.*
 - (d) Fiscal policy involves the use of changes in the supply of money and interest rates; while monetary policy involves the use of changes in taxation and government spending.*
5. *The justification for government intervention is best described by*
- (a) The need to prevent recession and inflation in the economy*
 - (b) The need to modify the outcomes of private market actions*
 - (c) The need to bring in justice in distribution of income and wealth*
 - (d) All the above*
6. *Read the following statements:*
- 1. The market-generated allocation of resources is usually imperfect and leads to inefficient allocation of resources in the economy*
 - 2. Market failures can at all times be corrected through government intervention*
 - 3. Public goods will not be produced in sufficient quantities in a market economy*
- Of the three statements above:*
- (a) 1,2 and 3 are correct*
 - (b) 1 and 3 are correct*
 - (c) 2 and 3 are correct*
 - (d) 3 alone is correct*
7. *When a government offers unemployment benefits and also resorts to progressive taxation which function does it seem to fulfill?*
- (a) It is trying to establish stability in an economy*
 - (b) It is trying to redistribute income and wealth*
 - (c) It is trying to allocate resources to their most efficient use*
 - (d) It is creating a source of market failure*

8. Government of Emeline Land decides to provide most modern road infrastructure throughout the nation. This can be classified as
- (a) Distribution function
 - (b) Allocation function
 - (c) Stabilization function
 - (d) None of the above
9. Which function does the government perform when it provides transfer payments to offer support to the underprivileged
- (a) Allocation
 - (b) Efficiency
 - (c) Distribution
 - (d) None of the above
10. Which of the following is true in respect of centre and state government finances?
- (a) The centre can tax agricultural income and mineral rights
 - (b) Finance commission recommends distribution of taxes between the centre and states
 - (c) GST subsumes majority of direct taxes and a few indirect taxes
 - (d) IGST is collected by the state governments
11. GST compensation is given to
- (a) to the industries which have made losses due to the introduction of GST
 - (b) to compensate for the lower rates of GST on essential items
 - (c) to the states to compensate for the loss of revenue due to the introduction of GST
 - (d) to compensate for the loss of input tax credit in manufacturing
12. Which of the following is true in respect of the role of Finance Commissions in India?
- I. The distribution between the union and the states of the net proceeds of taxes
 - II. Allocation between the states of the respective shares of such proceeds.
 - III. Make Recommendations on integrated GST on inter-state movement of goods and services
 - IV. To recommend expenditure decentralization among different states

- (a) *I and II are correct*
 - (b) *II and III are correct*
 - (c) *I, II and III are correct*
 - (d) *All the above are correct*
13. *In a federal set up, the stabilization function can be effectively performed by*
- (a) *Respective state governments*
 - (b) *Ministry of taxes*
 - (c) *The government at the centre*
 - (d) *None of the above*
14. *Which of the following is concerned with division of economic responsibilities between the central and state Government of India?*
- (a) *NITI Aayog*
 - (b) *central bank*
 - (c) *Finance Commission*
 - (d) *Parliament*
15. *Fiscal Federalism refers to _____.*
- (a) *Organizing and implementing development plans*
 - (b) *Sharing of political power between centers and states*
 - (c) *The management of fiscal policy by a nation*
 - (d) *Division of economic functions and resources among different layers of the government*
16. *Which one of the following taxes is levied by the state government only?*
- (a) *Corporation tax*
 - (b) *Wealth tax*
 - (c) *Income tax*
 - (d) *None of the above*
17. *The percentage of share of states in central taxes for the period 2021-26 recommended by the Fifteenth Finance Commission is*
- (a) *38 percent*

- (b) 41 percent
- (c) 42 percent
- (d) The commission has not submitted its report
18. Which of the following is not a criterion for determining distribution of central taxes among states for 2021-26 period
- (a) Demographic performance
- (b) Forest and ecology
- (c) Infrastructure performance
- (d) Tax and fiscal efforts
19. As per the supreme court verdict in May 2022
- (a) The union has greater powers than the states for enacting GST laws
- (b) The union and state legislatures have "equal, simultaneous powers" to make laws on Goods and Services Tax
- (c) The union legislature's enactments will prevail in case of a conflict between those of union and states
- (d) The state legislatures can make rules only with the permission of central government
20. Providing social sector services such as health and education is
- (a) the responsibility of the central government
- (b) the responsibility of the respective state governments
- (c) the responsibility of local administrative bodies
- (d) none of the above

ANSWERS

1.	(b)	2.	(d)	3.	(b)	4.	(c)	5.	(d)	6.	(b)
7.	(b)	8.	(b)	9.	(c)	10.	(b)	11.	(c)	12.	(a)
13.	(c)	14.	(c)	15.	(d)	16.	(d)	17.	(b)	18.	(c)
19.	(b)	20.	(b)								

TEST YOUR KNOWLEDGE

Multiple Choice Questions

1. 'Market failure' is a situation which occurs when
 - (a) private goods are not sufficiently provided by the market
 - (b) public goods are not sufficiently provided by public sector
 - (c) The market fail to form or they allocate resources efficiently
 - (d) (b) and (c) above
2. Which of the following is an example of market failure?
 - (a) Prices of goods tend to rise because of shortages
 - (b) Merit goods are not sufficiently produced and supplied
 - (c) Prices fall leading to fall in profits and closure of firms
 - (d) None of the above
3. Which of the following is an outcome of market power?
 - (a) makes price equal to marginal cost and produce a positive external benefit on others
 - (b) can cause markets to be efficient due to reduction in costs
 - (c) makes the firms price makers and restrict output so as to make allocation inefficient
 - (d) (b) and(c) above
4. Markets do not exist
 - (a) for goods which have positive externalities
 - (b) for pure public goods
 - (c) for goods which have negative externalities
 - (d) none of the above
5. Which of the following is the right argument for provision of public good by government?
 - (a) Governments have huge resources at their disposal
 - (b) Public goods will never cause any type of externality
 - (c) Markets are unlikely to produce sufficient quantity of public goods

- (d) *Provision of public goods are very profitable for any government*
6. *Adequate amount of a pure public good will not be provided by the private market because of*
- (a) *the possibility of free riding*
 - (b) *the existence of very low prices and low profits*
 - (c) *governments would any way produce them, so there will be overproduction*
 - (d) *there are restrictions as well as taxes on production of public goods*
7. *The free rider problem arises because of*
- (a) *ability of participants to produce goods at zero marginal cost*
 - (b) *marginal benefit cannot be calculated due to externalities present*
 - (c) *the good or service is non excludable*
 - (d) *general poverty and unemployment of people*
8. *A chemical factory has full information regarding the risks of a product, but continues to sell it. This is possible because of*
- (a) *asymmetric information*
 - (b) *moral hazard*
 - (c) *free riding*
 - (d) *(a) and (c) above*
9. *If an individual tends to drive his car in a dangerously high speed because he has a comprehensive insurance cover, it is a case of*
- (a) *free riding*
 - (b) *moral hazard*
 - (c) *poor upbringing*
 - (d) *Inefficiency*
10. *Smoking in public is a case of*
- (a) *Negative consumption externality*
 - (b) *Negative production externality*
 - (c) *Internalising externality*
 - (d) *None of the above*

11. Read the following statements

- I The market-based approaches to control externalities operate through price mechanism
- II. When externalities are present, the welfare loss would be eliminated
- III. The key to internalizing an externality is to ensure that those who create the externalities include them while making decisions

Of the above statements

- (a) II and III are correct
 - (b) I only is correct
 - (c) II only is correct
 - (d) I and III are correct
12. Which of the following statements is false?
- (a) Tradable permits provide incentive to innovate and reduce negative externalities
 - (b) A subsidy on a good which has substantial positive externalities would reduce its cost and consequently its price would be lower
 - (c) Substantial negative externalities are involved in the consumption of merit goods.
 - (d) Merit goods are likely to be under-produced and under consumed through the market mechanism
13. Which one of the following would you suggest for reducing negative externality?
- (a) Production subsidies
 - (b) Excise duty
 - (c) Pigouvian taxes
 - (d) All of the above
14. A Pigouvian subsidy
- (a) cannot be present when externalities are present
 - (b) is a good solution for negative externality as prices will increase
 - (c) is not measurable in terms of money and therefore not practical
 - (d) may help production to be socially optimal when positive externalities are present

15. *If governments make it compulsory to avail insurance protection, it is because*
- (a) *Insurance companies need to be running profitably*
 - (b) *Insurance will generate moral hazard and adverse selection*
 - (c) *Insurance is a merit good and government wants people to consume it*
 - (d) *None of the above*
16. *The Competition Act, 2002 aims to -*
- (a) *protect monopoly positions of firms that have developed unique innovations*
 - (b) *to promote and sustain competition in markets*
 - (c) *to determine pricing under natural monopoly.*
 - (d) *None of the above*
17. *Rules regarding product labelling*
- (a) *Seeks to correct market failure due to externalities*
 - (b) *Is a method of solving the problem of public good*
 - (c) *May help solve market failure due to information failure*
 - (d) *Reduce the problem of monopolies in the product market*
18. *Identify the incorrect statement*
- (a) *A minimum support price for agricultural goods is a market intervention method to guarantee steady and assured incomes to farmers.*
 - (b) *An externality is internalised if the ones that generated the externality incorporate them into their private cost- benefit analysis*
 - (c) *The production and consumption of demerit goods are likely to be less than optimal under free markets*
 - (d) *Compared to pollution taxes, the cap and trade method is administratively cheap and simple to implement and ensures that pollution is minimised in the most cost-effective way.*
19. *The incentive to let other people pay for a good or service, the benefits of which are enjoyed by an individual*
- (a) *Is a case of negative externality*
 - (b) *Is a case of market efficiency*
 - (c) *Is a case of free riding*

- (d) *Is inappropriate and warrant action*
20. *A government subsidy*
- (a) *is a market-based policy*
 - (b) *involves the government paying part of the cost to the firms in order to promote the production of goods having positive externalities*
 - (c) *is generally provided for merit goods*
 - (d) *all the above*
21. *The production and consumption of demerit goods are*
- (a) *likely to be more than optimal under free markets.*
 - (b) *likely to be less than optimal under free markets*
 - (c) *likely to be subjected to price intervention by government*
 - (d) *a) and c) above*
22. *The argument for education subsidy is based on*
- (a) *Education is costly*
 - (b) *the ground that education is merit good*
 - (c) *education creates positive externalities*
 - (d) *b) and c) above*
23. *Read the following statements*
- I. *Social costs are the total costs incurred by the society when a good is consumed or produced.*
 - II. *The external costs are not included in firms' income statements or consumers' decisions*
 - III. *Each firm's cost which is considered for determining output would be only private cost or direct cost of production which does not include external costs*
 - IV. *Production and consumption decisions are efficient only when private costs are considered*
- Of the above*
- (a) *Statements I and III are correct*
 - (b) *Statements I,II and III are correct*
 - (c) *Statement I only is correct*

- (d) *All the above are correct*
24. *Government failure occurs when*
- (a) *Government fails to implement its election promises on policies*
- (b) *A government is unable to get reelected*
- (c) *Government intervention is ineffective and produces fresh and more serious problems*
- (d) *None of the above*

ANSWERS

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

Consolidated Fund of India

All revenues received, loans raised and all moneys received by the government in repayment of loans are credited to the Consolidated Fund of India and all expenditures of the government are incurred from this fund. Money can be spent through this fund only if appropriated by the parliament. The consolidated Fund has further been divided into 'revenue' and 'capital' divisions.

Contingency Fund of India

A fund placed at the disposal of the President to enable him/her to make advances to the executive/Government to meet urgent unforeseen expenditure. Contingency fund enables the government to meet unforeseen expenditure and does not require prior legislative approval, unlike with the Consolidated Fund. For meeting such exigencies, advances are made to the executive from the contingency fund which is subsequently reported to the Parliament for recoupment from the Consolidated Fund of India.

Public Account

Under provisions of Article 266(1) of the Constitution of India, public account is used in relation to all the fund flows where government is acting as a banker. Examples include Provident Funds and Small Savings. This money does not belong to government but is to be returned to the depositors. The expenditure from this fund need not be approved by the parliament.

TEST YOUR KNOWLEDGE

Multiple Choice Questions

- The difference between the budget deficit of a government and its debt service payments is
 - Fiscal deficit
 - Budget deficit
 - Primary deficit
 - None of the above

The following hypothetical figures relate to country A

₹ Crores

Revenue receipts	20,000
Recovery of loans	1,500

<i>Borrowing</i>	15,000
<i>Other Receipts</i>	5,000
<i>Expenditure on revenue account</i>	24,500
<i>Expenditure on capital account</i>	26,000
<i>Interest payments</i>	2,000

2. *The revenue deficit for country A is*
 - (a) 5,000
 - (a) 24,000
 - (c) 4,500
 - (d) None of the above
3. *Fiscal deficit of country A is*
 - (a) 14,000
 - (b) 24,000
 - (c) 23,500
 - (d) None of the above
4. *Primary deficit of Country A is*
 - (a) 26,000
 - (b) 26,500
 - (c) 22,000
 - (d) 24,500
5. *In NITI Aayog, NITI stands for*
 - (a) National Initiative for Transforming India
 - (b) National Institution for Transforming India
 - (c) National Institute for Technology and Innovation
 - (d) None of the above
6. *The Appropriation Bill is intended to*
 - (a) reduce unnecessary expenditure on the part of the government

- (b) *give authority to government to incur expenditure from and out of the Consolidated Fund of India*
 - (c) *give authority to government to incur expenditure from the revenue receipts only*
 - (d) *be passed before the budget is taken for discussion*
7. *Public debt management aims at*
- (a) *An efficient budgetary policy to avail of domestic debt facilities*
 - (b) *Raising loans from international agencies at lower rates of interest*
 - (c) *Raising the required amount of funding at the desired risk and cost levels*
 - (d) *Management of public expenditure to reduce public debt*
8. *The railway budget is*
- (a) *Part of the general budget, but is presented by the railway minister*
 - (b) *Part of the general budget from the budget for financial year 2017-18.*
 - (c) *Part of the general budget from the budget for financial year 2021-22*
 - (d) *Part of the general budget but presented on the next day of the general budget*
9. *Outcome budgeting*
- (a) *shares information about the money allocated for various purposes in a budget*
 - (b) *establishes a direct link between budgetary allocations and performance targets measured through output and outcome indicators*
 - (c) *establishes a direct link between budgetary performance targets and public account disbursements*
 - (d) *shares information about public policies and programmes under the budget*
10. *Corporate tax*
- (a) *is collected by the union government and can be a capital receipt or revenue receipt*
 - (b) *may be collected by the respective states and fall under revenue receipts*
 - (c) *may be collected either by the centre or states and fall under revenue receipts*
 - (d) *is collected by the union government and is a revenue receipt*

11. Government borrowings from foreign governments and institutions

- (a) Capital receipt
- (b) Revenue receipt
- (c) Accounts for fiscal deficit
- (d) Any of the above depending on the purpose of borrowing

The following table relates to the revenue and expenditure figures of a hypothetical economy

In ₹ lakh Crores

(a)	Recovery of loans	5.1
(b)	Salaries of govt. servants	41.1
(c)	Capital Expenditure	45.0
(d)	Interest payments	1.3
(e)	Payments towards subsidies	3.2
(f)	Other receipts (mainly from disinvestment)	11.6
(g)	Tax revenue (net of states' share)	26.3
(h)	Non-tax revenue	12.3
(i)	Borrowings and other liabilities	6.8
(j)	States' share in tax revenue	11.9

12. The capital receipts are

- (a) 23.5
- (b) 19.7
- (c) 11.3
- (d) None of the above

13. Revenue deficit is

- (a) 23.6
- (b) 13.0
- (c) 7.0

- (d) 2.6
14. *The non-debt capital receipts of this country is*
- (a) 45.1
(b) 16.7
(c) 15.8
(d) *None of the above*
15. *A budget is said to be unbalanced when*
- (a) *when government's revenue exceeds government's expenditure*
(b) *when government's expenditure exceeds government's revenue*
(c) *either budget surplus of budget deficit occurs*
(d) *All the above*
16. *Fiscal deficit refers to*
- (a) *the excess of government's revenue expenditure over revenue receipts*
(b) *The excess of total expenditure over total receipts excluding borrowings*
(c) *Primary deficit - interest payments*
(d) *None of these*
17. *Budget of the government generally impacts*
- (a) *the resource allocation in the economy*
(b) *redistribution of income and enhance equity*
(c) *stability in the economy by measures to control price fluctuations*
(d) *all the above*
18. *Which of the following is a statement submitted along with the budget as a requirement of FRBM Act*
- (a) *Annual Financial Statement*
(b) *Macro -Economic Framework Statement*
(c) *Medium-Term Fiscal Policy cum Fiscal Policy Strategy Statement*
(d) *(b) and (c) above*
19. *Government borrowing is treated as capital receipt because*
- (a) *It is mainly used for creating assets by government*

- (b) *It creates a liability for the government*
- (c) *Both a) and b) above are correct*
- (d) *None of the above is correct*
20. *'Retail Direct 'scheme is*
- (a) *Initiated by the Reserve Bank of India*
- (b) *facilitate investment in government securities by individual investors.*
- (c) *Direct sale of goods and services by government departments*
- (d) *Both (a) and (b) are correct*
21. *Non-debt capital receipts*
- (a) *do not add to the assets of the government and therefore not treated as capital receipts*
- (b) *are those that do not create any future repayment burden for the government*
- (c) *are those that create future liabilities for the government*
- (d) *facilitate capital investments at low cost*
22. *Which of the following is a capital receipt?*
- (a) *Licence fee received*
- (b) *Sale proceeds from disinvestment*
- (c) *Assistance from Japan for covid vaccine*
- (d) *Dividend from a public sector enterprise*
23. *Grants given by the central government to state governments is*
- (a) *A revenue expenditure as it is meant to meet the current expenditure of the states*
- (b) *A revenue expenditure as it does neither creates any asset, nor reduces any liability of the government*
- (c) *A capital expenditure because it increase the capital base of the states*
- (d) *It is a grant and so does not come under revenue expenditure or capital expenditure.*

24. Short-term credit from the Reserve Bank to state governments to bridge temporary mismatches in cash flows is known as
- (a) RBI credit to states
 - (b) Commercial credit of RBI
 - (c) Ways and Means Advances (WMA)
 - (d) Short term facility

ANSWERS

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

personal income taxes and/or business taxes causing less disposable incomes and lower incentives to invest.

- ◆ Fiscal policy suffers from limitations such as limitations in respect of choice of appropriate policy, recognition lag, decision lag, implementation lag, impact lag, inappropriate timing, difficulties of forecasting due to uncertainties, possible conflicts between different objectives, possibility of generating disincentives, practical difficulty to reduce government expenditures and the possibility of certain fiscal measures replacing private spending.
- ◆ An increase in the size of government spending during recessions will 'crowd-out' private spending in an economy. In other words, when spending by government in an economy replaces private spending, the latter is said to be crowded out.
- ◆ As a result of crowding out, the effectiveness of expansionary fiscal policy in stimulating aggregate demand will be diminished to a great extent. This may also possibly reduce the economy's prospects of long-run economic growth.
- ◆ During deep recessions, crowding-out is less likely to happen as private sector investment is already minimal and therefore there is only insignificant private spending to crowd out.

TEST YOUR KNOWLEDGE

Multiple Choice Questions

1. *Fiscal policy refers to the*
 - (a) *use of government spending, taxation and borrowing to influence the level of economic activity*
 - (b) *government activities related to use of government spending for supply of essential goods*
 - (c) *use of government spending, taxation and borrowing for reducing the fiscal deficits*
 - (d) *and (b) above*
2. *If real GDP is continuously declining and the rate of unemployment in the economy is increasing, the appropriate policy should be to*
 - (a) *Increase taxes and decrease government spending*
 - (b) *Decrease both taxes and government spending*

- (c) *Decrease taxes and increase government spending*
 - (d) *Either (a) or (c)*
3. *Which of the following are likely to occur when an economy is in an expansionary phase of a business cycle?*
- (A) *Rising unemployment rate*
 - (B) *Falling unemployment rate*
 - (C) *Rising inflation rate*
 - (D) *Deflation*
 - (E) *Falling or stagnant wage for workers*
 - (F) *Increasing tax revenue*
 - (G) *Falling tax revenue*
- (a) *A, B and F are most likely to occur*
 - (b) *B, C and F are most likely to occur*
 - (c) *D, E and F are most likely to occur*
 - (d) *A, E and G are most likely to occur*
4. *During recession the fiscal policy of the government should be directed towards*
- (a) *Increasing the taxes and reducing the aggregate demand*
 - (b) *Decreasing taxes to ensure higher disposable income*
 - (c) *Increasing government expenditure and increasing taxes*
 - (d) *None of the above*
5. *According to Keynesian economics, when we have inflation an effective fiscal policy should not include*
- (a) *increase corporate taxes.*
 - (b) *decrease aggregate demand.*
 - (c) *Increase government purchases.*
 - (d) *None of the above is correct*
6. *Keynesian economists believe that*
- (a) *fiscal policy can have very powerful effects in altering aggregate demand, employment and output in an economy*

- (b) *when the economy is operating at less than full employment levels and when there is a need to offer stimulus to demand fiscal policy is of great use*
 - (c) *Wages are flexible and therefore business fluctuations would be automatically adjusted*
 - (d) *(a) and (b) above*
7. *Which of the following may ensure a decrease in aggregate demand during inflation?*
- (a) *decrease in all types of government spending and/ or an increase in taxes*
 - (b) *increase in government spending and/ or a decrease in taxes*
 - (c) *decrease in government spending and/ or a decrease in taxes*
 - (d) *All the above*
8. *A recession is characterized by*
- (a) *Declining prices and rising employment*
 - (b) *Declining unemployment and rising prices*
 - (c) *Declining real income and rising unemployment.*
 - (d) *Rising real income and rising prices*
9. *Which one of the following is an example of fiscal policy?*
- (a) *A tax cut aimed at increasing the disposable income and spending*
 - (b) *A reduction in government expenditure to contain inflation*
 - (c) *An increase in taxes and decrease in government expenditure to control inflation*
 - (d) *All the above*
10. *Which of the following would illustrate a recognition lag?*
- (a) *The time required to identify the appropriate policy*
 - (b) *The time required to identify to pass a legislation*
 - (c) *The time required to identify the need for a policy change*
 - (d) *The time required to establish the outcomes of fiscal policy*
11. *An expansionary fiscal policy, taking everything else constant, would in the short-run have the effect of*
- (a) *a relative large increase in GDP and a smaller increase in price*
 - (b) *a relative large increase in price, a relatively smaller increase in GDP*

- (c) both GDP and price will be increasing in the same proportion
- (d) both GDP and price will be increasing in a smaller proportion
12. Which statement (s) is (are) correct about crowding out?
- I. A decline in private spending may be partially or completely offset by the expansion of demand resulting from an increase in government expenditure.
- II. Crowding out effect is the negative effect fiscal policy may generate when money from the private sector is 'crowded out' to the public sector.
- III. When spending by government in an economy increases government spending would be crowded out.
- IV. Private investments, especially the ones which are interest –sensitive, will be reduced if interest rates rise due to increased spending by government
- (a) I and III only
- (b) I, II, and III
- (c) I, II, and IV
- (d) III only
13. Which of the following policies is likely to shift an economy's aggregate demand curve to the right?
- (a) Increase in government spending
- (b) Decrease in taxes
- (c) A tax cut along with increase in public expenditure
- (d) All the above
14. Identify the incorrect statement
- (a) A progressive direct tax system ensures economic growth with stability because it distributes the burden of taxes unequally
- (b) A carefully planned policy of public expenditure helps in redistributing income from the rich to the poorer sections of the society.
- (c) There are possible conflicts between different objectives of fiscal policy such that a policy designed to achieve one goal may adversely affect another
- (d) An increase in the size of government spending during recessions may possibly 'crowd-out' private spending in an economy.

15. Read the following statements
- I. Fiscal policy is said to be contractionary when revenue is higher than spending i.e., the government budget is in surplus
 - II. Other things constant, a fiscal expansion will raise interest rates and "crowd out" some private investment
 - III. During inflation new taxes can be levied and the rates of existing taxes are raised to reduce disposable incomes
 - IV. Classical economists advocated contractionary fiscal policy to solve the problem of inflation
- Of the above statements
- (a) I and II are correct
 - (b) I, II and III are correct
 - (c) Only III is correct
 - (d) All are correct
16. While resorting to expansionary fiscal policy
- (a) the government may possibly have a budget surplus as increased expenditure will bring more output and more tax revenue
 - (b) the government may run into budget deficits because tax cuts reduce government income and the government expenditures exceed tax revenues in a given year
 - (c) it is important to have a balanced budget to avoid inflation and bring in stability
 - (d) None of the above will happen
17. Contractionary fiscal policy
- (a) is resorted to when government expenditure is greater than tax revenues of any particular year
 - (b) increase the aggregate demand to sustain the economy
 - (c) to increase the disposable income of people through tax cuts and to enable greater demand
 - (d) is designed to restrain the levels of economic activity of the economy during an inflationary phase
18. When government spending is deliberately reduced to bring in stability
- (a) the government is resorting to contractionary fiscal policy

- (b) *the government is resorting to expansionary fiscal policy*
 - (c) *trying to limit aggregate demand to sustainable levels*
 - (d) *(a) and c) above*
19. *An increase in personal income taxes*
- (a) *reduces disposable incomes leading to fall in consumption spending and aggregate demand*
 - (b) *is desirable during inflation or when there is excessive levels of aggregate demand*
 - (c) *is to compensate the deficiency in effective demand by boosting aggregate spending*
 - (d) *both a) and b) are correct*
20. *While the government resorts to deliberate fiscal policy it may not attempt to manipulate*
- (a) *Government expenditures on public works*
 - (b) *The rates of personal income taxes and corporate taxes*
 - (c) *Government expenditures on goods and services purchased by government*
 - (d) *The rate of interest prevailing in the economy*
21. *Which of the following fiscal remedy would you advice when an economy is facing recession*
- (a) *the government may cut interest rates to encourage consumption and investment*
 - (b) *the government may cut taxes to increase aggregate demand*
 - (c) *the government may follow a policy of balanced the budget.*
 - (d) *None of the above will work*
22. *While if governments compete with the private sector to borrow money for securing resources for expansionary fiscal policy*
- (a) *it is likely that interest rates will go up and firms may not be willing to invest*
 - (b) *it is likely that interest rates will go up and the individuals too may be reluctant to borrow and spend*
 - (c) *it is likely that interest rates will go up and the desired increase in aggregate demand may not be realized*
 - (d) *All the above are possible.*

ANSWERS

1.	(a)	2	(c)	3	(b)	4.	(b)	5.	(c)	6.	(d)
7.	(a)	8.	(c)	9.	(d)	10.	(c)	11.	(a)	12.	(c)
13.	(d)	14.	(a)	15.	(b)	16.	(b)	17.	(d)	18.	(d)
19.	(d)	20.	(d)	21.	(b)	22.	(d)				

- ◆ The nominal demand for money is positively related to the price level, P ; rises if bonds and stock returns, r_b and r_e , respectively decline and vice versa; is influenced by inflation; and is a function of total wealth
- ◆ The Demand for Money as Behaviour toward 'aversion to risk' propounded by Tobin states that money is a safe asset but an investor will be willing to exercise a trade-off and sacrifice to some extent, the higher return from bonds for a reduction in risk
- ◆ According to Tobin, rational behaviour induces individuals to hold an optimally structured wealth portfolio which is comprised of both bonds and money and the demand for money as a store of wealth depends negatively on the interest rate.

TEST YOUR KNOWLEDGE

Multiple Choice Type Questions

1. Choose the incorrect statement
 - (a) Anything that would act as a medium of exchange is money
 - (b) Money has generalized purchasing power and is generally acceptable in settlement of all transactions
 - (c) Money is a totally liquid asset and provides us with means to access goods and services
 - (d) Currency which represents money does not necessarily have intrinsic value.
2. Money performs all of the three functions mentioned below, namely
 - (a) medium of exchange, price control, store of value
 - (b) unit of account, store of value, provide yields
 - (c) medium of exchange, unit of account, store of value
 - (d) medium of exchange, unit of account, income distribution
3. Demand for money is
 - (a) Derived demand
 - (b) Direct demand
 - (c) Real income demand
 - (d) Inverse demand

4. Higher the _____, higher would be _____ of holding cash and lower will be the _____
- (a) demand for money, opportunity cost, interest rate
 - (b) price level, opportunity cost, interest rate
 - (c) real income, opportunity cost, demand for money
 - (d) interest rate, opportunity cost, demand for money
5. The quantity theory of money holds that
- (a) changes in the general level of commodity prices are caused by changes in the quantity of money
 - (b) there is strong relationship between money and price level and the quantity of money is the main determinant of the price
 - (c) changes in the value of money or purchasing power of money are determined first and foremost by changes in the quantity of money in circulation
 - (d) All the above
6. The Cambridge approach to quantity theory is also known as
- (a) Cash balance approach
 - (b) Fisher's theory of money
 - (c) Classical approach
 - (d) Keynesian Approach
7. Fisher's approach and the Cambridge approach to demand for money consider
- (a) money's role in acting as a store of value and therefore, demand for money is for storing value temporarily.
 - (b) money as a means of exchange and therefore demand for money is termed as for liquidity preference
 - (c) money as a means of transactions and therefore, demand for money is only transaction demand for money.
 - (d) None of the above
8. Real money is
- (a) nominal money adjusted to the price level
 - (b) real national income

- (c) *money demanded at given rate of interest*
 - (d) *nominal GNP divided by price level*
9. *The precautionary money balances people want to hold*
- (a) *as income elastic and not very sensitive to rate of interest*
 - (b) *as income inelastic and very sensitive to rate of interest*
 - (c) *are determined primarily by the level of transactions they expect to make in the future.*
 - (d) *are determined primarily by the current level of transactions*
10. *Speculative demand for money*
- (a) *is not determined by interest rates*
 - (b) *is positively related to interest rates*
 - (c) *is negatively related to interest rates*
 - (d) *is determined by general price level*
11. *According to Keynes, if the current interest rate is high*
- (a) *people will demand more money because the capital gain on bonds would be less than return on money*
 - (b) *people will expect the interest rate to rise and bond price to fall in the future.*
 - (c) *people will expect the interest rate to fall and bond price to rise in the future.*
 - (d) *Either a) or b) will happen*
12. *The inventory-theoretic approach to the transactions demand for money*
- (a) *explains the negative relationship between money demand and the interest rate.*
 - (b) *explains the positive relationship between money demand and the interest rate.*
 - (c) *explains the positive relationship between money demand and general price level*
 - (d) *explains the nature of expectations of people with respect to interest rates and bond prices*
13. *According to Baumol and Tobin's approach to demand for money, the optimal average money holding is:*
- (a) *a positive function of income Y and the price level P*
 - (b) *a positive function of transactions costs c ,*

- (c) *a negative function of the nominal interest rate i*
 - (d) *All the above*
14. _____ *considered demand for money is as an application of a more general theory of demand for capital assets*
- (a) *Baumol*
 - (b) *James Tobin*
 - (c) *J M Keynes*
 - (d) *Milton Friedman*
15. *The nominal demand for money rises if*
- (a) *the opportunity costs of money holdings – i.e. bonds and stock returns, r_B and r_E , respectively- decline and vice versa*
 - (b) *the opportunity costs of money holdings – i.e. bonds and stock returns, r_B and r_E , respectively- rises and vice versa*
 - (c) *the opportunity costs of money holdings – i.e. bonds and stock returns, r_B and r_E , respectively remain constant*
 - (d) *b) and c) above*

ANSWERS

1.	(a)	2.	(c)	3.	(a)	4.	(d)	5.	(d)	6	(a)
7.	(c)	8.	(a)	9.	(a)	10.	(c)	11.	(c)	12	(a)
13.	(d)	14.	(d)	15.	(a)						

TEST YOUR KNOWLEDGE

Multiple Choice Type Questions

1. Reserve money is also known as
 - (a) central bank money
 - (b) base money
 - (c) high powered money
 - (d) all the above

2. Choose the correct statement from the following
 - (a) Money is deemed as something held by the public and therefore only currency held by the public is included in money supply.
 - (b) Money is deemed as something held by the public and therefore inter-bank deposits are included in money supply.
 - (c) Since inter-bank deposits are not held by the public, therefore inter-bank deposits are excluded from the measure of money supply.
 - (d) Both (a) and (c) above.

3. Reserve Money is composed of
 - (a) currency in circulation + demand deposits of banks (Current and Saving accounts) + Other deposits with the RBI.
 - (b) currency in circulation + Bankers' deposits with the RBI + Other deposits with the RBI.
 - (c) currency in circulation + demand deposits of banks + Other deposits with the RBI.
 - (d) currency in circulation + demand and time deposits of banks + Other deposits with the RBI.

4. M1 is the sum of
 - (a) currency and coins with the people + demand deposits of banks (Current and Saving accounts) + other deposits of the RBI.
 - (b) currency and coins with the people + demand and time deposits of banks (Current and Saving accounts) + other deposits of the RBI.
 - (c) currency in circulation + Bankers' deposits with the RBI + Other deposits with the RBI

- (d) none of the above
5. Under the 'minimum reserve system' the central bank is
- (a) empowered to issue currency to any extent by keeping an equivalent reserve of gold and foreign securities.
 - (b) empowered to issue currency to any extent by keeping only a certain minimum reserve of gold and foreign securities.
 - (c) empowered to issue currency in proportion to the reserve money by keeping only a minimum reserve of gold and foreign securities.
 - (d) empowered to issue currency to any extent by keeping a reserve of gold and foreign securities to the extent of ₹ 350 crores
6. The primary source of money supply in all countries is
- (a) the Reserve Bank of India
 - (b) the Central bank of the country
 - (c) the Bank of England
 - (d) the Federal Reserve
7. The supply of money in an economy depends on
- (a) the decision of the central bank based on the authority conferred on it.
 - (b) the decision of the central bank and the supply responses of the commercial banking system.
 - (c) the decision of the central bank in respect of high powered money.
 - (d) both a) and c) above.
8. Banks in the country are required to maintain deposits with the central bank
- (a) to provide the necessary reserves for the functioning of the central bank
 - (b) to meet the demand for money by the banking system
 - (c) to meet the central bank prescribed reserve requirements and to meet settlement obligations.
 - (d) to meet the money needs for the day to day working of the commercial banks
9. If the behaviour of the public and the commercial banks is constant, then
- (a) the total supply of nominal money in the economy will vary directly with the supply of the nominal high-powered money issued by the central bank

- (b) *the total supply of nominal money in the economy will vary directly with the rate of interest and inversely with reserve money*
 - (c) *the total supply of nominal money in the economy will vary inversely with the supply of high powered money*
 - (d) *all the above are possible*
10. *Under the fractional reserve system*
- (a) *the money supply is an increasing function of reserve money (or high powered money) and the money multiplier.*
 - (b) *the money supply is a decreasing function of reserve money (or high powered money) and the money multiplier.*
 - (c) *the money supply is an increasing function of reserve money (or high powered money) and a decreasing function of money multiplier.*
 - (d) *none of the above as the determinants of money supply are different*
11. *The money multiplier and the money supply are*
- (a) *positively related to the excess reserves ratio e .*
 - (b) *negatively related to the excess reserves ratio e .*
 - (c) *not related to the excess reserves ratio e .*
 - (d) *proportional to the excess reserves ratio e .*
12. *The currency ratio represents*
- (a) *the behaviour of central bank in the issue of currency.*
 - (b) *the behaviour of central bank in respect cash reserve ratio.*
 - (c) *the behaviour of the public.*
 - (d) *the behaviour of commercial banks in the country.*
13. *The size of the money multiplier is determined by*
- (a) *the currency ratio (c) of the public,*
 - (b) *the required reserve ratio (r) at the central bank, and*
 - (c) *the excess reserve ratio (e) of commercial banks.*
 - (d) *all the above*

14. _____ tells us how much new money will be created by the banking system for a given increase in the high-powered money.
- (a) The currency ratio
 - (b) The excess reserve ratio (e)
 - (c) The credit multiplier
 - (d) The currency ratio (c)
15. The money multiplier will be large
- (a) for higher currency ratio (c), lower required reserve ratio (r) and lower excess reserve ratio (e)
 - (b) for constant currency ratio (c), higher required reserve ratio (r) and lower excess reserve ratio (e)
 - (c) for lower currency ratio (c), lower required reserve ratio (r) and lower excess reserve ratio (e)
 - (d) None of the above
16. The ratio that relates the change in the money supply to a given change in the monetary base is called the
- (a) required reserve ratio.
 - (b) money multiplier.
 - (c) deposit ratio.
 - (d) discount rate.
17. For a given level of the monetary base, an increase in the required reserve ratio will denote
- (a) a decrease in the money supply.
 - (b) an increase in the money supply.
 - (c) an increase in demand deposits.
 - (d) Nothing precise can be said
18. For a given level of the monetary base, an increase in the currency ratio causes the money multiplier to ____ and the money supply to ____.
- (a) decrease; increase
 - (b) increase; decrease

- (c) *decrease; decrease*
 (d) *increase; increase*
19. *If commercial banks reduce their holdings of excess reserves*
- (a) *the monetary base increases.*
 (b) *the monetary base falls.*
 (c) *the money supply increases.*
 (d) *the money supply falls.*

ANSWERS

1.	(d)	2.	(c)	3.	(b)	4.	(a)	5.	(b)	6	(b)
7.	(b)	8.	(c)	9.	(a)	10.	(a)	11.	(b)	12	(c)
13.	(d)	14.	(c)	15.	(c)	16.	(b)	17.	(a)	18	(c)
19.	(c)										

TEST YOUR KNOWLEDGE

Multiple Choice Type Questions

1. Which of the following is the function of monetary policy?
 - (a) regulate the exchange rate and keep it stable
 - (b) regulate the movement of credit to the corporate sector
 - (c) regulate the level of production and prices
 - (d) regulate the availability, cost and use of money and credit
2. The main objective of monetary policy in India is _____:
 - (a) reduce food shortages to achieve stability
 - (b) economic growth with price stability
 - (c) overall monetary stability in the banking system
 - (d) reduction of poverty and unemployment
3. The monetary transmission mechanism refers to
 - (a) how money gets circulated in different sectors of the economy post monetary policy
 - (b) the ratio of nominal interest and real interest rates consequent on a monetary policy
 - (c) the process or channels through which the evolution of monetary aggregates affects the level of product and prices
 - (d) none of the above
4. A contractionary monetary policy-induced increase in interest rates
 - (a) increases the cost of capital and the real cost of borrowing for firms
 - (b) increases the cost of capital and the real cost of borrowing for firms and households
 - (c) decreases the cost of capital and the real cost of borrowing for firms
 - (d) has no interest rate effect on firms and households

5. *During deflation*
- (a) *the RBI reduces the CRR in order to enable the banks to expand credit and increase the supply of money available in the economy*
 - (b) *the RBI increases the CRR in order to enable the banks to expand credit and increase the supply of money available in the economy*
 - (c) *the RBI reduces the CRR in order to enable the banks to contract credit and increase the supply of money available in the economy*
 - (d) *the RBI reduces the CRR but increase SLR in order to enable the banks to contract credit and increase the supply of money available in the economy*
6. *Which of the following statements is correct?*
- (a) *The governor of the RBI in consultation with the Ministry of Finance decides the policy rate and implements the same*
 - (b) *While CRR has to be maintained by banks as cash with the RBI, the SLR requires holding of approved assets by the bank itself*
 - (c) *When repo rates increase, it means that banks can now borrow money through open market operations (OMO)*
 - (d) *None of the above*
7. *RBI provides financial accommodation to the commercial banks through repos/reverse repos under*
- (a) *Market Stabilisation Scheme (MSS)*
 - (b) *The Marginal Standing Facility (MSF)*
 - (c) *Liquidity Adjustment Facility (LAF).*
 - (d) *Statutory Liquidity Ratio (SLR)*
8. _____ *is a money market instrument, which enables collateralised short term borrowing and lending through sale/purchase operations in debt instruments.*
- (a) *OMO*
 - (b) *CRR*
 - (c) *SLR*
 - (d) *Repo*

9. In India, the term 'Policy rate' refers to
- (a) The bank rate prescribed by the RBI in its half yearly monetary policy statement
 - (b) The CRR and SLR prescribed by RBI in its monetary policy statement
 - (c) the fixed repo rate quoted for sovereign securities in the overnight segment of Liquidity Adjustment Facility (LAF)
 - (d) the fixed repo rate quoted for sovereign securities in the overnight segment of Marginal Standing Facility (MSF)
10. Reverse repo operation takes place when
- (a) RBI borrows money from banks by giving them securities
 - (b) banks borrow money from RBI by giving them securities
 - (c) banks borrow money in the overnight segment of the money market
 - (d) RBI borrows money from the central government
11. The Monetary Policy Framework Agreement is on
- (a) the maximum repo rate that RBI can charge from government
 - (b) the maximum tolerable inflation rate that RBI should target to achieve price stability.
 - (c) the maximum repo rate that RBI can charge from the commercial banks
 - (d) the maximum reverse repo rate that RBI can charge from the commercial banks
12. An open market operation is an instrument of monetary policy which involves buying or selling of _____ from or to the public and banks
- (a) bonds and bills of exchange
 - (b) debentures and shares
 - (c) government securities
 - (d) none of these
13. Which statement (s) is (are) true about Monetary Policy Committee?
- I. The Reserve Bank of India (RBI) Act, 1934 was amended on June 27, 2016, for giving a statutory backing to the Monetary Policy Framework Agreement and for setting up a Monetary Policy Committee

- II. *The Monetary Policy Committee shall determine the policy rate through debate and majority vote by a panel of experts required to achieve the inflation target.*
- III. *The Monetary Policy Committee shall determine the policy rate through consensus from the governor of RBI*
- IV. *The Monetary Policy Committee shall determine the policy rate through debate and majority vote by a panel of bankers chosen for eth purpose*
- (a) *I only*
- (b) *I and II only*
- (c) *III and IV*
- (d) *III only*

ANSWERS

1.	(d)	2	(b)	3	(c)	4.	(b)	5.	(a)	6.	(b)
7.	(c)	8.	(d)	9.	(c)	10.	(a)	11.	(b)	12.	(c)
13.	(b)										

- ◆ Accordingly, a capital abundant country will produce and export capital-intensive goods relatively more cheaply and a labour-abundant country will produce and export labour-intensive goods relatively more cheaply than other country.
- ◆ The Factor-Price Equalization Theorem states that international trade equalizes the factor prices between the trading nations. Therefore, with free trade, wages and returns on capital will converge across the countries.
- ◆ NTT is the latest entrant to explain the rising proportion of world trade between the developed and bigger developing economies (such as BRICS), which trade in similar products. These countries constitute more than 50% of world trade.

TEST YOUR KNOWLEDGE

Multiple Choice Type Questions

1. Which of the following does not represent a difference between internal trade and international trade?
 - (a) transactions in multiple currencies
 - (b) homogeneity of customers and currencies
 - (c) differences in legal systems
 - (d) none of the above
2. The theory of absolute advantage states that
 - (a) national wealth and power are best served by increasing exports and decreasing imports
 - (b) nations can increase their economic well-being by specializing in the production of goods they produce more efficiently than anyone else.
 - (c) that the value or price of a commodity depends exclusively on the amount of labour going into its production and therefore factor prices will be the same
 - (d) differences in absolute advantage explains differences in factor endowments in different countries
3. Which of the following theories advocates that countries should produce those goods for which it has the greatest relative advantage?
 - (a) Modern theory of international trade
 - (b) The factor endowment theory
 - (c) The Heckscher-Ohlin Theory
 - (d) None of the above

4. Which of the following holds that a country can increase its wealth by encouraging exports and discouraging imports
- (a) Capitalism
 (b) Socialism
 (c) Mercantilism
 (d) Laissez faire
5. Given the number of labour hours to produce cloth and grain in two countries, which country should produce grain?

Labour cost (hours) for production of one unit

	Country A	Country B
Cloth	40	80
Grain	80	40

- (a) Country A
 (b) Country B
 (c) Neither A nor B
 (d) Both A and B
6. According to the theory of comparative advantage
- (a) trade is a zero-sum game so that the net change in wealth or benefits among the participants is zero.
 (b) trade is not a zero-sum game so that the net change in wealth or benefits among the participants is positive
 (c) nothing definite can be said about the gains from trade
 (d) gains from trade depends upon factor endowment and utilization
7. Given the number of labour hours to produce wheat and rice in two countries and that these countries specialise and engage in trade at a relative price of 1:1 what will be the gain of country X?

Labour cost (hours) for production of one unit

	Wheat	Rice
Country X	10	20
Country Y	20	10

- (a) 20 labour hours

- (b) 10 labour hours
 (c) 30 labour hours
 (d) Does not gain anything
8. Assume India and Bangladesh have the unit labour requirements for producing tables and mats shown in the table below. It follows that:

Labour cost (hours) for production of one unit

	India	Bangladesh
Tables	3	8
Mats	2	1

- (a) Bangladesh has a comparative advantage in mats
 (b) India has a comparative advantage in tables
 (c) Bangladesh has an absolute advantage in mats
 (d) All the above are true
9. Comparative advantage refers to
- (a) a country's ability to produce some good or service at the lowest possible cost compared to other countries
 (b) a country's ability to produce some good or service at a lower opportunity cost than other countries.
 (c) Choosing a productive method which uses minimum of the abundant factor
 (d) (a) and (b) above
10. Ricardo explained the law of comparative advantage on the basis of
- (a) opportunity costs
 (b) the law of diminishing returns
 (c) economies of scale
 (d) the labour theory of value

ANSWERS

1.	(b)	2.	(b)	3.	(d)	4.	(c)	5.	(b)	6.	(b)
7.	(b)	8.	(d)	9.	(b)	10.	(d)				

TEST YOUR KNOWLEDGE

Multiple Choice Type Questions

1. A specific tariff is
 - (a) a tax on a set of specified imported good
 - (b) an import tax that is common to all goods imported during a given period
 - (c) a specified fraction of the economic value of an imported good
 - (d) a tax on imports defined as an amount of currency per unit of the good
2. A tariff on imports is beneficial to domestic producers of the imported good because
 - (a) they get a part of the tariff revenue
 - (b) it raises the price for which they can sell their product in the domestic market
 - (c) it determines the quantity that can be imported to the country
 - (d) it reduces their producer surplus, making them more efficient
3. A tax applied as a percentage of the value of an imported good is known as
 - (a) preferential tariff
 - (b) ad valorem tariff
 - (c) specific tariff
 - (d) mixed or compound tariff
4. Escalated tariff refers to
 - (a) nominal tariff rates on raw materials which are greater than tariffs on manufactured products
 - (b) nominal tariff rates on manufactured products which are greater than tariffs on raw materials
 - (c) a tariff which is escalated to prohibit imports of a particular good to protect domestic industries
 - (d) none of the above
5. Voluntary export restraints involve:
 - (a) an importing country voluntarily restraining the quantity of goods that can be exported into the country during a specified period of time

- (b) *domestic firms agreeing to limit the quantity foreign products sold in their domestic markets*
 - (c) *an exporting country voluntarily restraining the quantity of goods that can be exported out of a country during a specified period of time*
 - (d) *quantitative restrictions imposed by the importing country's government.*
6. *Anti-dumping duties are*
- (a) *additional import duties so as to offset the effects of exporting firm's unfair charging of prices in the foreign market which are lower than production costs.*
 - (b) *additional import duties so as to offset the effects of exporting firm's increased competitiveness due to subsidies by government*
 - (c) *additional import duties so as to offset the effects of exporting firm's unfair charging of lower prices in the foreign market*
 - (d) *Both (a) and (c) above*
7. *A countervailing duty is*
- (a) *a tariff that aim to offset artificially low prices charged by exporters who enjoy export subsidies and tax concessions in their home country*
 - (b) *charged by importing countries to ensure fair and market-oriented pricing of imported products*
 - (c) *charged by importing countries to protect domestic industries and firms from unfair price advantage arising from subsidies*
 - (d) *All the above*
8. *Which of the following is an outcome of tariff?*
- (a) *create obstacles to trade and increase the volume of imports and exports*
 - (b) *domestic consumers enjoy consumer surplus because consumers must now pay only a lower price for the good*
 - (c) *discourage domestic consumers from consuming imported foreign goods and encourage consumption of domestically produced import substitutes*
 - (d) *increase government revenues of the importing country by more than value of the total tariff it charges*
9. *SPS measures and TBTs are*
- (a) *permissible under WTO to protect the interests of countries*

- (b) *may result in loss of competitive advantage of developing countries*
- (c) *increases the costs of compliance to the exporting countries*
- (d) *All the above*
10. *Which of the following is not a non-tariff barrier.*
- (a) *Complex documentation requirements*
- (b) *Import quotas on specific goods*
- (c) *Countervailing duties charged by importing country*
- (d) *Pre shipment product inspection and certification requirements*
11. *Under tariff rate quota*
- (a) *countries promise to impose tariffs on imports from members other than those who are part of a preferential trade agreement*
- (b) *a country permits an import of limited quantities at low rates of duty but subjects an excess amount to a much higher rate*
- (c) *lower tariff is charged from goods imported from a country which is given preferential treatment*
- (d) *none of the above*
12. *Non -tariff barriers (NTBs) include all of the following except:*
- (a) *import quotas*
- (b) *tariffs*
- (c) *export subsidies*
- (d) *technical standards of products*

ANSWERS

1.	(d)	2.	(b)	3.	(b)	4.	(b)	5.	(c)	6.	(d)
7.	(d)	8.	(c)	9.	(d)	10.	(c)	11.	(b)	12.	(b)

policy review mechanism (TPRM) and plurilateral trade agreements on trade in civil aircraft and government procurement.

- ◆ The Doha Round, formally the Doha Development Agenda, which is the ninth round since the Second World War was officially launched at the WTO's Fourth Ministerial Conference in Doha, Qatar, in November 2001.
- ◆ The major issues related to the WTO are in respect of slow progress of multilateral negotiations, uncertainties resulting from regional trade agreements, inadequate or negligible trade liberalisation, and those which are specific to the developing countries, namely, protectionism and lack of willingness among developed countries to provide market access, difficulties that they face in implementing the present agreements, apparent north-south divide, exceptionally high tariffs, tariff escalation, erosion of preferences and difficulties with regards to adjustments.

TEST YOUR KNOWLEDGE

Multiple Choice Type Questions

1. Which of the following culminated in the establishment of the World Trade Organization?
 - (a) The Doha Round
 - (b) The Tokyo Round
 - (c) The Uruguay Round
 - (d) The Kennedy Round
2. Choose the correct statement
 - (a) The GATT was meant to prevent exploitation of poor countries by richer countries
 - (b) The GATT dealt with trade in goods only, while, the WTO covers services as well as intellectual property.
 - (c) All members of the World Trade Organization are required to avoid tariffs of all types
 - (d) All the above
3. The 'National treatment' principle stands for
 - (a) the procedures within the WTO for resolving disagreements about trade policy among countries

- (b) *the principle that imported products are to be treated no worse in the domestic market than the local ones*
 - (c) *exported products are to be treated no worse in the domestic market than the local ones*
 - (d) *imported products should have the same tariff, no matter where they are imported from*
4. *'Bound tariff' refers to*
- (a) *clubbing of tariffs of different commodities into one common measure*
 - (b) *the lower limit of the tariff below which a nation cannot be taxing its imports*
 - (c) *the upper limit on the tariff that a country can levy on a particular good, according to its commitments under the GATT and WTO.*
 - (d) *the limit within which the country's export duty should fall so that there are cheaper exports*
5. *The essence of 'MFN principle' is*
- (a) *equality of treatment of all member countries of WTO in respect of matters related to trade*
 - (b) *favour one, country, you need to favour all in the same manner*
 - (c) *every WTO member will treat all its trading partners equally without any prejudice and discrimination*
 - (d) *all the above*
6. *The World Trade Organization (WTO)*
- (a) *has now been replaced by the GATT*
 - (b) *has an inbuilt mechanism to settle disputes among members*
 - (c) *was established to ensure free and fair trade internationally.*
 - (d) *(b) and c) above*
7. *The Agreement on Agriculture includes explicit and binding commitments made by WTO Member governments*
- (a) *on increasing agricultural productivity and rural development*
 - (b) *market access and agricultural credit support*
 - (c) *market access, domestic support and export subsidies*

- (d) *market access, import subsidies and export subsidies*
8. *The Agreement on Textiles and Clothing*
- (a) *provides that textile trade should be deregulated gradually and the tariffs should be increased*
- (b) *replaced the Multi-Fiber Arrangement (MFA) which was prevalent since 1974*
- (c) *granted rights of textile exporting countries to increase tariffs to protect their domestic textile industries*
- (d) *stipulated that tariffs in all countries should be the same*
9. *The Agreement on Trade-Related Aspects of Intellectual Property Rights*
- (a) *stipulates to administer a system of enforcement of intellectual property rights.*
- (b) *provides for most-favoured-nation treatment and national treatment for intellectual properties*
- (c) *mandates to maintain high levels of intellectual property protection by all members*
- (d) *all the above*
10. *The most controversial topic in the yet to conclude Doha Agenda is*
- (a) *trade in manufactured goods*
- (b) *trade in intellectual property rights-based goods*
- (c) *trade in agricultural goods*
- (d) *market access to goods from developed countries*
11. *The WTO commitments*
- (a) *affect developed countries adversely because they have comparatively less agricultural goods*
- (b) *affect developing countries more because they need to make radical adjustments*
- (c) *affect both developed and developing countries equally*
- (d) *affect none as they increase world trade and ensure prosperity to all*

ANSWERS

1.	(c)	2.	(b)	3.	(b)	4.	(c)	5.	(d)	6	(d)
7.	(c)	8.	(b)	9.	(d)	10.	(c)	11.	(b)		

- ◆ Devaluation is a deliberate downward adjustment by central bank in the value of a country's currency relative to another currency, group of currencies or standard.
- ◆ An appreciation of a country's currency cause changes in import and export prices will lead to changes in import and export volumes, causing resulting in import spending and export earnings.
- ◆ Exchange rate depreciation lowers the relative price of a country's exports, raises the relative price of its imports, increases demand both for domestic import-competing goods and for exports, leads to output expansion, encourages economic activity, increases the international competitiveness of domestic industries, increases the volume of exports and improves trade balance.
- ◆ Currency appreciation raises the price of exports, decrease exports; increase imports, adversely affect the competitiveness of domestic industry, cause larger deficits and worsens the trade balance.

TEST YOUR KNOWLEDGE

Multiple Choice Type Questions

1. *Based on the supply and demand model of determination of exchange rate, which of the following ought to cause the domestic currency of Country X to appreciate against dollar?*
 - (a) *The US decides not to import from Country X*
 - (b) *An increase in remittances from the employees who are employed abroad to their families in the home country*
 - (c) *Increased imports by consumers of Country X*
 - (d) *Repayment of foreign debts by Country X*
2. *All else equal, which of the following is true if consumers of India develop taste for imported commodities and decide to buy more from the US?*
 - (a) *The demand curve for dollars shifts to the right and Indian Rupee appreciates*
 - (b) *The supply of US dollars shrinks and, therefore, import prices decrease*
 - (c) *The demand curve for dollars shifts to the right and Indian Rupee depreciates*
 - (d) *The demand curve for dollars shifts to the left and leads to an increase in exchange rate*

3. 'The nominal exchange rate is expressed in units of one currency per unit of the other currency. A real exchange rate adjusts this for changes in price levels'. The statements are
- (a) wholly correct
 - (b) partially correct
 - (c) wholly incorrect
 - (d) None of the above
4. Match the following by choosing the term which has the same meaning
- | | |
|----------------------------------|----------------------------------|
| i) floating exchange rate | ii) fixed exchange rate |
| iii) <i>pegged exchange rate</i> | a. <i>depreciation</i> |
| iv) <i>devaluation</i> | b. <i>revaluation</i> |
| v) <i>appreciation</i> | c. <i>flexible exchange rate</i> |
- (a) (i c); (ii d); (iii b); (iv a)
 - (b) (i b); (ii a); (iii d); (iv c)
 - (c) (i a); (ii d); (iii b); (iv c)
 - (d) (i d); (ii a); (iii b); (iv c)
5. Choose the correct statement
- (a) An indirect quote is the number of units of a local currency exchangeable for one unit of a foreign currency
 - (b) the fixed exchange rate regime is said to be efficient and highly transparent.
 - (c) A direct quote is the number of units of a local currency exchangeable for one unit of a foreign currency
 - (d) Exchange rates are generally fixed by the central bank of the country
6. Which of the following statements is true?
- (a) Home-currency appreciation or foreign-currency depreciation takes place when there is a decrease in the home currency price of foreign currency

- (b) *Home-currency depreciation takes place when there is an increase in the home currency price of the foreign currency*
 - (c) *Home-currency depreciation is the same as foreign-currency appreciation and implies that the home currency has become relatively less valuable.*
 - (d) *All the above*
7. *An increase in the supply of foreign exchange*
- (a) *shifts the supply curve to the right and as a consequence, the exchange rate declines*
 - (b) *shifts the supply curve to the right and as a consequence, the exchange rate increases*
 - (c) *more units of domestic currency are required to buy a unit of foreign exchange*
 - (d) *the domestic currency depreciates and the foreign currency appreciates*
8. *Currency devaluation*
- (a) *may increase the price of imported commodities and, therefore, reduce the international competitiveness of domestic industries*
 - (b) *may reduce export prices and increase the international competitiveness of domestic industries*
 - (c) *may cause a fall in the volume of exports and promote consumer welfare through increased availability of goods and services*
 - (d) *(a) and (c) above*
9. *At any point of time, all markets tend to have the same exchange rate for a given currency due to*
- (a) *Hedging*
 - (b) *Speculation*
 - (c) *Arbitrage*
 - (d) *Currency futures*

10. 'Vehicle Currency' refers to
- (a) a currency that is widely used to denominate international contracts made by parties because it is the national currency of either of the parties
 - (b) a currency that is traded internationally and, therefore, is in high demand
 - (c) a type of currency used in euro area for synchronization of exchange rates
 - (d) a currency that is widely used to denominate international contracts made by parties even when it is not the national currency of either of the parties

ANSWERS

1.	(b)	2.	(c)	3.	(a)	4.	(d)	5.	(c)	6	(d)
7.	(a)	8.	(b)	9.	(c)	10.	(d)				

control of domestic monopolies and improvement of balance of payments position.

- ◆ Potential problems of foreign direct investment include use of inappropriate capital-intensive methods in a labour-abundant country, increase in regional disparity, crowding-out of domestic investments, diversion of capital resulting in distorted pattern of production and investment, instability in the balance of payments and exchange rate and indiscriminate repatriation of the profits.
- ◆ FDIs are also likely to indulge in anti-ethical market distortions, off-shoring or shifting of jobs, overexploitation of natural resources causing environmental damage, exercising monopoly power, decrease in competitiveness of domestic companies, potentially jeopardizing national security and sovereignty, worsening commodity terms of trade and causing emergence of a dual economy.
- ◆ FDI in India (Inbound FDI), mostly a post reform phenomenon, is a major source of non-debt financial resource for economic development. The government has, at different stages, liberalized FDI by increasing sectoral caps, bringing in more activities under automatic route and easing conditions for foreign investment.
- ◆ Overseas direct investments by Indian companies (Outbound FDI), made possible by progressive relaxation of capital controls and simplification of procedures, have undergone substantial changes in terms of size, geographical spread and sectoral composition. Outward Foreign Direct Investment (OFDI) from India stood at US\$ 1.86 billion in the month of June 2016.

TEST YOUR KNOWLEDGE

Multiple Choice Type Questions

1. Which of the following statements is incorrect?
 - (a) Direct investments are real investments in factories, assets, land, inventories etc. and involve foreign ownership of production facilities.
 - (b) Foreign portfolio investments involve flow of 'financial capital'.
 - (c) Foreign direct investment (FDI) is not concerned with either manufacture of goods or with provision of services.
 - (d) Portfolio capital moves to a recipient country which has revealed its potential for higher returns and profitability.
2. Which of the following is a component of foreign capital?
 - (a) Direct inter government loans

- (b) *Loans from international institutions (e.g. World Bank, IMF, ADB)*
 - (c) *Soft loans for e.g. from affiliates of World Bank such as IDA*
 - (d) *All the above*
3. *Which of the following would be an example of foreign direct investment from Country X?*
- (a) *A firm in Country X buys bonds issued by a Chinese computer manufacturer.*
 - (b) *A computer firm in Country X enters into a contract with a Malaysian firm for the latter to make and sell to it processors*
 - (c) *Mr. Z a citizen of Country X buys a controlling share in an Italian electronics firm*
 - (d) *None of the above*
4. *Which of the following types of FDI includes creation of fresh assets and production facilities in the host country?*
- (a) *Brownfield investment*
 - (b) *Merger and acquisition*
 - (c) *Greenfield investment*
 - (d) *Strategic alliances*
5. *Which is the leading country in respect of inflow of FDI to India?*
- (a) *Mauritius*
 - (b) *USA*
 - (c) *Japan*
 - (d) *USA*
6. *An argument in favour of direct foreign investment is that it tends to*
- (a) *promote rural development*
 - (b) *increase access to modern technology*
 - (c) *protect domestic industries*
 - (d) *keep inflation under control*
7. *Which of the following is a reason for foreign direct investment?*
- (a) *secure access to minerals or raw materials*
 - (b) *desire to capture of large and rapidly growing emerging markets*

- (c) *desire to influence home country industries*
 (d) *(a) and (b) above*
8. *A foreign direct investor*
 (a) *May enter India only through automatic route*
 (b) *May enter India only through government route*
 (c) *May enter India only through equity in domestic enterprises*
 (d) *Any of the above*
9. *Foreign investments are prohibited in*
 (a) *Power generation and distribution*
 (b) *Highways and waterways*
 (c) *Chit funds and Nidhi company*
 (d) *Airports and air transport*
10. *Which of the following statement is false in respect of FPI?*
 (a) *portfolio capital in general, moves to investment in financial stocks, bonds and other financial instruments*
 (b) *is effected largely by individuals and institutions through the mechanism of capital market*
 (c) *is difficult to recover as it involves purely long-term investments and the investors have controlling interest*
 (d) *investors also do not have any intention of exercising voting power or controlling or managing the affairs of the company.*

ANSWERS

1.	(c)	2.	(d)	3.	(c)	4.	(c)	5.	(a)	6	(b)
7.	(d)	8.	(d)	9.	(c)	10.	(c)				

countries, global supply chain disruptions and uncertainties, inflation, leading to input cost escalations and lower demand, global slowdown and related negative sentiments affecting investments, aggressive tightening of monetary policy and increases in cost of credit, high and increasing fuel prices and the mounting presence of informal sector.

- ◆ A remarkable feature of the post reform Indian economy is the unconventional experience of bypassing the secondary sector in the growth trajectory by a shift from agriculture to the services sector.
- ◆ The services sector is the largest sector of India and accounts for 53.89% of total India's GVA. It has the highest labour productivity and is the fastest growing sector. The exceptionally rapid expansion of knowledge-based services such as professional and technical services has contributed substantially to the growth of tertiary sector.
- ◆ India is among the top 10 World Trade Organization (WTO) members in service exports and imports. India's services exports at US\$ 27.0 billion recorded robust growth in November 2022 due to software, business, and travel services.
- ◆ To ensure the liberalisation of investment in various industries, the government has permitted 100 per cent foreign participation in telecommunication services through the Automatic Route including all services and infrastructure providers.
- ◆ The India Development Update (IDU) of the World Bank published in November 2022 holds the optimistic view that compared to other emerging economies, India is much more resilient to withstand adversities in the global arena, while acknowledging the fact that India had to face an unusually challenging external environment following the Russia-Ukraine war, increased crude oil and commodity prices, persistent global supply disruptions, tighter financial conditions and high domestic inflationary pressures.

TEST YOUR KNOWLEDGE

Multiple Choice Type Questions

1. *The Indian industry stagnated under the colonial rule because*
 - (a) *Indians were keen on building huge structures and monuments only*
 - (b) *Deterioration was caused by high prices of inputs due to draught*
 - (c) *The Indian manufactures could not compete with the imports of cheap machine made goods*
 - (d) *None of the above*

2. *The first wave of liberalization starts in India*
 - (a) *In 1951*
 - (b) *In 1980's*
 - (c) *In 1990*
 - (d) *In 1966*

3. *The sequence of growth and structural change in Indian economy is characterized by*
 - (a) *The historical pattern of prominence of sectors as agriculture, industry, services*
 - (b) *The historical pattern of prominence of sectors as industry, services, agriculture*
 - (c) *Unique experience of the sequence as agriculture, services, industry*
 - (d) *All the above are correct*

4. *Merchandise Exports from India Scheme was replaced by -*
 - (a) *Remission of Duties and Taxes on Export Products (RoDTEP) in 2021*
 - (b) *National Logistics Policy (NLP) in 2020*
 - (c) *Remission of Duties and Taxes on Export Products (RoDTEP) in 2019*
 - (d) *None of the above*

5. *The Foreign Investment Promotion Board (FIPB)*
 - (a) *a government entity through which inward investment proposals were routed to obtain required government approvals*
 - (b) *no more exists as the same is replaced by a new regime namely Foreign Investment Facilitation Portal*
 - (c) *no more exists as all inward investments are through automatic route and need no approval*
 - (d) *is the body which connects different ministries in respect of foreign portfolio investments*

6. *FAME-India Scheme aims to*
 - (a) *Enhance faster industrialization through private participation*
 - (b) *to promote manufacturing of electric and hybrid vehicle technology*
 - (c) *to spread India's fame among its trading partners*
 - (d) *None of the above*

7. *In terms of Ease of Doing Business in 2020 India ranks*
- (a) 63
 - (b) 77
 - (c) 45
 - (d) *None of the above*
8. *E-NAM is -*
- (a) *An electronic name card given to citizens of India*
 - (b) *National Agriculture Market with the objective of creating a unified national market for agricultural commodities.*
 - (c) *a pan-India electronic trading portal which networks the existing APMC mandis*
 - (d) *b) and c) above*
9. *Which of the following is not a policy reform included in the new economic policy of 1991 -*
- (a) *removing licensing requirements for all industries*
 - (b) *Foreign investment was liberalized*
 - (c) *Liberalisation of international trade*
 - (d) *The disinvestment of government holdings of equity share capital of public sector enterprises*
10. *Imports of foreign goods and entry of foreign investments were restricted in India because -*
- (a) *The government wanted people to follow the policy of 'Be Indian; Buy Indian'*
 - (b) *Because foreign goods were costly and meant loss of precious foreign exchange*
 - (c) *Government policy was directed towards protection of domestic industries from foreign competition*
 - (d) *Government wanted to preserve Indian culture and to avoid influence of foreign culture*
11. *The 'Hindu growth rate' is a term used to refer to -*
- (a) *the high rate of growth achieved after the new economic policy of 1991*
 - (b) *the low rate of economic growth of India from the 1950s to the 1980s, which averaged around 3.5 per cent per year*

- (c) *the low growth of the economy during British period marked by an average of 3.5 percent*
- (d) *the growth rate of the country because India is referred to as 'Hindustan'*
12. *In the context of the new economic policy of 1991, the term 'disinvestment' stands for -*
- (a) *A policy whereby government investments are reduced to correct fiscal deficit*
- (b) *The policy of sale of portion of the government shareholding of a public sector enterprise*
- (c) *The policy of public partnership in private enterprise*
- (d) *A policy of opening up government monopoly to the privates sector*
13. *The objective of introducing Monopolies and Restrictive Trade Practices Act 1969 was -*
- (a) *to ensure that the operation of the economic system does not result in the concentration of economic power in hands of a few*
- (b) *to provide for the control of monopolies*
- (c) *to prohibit monopolistic and restrictive trade practice*
- (d) *all the above*
14. *Which one of the following is a feature of green revolution -*
- (a) *use of soil friendly green manure to preserve fertility of soil*
- (b) *grow more crops by redistributing land to landless people*
- (c) *High yielding varieties of seeds and scientific cultivation*
- (d) *Diversification to horticulture*
15. *The strategy of agricultural development in India before green revolution was -*
- (a) *High yielding varieties of seeds and chemical fertilizers to boost productivity*
- (b) *Institutional reforms such as land reforms*
- (c) *Technological up gradation of agriculture*
- (d) *All the above*
16. *The Industrial Policy Resolution (1948) aimed at -*
- (a) *Market oriented economic reforms and opening up of economy*
- (b) *A shift from state led industrialization to private sector led industrialisation*
- (c) *an expanded role for the public sector and licensing to the private sector*

- (d) *an expanded role of private sector a limited role of public sector*
17. *The new economic policy of 1991 manifest in -*
- (a) *State led industrialization and import substitution*
- (b) *Rethinking the role of markets versus the state*
- (c) *Emphasized the role of good governance*
- (d) *Bringing about reduction in poverty and redistributive justice*
18. *The post independence economic policy was rooted in -*
- (a) *A capitalist mode of production with heavy industrialization*
- (b) *social and economic redistribution and industrialization directed by the state*
- (c) *social and economic redistribution through private sector initiatives*
- (d) *Industrialization led by private entrepreneurs and redistribution by state*

ANSWERS

1.	(c)	2.	(b)	3.	(c)	4.	(a)	5.	(b)	6.	(b)
7.	(a)	8.	(d)	9.	(a)	10.	(c)	11.	(b)	12.	(b)
13.	(d)	14.	(c)	15.	(b)	16.	(c)	17.	(b)	18.	(b)