



CA Foundation – December 2023  
Business Economics

**Business Economics MCQs  
by MVSIR**

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## BUSINESS ECONOMICS - MCQs

Business Economics – MCQ Compiler					
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<b>Total</b>			<b>1,312 MCQs</b>	<b>60 Marks</b>	

**Note:** Index of BCK MCQs is given separately at the end of Economics MCQs



CA Foundation – December 2023  
Business Economics

**Chapter 1**  
**Introduction to Business  
Economics**

MCQ Compiler by MVSIR

**UNIT 1**

**Basic**

A.Q., MTP Apr 23

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

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

MTP May 23

2 "The wealth of Nation" Considered as the first modern work of Economics was written by :

- (a) Marx
- (b) Adam-Smith
- (c) Lipsey
- (d) Allen

ICAI SM

3 In Economics, we use the term scarcity to mean:

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

ICAI SM

4 Economic goods are considered scarce resources because they

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

MTP Oct 19, ICAI SM

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

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

ICAI SM

6 In every economic system, scarcity imposes limitations on

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

ICAI SM, MTP Mar 18

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

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

A.Q.	
8	According to which of the following definitions, economics studies human behavior regarding how he satisfied his wants with scarce resources?
a) Robbin's definition b) Marshall's definition c) J.B. Say's definition d) Adam Smith's definition	
MTP Oct 20, ICAI SM	
9	The definition "Science which deals with wealth of Nation" was given by
a) Alfred Marshall b) A C Pigou c) Adam Smith d) J B Say	
MTP Mar 18	
10	Economics is a Science which deals with wealth' was referred by
a) Alfred Marshal b) J.B. Say c) Adam Smith d) A.C. Pigou.	
MTP Oct 20, ICAI SM	
11	Scarcity definition of Economics is given by
a) Alfred Marshall b) Samuelson c) Robinson d) Adam Smith	
MTP Apr 21, ICAI SM	
12	The managerial economics
a) Is Applied Economics that fills the gap between economic theory and business practice b) Is just a theory concept c) Trains managers how to behave in recession d) Provides the tools which explain various concepts	

A.Q., MTP Mar 18, MTP Apr 19	
13	The law of scarcity
a) does not apply to rich developed countries b) applies only to the less developed countries c) implies that consumers wants will be satisfied in a socialistic system d) implies that consumers wants will never be completely satisfied	
A.Q.	
14	Which of the following is/are limitation(s) of the wealth definitions of economics given by classical economists?
a) By considering the problem of production distribution & exchange of wealth, they focused attention on important issues with which economics is concerned. b) By restricting the definition of wealth to material wealth & the neglect of immaterial services, they narrowed down the scope of economics. c) Both (A) and (B) d) None of these	
MTP Apr 19, Oct 20, ICAI SM	
15	There is need of economic study, because
a) The resources are limited b) The wants are unlimited c) The resources are unlimited d) Both a and b	

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MTP Dec 22, A.Q.

16

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

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

ICAI SM

17

Business Economics is

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

A.Q.

18

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

- a) French
- b) Latin
- c) Greek
- d) German

A.Q.

19

Business economics is a field in \_\_\_\_\_ which uses economic theory and quantitative methods to analyze business enterprises

- a) Welfare Economics
- b) Development Economics
- c) Applied economics
- d) None of these

MTP Dec 22, A.Q.

20

Economics is a branch of \_\_\_\_\_ focused on the production, distribution and consumption of goods and services.

- a) Natural science
- b) Physical science
- c) Social science
- d) None of these

MTP Apr 21

21

Scarcity of resources occurs due to:

- a) High demand of resources
- b) Absence of Substitutes
- c) Mismanagement and inequality
- d) All of these

MTP May 23

22

Who defined Business economics in terms of use of economic analysis in formulation of business policies?

- (a) Adam Smith
- (b) Robbins
- (c) Joel Dean
- (d) Alfred Marshall

Extra MCQ

23

Business Economics is not only valuable to business decision makers, but also useful for managers of 'not-for-profit' org ?

- a) True
- b) False
- c) Partly True
- d) Partly False

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

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

MTP Apr 19, Oct 20, ICAI SM	
26	The benefit of economic study is
a) It ensure that all problems will be appropriately tackled b) It helps in identifying problems c) It enable to examine a problem in its right perspective d) It gives exact solutions to every problem	

MTP Nov 22, MTP Aug 18, MTP Oct 20	
27	_____ expressed the view the "Economics is neutral between end".
a) Robbins b) Marshall c) Pigou d) Adam Smith	

MTP Jun 22	
28	Most of the economic problems are of _____ nature and are affected by _____.
a) Complex, Several forces b) Simple, Several forces c) Simple, single factor d) Complex, Single factor	

MTP Nov 22	
29	Which of the following statements is true?
a) The study of economics ensures that all problems will be appropriately tackled. b) The study of economics cannot ensure that all problems will be appropriately tackled. c) The study of economics does not enable a student to examine a problem in its right perspective. d) None of these	

PYQ Jun 22, Jun 23	
30	Which of the following is the central problem of the economy?
a) Unemployment b) Poverty c) Scarcity of resources d) Inflation	

**Decision Making**

ICAI SM	
31	Economists regard decision making as important because:
a) The resources required to satisfy our unlimited wants and needs are finite, or scarce. b) It is crucial to understand how we can best allocate our scarce resources to satisfy society's unlimited wants and needs. c) Resources have alternative uses. d) All the above	

ICAI SM	
32	Which of the following is not 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?	

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<b>MTP Mar 21</b>	
<b>33</b>	<b>Rational decision making requires that</b>
a) one's choice be arrived at logically and without error. b) one's choice be consistent with one's goal. c) one's choice never vary. d) the consumer plan's to attain the highest possible level of satisfaction.	

<b>MTP Jun 22</b>	
<b>34</b>	<b>survival and success of any business depends on sound _____</b>
a) Mind b) Environment c) Decisions d) None of these	

**Micro Vs. Macro Economics**

<b>PYQ Jun 23</b>	
<b>35</b>	<b>Economic is classified into _____</b>
a) Normative and positive b) Micro and macro c) Internal and external d) None of the above	

<b>ICAI SM, MTP Apr 23</b>	
<b>36</b>	<b>Macroeconomics is also called _____ economics.</b>
a) applied b) aggregate c) experimental d) none of the above	

<b>MTP May 20, ICAI SM</b>	
<b>37</b>	<b>A study of how increases in the corporate income tax rate will affect the national unemployment rate is an example of</b>
a) Macro-Economics. b) Descriptive Economics. c) Micro-economics. d) Normative economics	

<b>ICAI SM</b>	
<b>38</b>	<b>Which of the following does not suggest a macro approach for India?</b>
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	

<b>ICAI SM, MTP Mar 22, May 23</b>	
<b>39</b>	<b>The branch of economic theory that deals with the problem of allocation of resources is</b>
a) Micro-Economic theory. b) Macro-economic theory. c) Econometrics. d) none of the above	

<b>ICAI SM</b>	
<b>40</b>	<b>Which of the following would be considered a topic of study in Macroeconomics?</b>
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	

<b>ICAI SM</b>	
<b>41</b>	<b>Macro Economics is the study of _____</b>
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.	

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<b>ICAI SM</b>	
<b>42</b>	<b>Which of the following statements is correct?</b>
<p>a) Micro economics is important for study of a particular household and a particular firm</p> <p>b) Macro economics is important for study of economic conditions of a country</p> <p>c) None of the above</p> <p>d) Both a and b</p>	

<b>MTP Oct 18, A.Q.</b>	
<b>45</b>	<b>Which of the following statements is incorrect?</b>
<p>a) Unlike normative economics, positive economics is based on objective analysis of economic issues.</p> <p>b) The opportunity cost of a good is the quantity of other goods sacrificed to get another unit of that good.</p> <p>c) Microeconomics emphasizes interactions in the economy as a whole.</p> <p>d) None of the above</p>	

<b>ICAI SM</b>	
<b>43</b>	<b>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?</b>
<p>a) Micro economics</p> <p>b) Macro economics</p> <p>c) None of the above</p> <p>d) Both a and b</p>	

<b>A.Q.</b>	
<b>46</b>	<b>Which of the following falls under Micro Economics ?</b>
<p>a) National Income</p> <p>b) General Price level</p> <p>c) Factor Pricing</p> <p>d) National Saving and Investment</p>	

<b>A.Q.</b>	
<b>44</b>	<b>Micro-economics is concerned with</b>
<p>a) the economy as a whole</p> <p>b) the electronics industry</p> <p>c) the study of individual economic behaviour</p> <p>d) the interactions within the entire economy</p>	

<b>A.Q.</b>	
<b>47</b>	<b>Which of the following statements is correct?</b>
<p>a) Employment and economic growth are studied in micro-economics.</p> <p>b) Micro economics deals with balance of trade</p> <p>c) Economic condition of a section of the people is studied in micro-economics</p> <p>d) External value of money is dealt with in micro-economics</p>	

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

MTP Oct 20, MTP Aug 18	
49	Which of the following is not a subject matter of Micro-economies?
<p>a) The price of mangoes.</p> <p>b) The cost of producing a fire truck for the fire department of Delhi, India.</p> <p>c) The quantity of mangoes produced for the mangoes market.</p> <p>d) The national economy's annual rate of growth</p>	

MTP Mar 19	
50	Macroeconomics is the study of:
<p>a) Inflation</p> <p>b) Unemployment</p> <p>c) Growth</p> <p>d) All of the above</p>	

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

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

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

Extra MCQ	
54	The long-run trends in business world are determined by prevailing _____
<p>a) microeconomic factors</p> <p>b) macroeconomic factors</p> <p>c) Both (a) &amp; (b)</p> <p>d) None of the above</p>	

Extra MCQ	
55	Consumer behaviour & location of industry are areas under _____
<p>a) Macro environment</p> <p>b) Micro environment</p> <p>c) Both (a) &amp; (b)</p> <p>d) None of the above</p>	

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

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

PYQ Jun 22, Jun 23	
58	Which of the following is not a subject matter of micro economics ?
<p>a) Behaviour of firms b) Location of industry c) Consumer behaviour d) Foreign exchange rate</p>	

**Nature of Business Economics**

ICAI SM	
59	Which of the following is a normative statement?
<p>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.</p>	

ICAI SM	
60	<p>Ram: My corn harvest this year is poor.</p> <p>Krishan: Don't worry. Price increases will compensate for the fall in quantity supplied.</p> <p>Vinod: Climate affects crop yields. Some years are bad, others are good.</p> <p>Madhu: The Government ought to guarantee that our income will not fall.</p> <p>In this conversation, the normative statement is made by</p>
<p>a) Ram b) Krishan c) Vinod d) Madhu</p>	

MTP Oct 19, ICAI SM	
61	Which of the following is a normative economic statement?
<p>a) Unemployment rate decreases with industrialization b) Economics is a social science that studies human behaviour. c) The minimum wage should be raised to Rs. 200/- per day d) India spends a huge amount of money on national defence.</p>	

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MTP May 20, ICAI SM

62 The difference between positive and normative Economics is:

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

MTP Oct-20, ICAI SM

63 Which of the following statements is incorrect?

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

A.Q.

64 Which of the following statements is normative?

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

A.Q.

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

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

MTP Nov 22, A.Q.

66 \_\_\_\_\_ is concerned with welfare proposition

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

A.Q.

67 Business economics is based on micro economics in two categories \_\_\_\_\_ and \_\_\_\_\_

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

MTP Apr 21

68 Which of the following is a normative statement?

- a) Health care basic facilities to be provided to all citizens.
- b) With Industrialisation, unemployment rate decreases.
- c) On national defence India spent huge amount of money.
- d) None of these

A.Q.	
69	Business economics is _____ in its approach
a) Idealistic b) Pragmatic c) Both (A) and (B) d) None of these	
A.Q.	
70	"A business manager must know the external forces working over his business environment." State whether the above statement is _____
a) True b) False c) Partly True d) Partly False	
MTP Apr 19	
71	Questions like what should be the level of national income, what should be the wage rate fall within the scope of:
a) Positive Science b) Normative Science c) Both (a) and (b) d) None of the above	
A.Q.	
72	"Generally a business manager is concerned with problems of his own business units. He does not study the economic problems of an economy as a whole." State whether the above statement is _____
a) True b) False c) Partly True d) Partly False	

MTP Aug 18, MTP May 20	
73	Which of the following statements would you consider to be a normative one?
a) Faster economic growth should result if an economy has a higher level of investment. b) Changing the level of interest rates is a better way of managing the economy than using taxation and government expenditure. c) Higher levels of unemployment will lead to higher levels of inflation. d) The average level of growth in the economy was faster in the 1990s than the 1980s	
MTP Nov 22, ICAI SM	
74	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	
MTP Apr 19	
75	Which of the following statements is correct?
a) As normative science, Economics involves value judgments b) Robbins has made economics as a form of welfare economics c) The Law of Demand is always true d) None of the above	

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MTP Mar 22, May 23, Apr 23

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

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

MTP Mar 22, Dec 22

77 Taxation involves which aspects of normative economics:

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

MTP Apr 23

78 Normative economics can be best explained through:

- (a) Fairness to tax
- (b) Incidence to tax
- (c) Effect of tax on incentives to work
- (d) None of these

PYQ Jun 22, Jun 23

79 Which of the following is not a correct statement?

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

MTP Nov 22.

80 Business economics is \_\_\_\_\_

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

PYQ Jun 22

81 Normative science suggests which of the following?

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

PYQ Jun 23

82 Which of the below enables application of economic logic and analytical tool to bridge the gap between theory and practice

- a) Macro economics
- b) Micro economics
- c) Business economics
- d) Traditional economics

PYQ Jun 22

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

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

### Scope of Business Economics

MTP Mar 18, May 20, May 23, ICAI SM

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

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

A.Q.

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

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

<b>86</b>	<b>Management of the firm control over macro-economic factors.</b>
a) has b) has no c) has partial d) None of these	

<b>MTP Dec 22</b>	
<b>87</b>	<b>Which of the following are within the scope of business economies?</b>
a) Capital Budgeting b) Risk Analysis c) Business cycles d) All of the Above	

<b>Extra MCQs</b>	
<b>88</b>	<b>Which of the following is NOT a basic problem of an economy ?</b>
a) Whether to produce more of consumer goods or capital goods b) Whether to lay emphasis on labour intensive techniques or on capital intensive techniques c) Whether to produce for rich people or for poor people d) Whether to accept foreign direct investment in the economy	

<b>89</b>	<b>The basic problem of scarcity gives rise to</b>
a) Technological problems b) Social problems c) Cultural problems d) Economic problems	

**Answer Key – Economics Chapter 1 – Unit 1**

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

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**UNIT 2**

**Central Economics Problems**

PYQ Jun 23

1

Which of the following refers to the sum total of arrangements for the product and distribution of goods and services in society?

- a) Economic system
- b) Business system
- c) Capitalist economic system
- d) Socialist economic system

ICAI SM

2

The central problem in economics is that of

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

MTP May 20, ICAI SM

3

Capital intensive technique would get chosen in a

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

ICAI SM

4

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

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

ICAI SM

5

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

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

A.Q.

6

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

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

MTP Nov 22, A.Q.

7

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

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

MTP Mar 21

8

Problem what to produce relates to:

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



<b>MTP Dec 22, A.Q.</b>	
<b>9</b>	<b>Capital Intensive technique of production is used in _____</b>
a) Developed Economy b) Underdeveloped Economy c) Labour surplus economy d) Capital surplus economy	

<b>MTP Nov 22, MTP Apr 19, Oct 20,</b>	
<b>13</b>	<b>Which of the following is not one of the features of capitalist economy?</b>
a) Right of private property b) Freedom of choice by the consumers c) No profit, No Loss motive d) Competition	

<b>MTP Dec 22</b>	
<b>10</b>	<b>The problem of "what to produce relate to</b>
a) The choice of goods and service b) Distribution of income c) The choice of technique d) None of these	

<b>ICAI SM</b>	
<b>14</b>	<b>Which of the following statements does not apply to a market economy?</b>
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.	

<b>MTP Apr 19, Oct 20, ICAI SM</b>	
<b>11</b>	<b>In Economics, the central economic problem means:</b>
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	

<b>ICAI SM, PYQ Jun 23</b>	
<b>15</b>	<b>The economic system in which all the means of production are owned and controlled by private individuals for profit.</b>
a) Socialism b) Capitalism c) Mixed economy d) Communism	

<b>Capitalist Economy</b>	
<b>ICAI SM</b>	
<b>12</b>	<b>Which of the following is considered as a disadvantage of allocating resources using the market system?</b>
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.	

<b>ICAI SM, MTP Mar 22</b>	
<b>16</b>	<b>Freedom of choice is the advantage of</b>
a) Socialism b) Capitalism c) Communism d) None of the above.	

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<b>Extra MCQ</b>	
<b>17</b>	<b>Precedence of property rights over human rights is demerit of _</b>
a) Socialist Economy b) Mixed Economy c) Capitalist Economy d) All of the above	

<b>MTP Jun 22, MTP Nov 22</b>	
<b>18</b>	<b>The regulatory mechanism of the market system is-</b>
a) Self interest b) Private property c) Competition d) Specialization	

<b>PYQ Jun 23</b>	
<b>19</b>	<b>Capitalist economy solve their economic problems through which of the following</b>
a) Central planning authority b) Price mechanism c) Administered prices d) Voting done by customers	

<b>A.Q.</b>	
<b>20</b>	<b>If there is no central planning authority to make the fundamental economic decisions and thus to allocate productive resources, how can then free enterprise or capitalist economy solve its central problems?</b>
a) Through the power of God b) On the basis of decision taken by industrial groups. c) The free market economy uses the impersonal forces of the market to solve its central problems d) None of these	

<b>A.Q.</b>	
<b>21</b>	<b>The industrialization and economic development of the USA, Great Britain and other Western European countries have taken place under the condition of _____?</b>
a) Socialism and planned structure b) Capitalism and laissez faire c) Mixed economic structure d) None of these	

<b>MTP Apr 21</b>	
<b>22</b>	<b>Which of the following is not a demerit of Capitalism?</b>
a) The pattern of demand does not represent the real need of the society. b) Strikes and lockdown are very common under capitalism c) Capitalism usually functions in a democratic framework. d) None of these	

<b>ICAI SM, MTP May 23</b>	
<b>23</b>	<b>In free market economy, allocation of resources is determined by</b>
a) Voting done by consumers b) a central planning authority. c) consumer preferences. d) the level of profits of firms.	

<b>MTP Oct 20, ICAI SM</b>	
<b>24</b>	<b>capitalist economy uses ___ as principal means of allocating resources.</b>
a) demand b) supply c) efficiency d) Prices	

<b>MTP Dec 22</b>	
<b>25</b>	<b>Consumer is sovereign under</b>
a) Free Economy b) Mixed Economy c) Controlled Economy d) Both (a) and (b)	

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<b>MTP Jun 22</b>	
<b>26</b>	<b>Demand and _____ are the forces that make market economies work.</b>
a) Elasticity of demand b) Quantity demanded c) Supply d) Quantity supplied	
<b>MTP Dec 22</b>	
<b>27</b>	<b>The Characteristics of capitalist economics does not include?</b>
a) Right to Private property b) Freedom of economic choice c) Absence of Consumer choice d) Competition	
<b>MTP Nov 22, May 23</b>	
<b>28</b>	<b>Which one of the following countries does not follow Capitalist economic system?</b>
a) USA b) UK c) Germany d) India	
<b>PYQ Jun 22</b>	
<b>29</b>	<b>Which of the following economic system is self regulating and run by invisible hands ?</b>
a) Mixed economic system b) Socialistic economic system c) Capitalist economic system d) Planned economic system	
<b>MTP Apr 23</b>	
<b>30</b>	<b>Which of the following is not the demerit of Capitalism:</b>
(a) There is usually high degree of operative efficiency under capitalism (b) Under Capitalism there is precedence of property right over human rights (c) Due to income inequality the pattern of demand does not represent the real needs of the society. (d) Capitalism leads to formation of monopolies	

<b>Socialistic Economy</b>	
<b>PYQ Jun 22</b>	
<b>31</b>	<b>In a socialist economy the allocation of resources is done by</b>
a) Market Price b) Consumer preferences c) A central planning authority d) The level of corporate profits	
<b>PYQ Jun 22</b>	
<b>32</b>	<b>A socialist economy is called as which of the following ?</b>
a) Command economy b) Military economy c) Behavioralist economy d) Applied economy	
<b>MTP Mar 18, May 20, May 23, ICAI SM</b>	
<b>33</b>	<b>Exploitation and inequality are minimal under</b>
a) Socialism b) Capitalism c) Mixed economy d) None of the above.	
<b>MTP May 20, ICAI SM</b>	
<b>34</b>	<b>Administered prices refer to:</b>
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.	
<b>ICAI SM</b>	
<b>35</b>	<b>_____ is also called as command economy</b>
a) Socialist b) Capitalist c) Mixed economy d) None of the above	

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MTP Dec 22, A.Q.

36 A socialist economy is a system of production where goods and services are produced

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

A.Q.

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

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

A.Q.

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

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

MTP Apr 21

39 Socialist economy does have:

- a) Right to work & minimum standard to living
- b) Absence of competition
- c) Right to private property
- d) Both a and b

A.Q.

40 In planned or command economy all economic decisions are taken by

- a) Workers
- b) Consumers
- c) Voters
- d) Government

MTP Apr 21

41 Administered price are determined in socialism by:

- a) Market Forces
- b) Government
- c) Both (a) and (b)
- d) None of these

MTP Mar 19

42 Which economy is now a myth only, as no country in the world is having that type of economy?

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

### Mixed Economy

ICAI SM

43 In a mixed economy

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

A.Q.

44 Which of the following is/are the merit(s) of mixed economic system?

- a) Entrepreneurs able to make profit
- b) Progressive taxes to reduce inequality
- c) Government's provision of public goods
- d) All of the above

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MTP Aug 18

45 Which of the following is correct?

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

A.Q.

46 Which of the following statements is/are correct about mixed economic system?

- a) Mixed economic system depends on both markets and governments for allocation of resources
- b) Mixed economy is not always a golden path between capitalism and socialism.
- c) It is very difficult to maintain a proper balance between private and public sectors.
- d) All of the above

Extra MCQs

47 Which of the following statements is correct?

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

48 Which of the following statement is correct?

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

49 Which of the following statements is not correct?

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

50 Capitalist system offers incentives for

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

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MTP May 23, Apr 23

51 The Central Economic Problem is:

- (a) What to Produce?
- (b) What Provision (if any) are to be made for economic growth?
- (c) How to Produce?
- (d) All the above

MTP May 23

52 The 'Communist Manifesto' was published in:

- (a) 1848
- (b) 1905
- (c) 1952
- (d) None of these.

PYQ Jun 23

53 Under which of the following economy the consumer have limited freedom of choice

- a) Socialist
- b) Mixed
- c) Capital
- d) Restricted

PYQ Jun 23

54 Encourage enterprise and risk taking is considered as a merit of which of the following economy?

- a) Social economy
- b) Political Economy
- c) Mixed Economy
- d) Managerial economy

PYQ Jun 22

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

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

PYQ Jun 23

56 Which of the following is one of the merits of socialism

- a) Importance given to personal efficiency
- b) Importance give to productivity
- c) Incentive for economic decisions
- d) Rapid growth and balanced economic development

Answer Key -- Economics Chapter 1 -- Unit 2

1	A	11	A	21	B	31	C	41	B	51	D
2	D	12	A	22	C	32	A	42	B	52	A
3	B	13	C	23	C	33	A	43	C	53	A
4	B	14	D	24	D	34	C	44	D	54	C
5	B	15	B	25	D	35	A	45	D	55	A
6	B	16	B	26	C	36	B	46	D	56	D
7	A	17	C	27	C	37	C	47	A		
8	A	18	C	28	D	38	C	48	A		
9	D	19	B	29	C	39	D	49	D		
10	A	20	C	30	A	40	D	50	D		

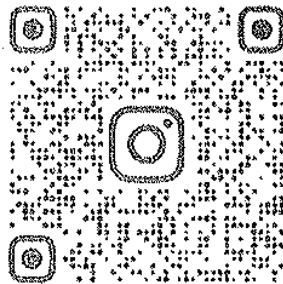
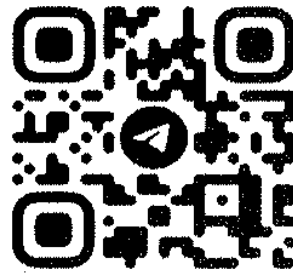
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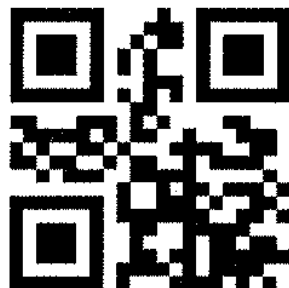
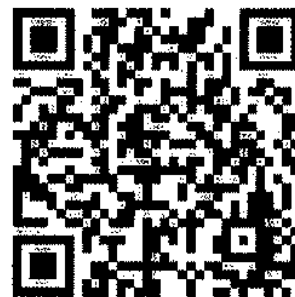


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CA Foundation – December 2023  
Business Economics

**Chapter 2**  
**Theory of Demand and Supply**

MCQ Compiler by MVSIR



**UNIT 1**

**Basics of Demand**

ICAI SM

**1 Demand for a commodity refers to:**

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

ICAI SM

**2 Demand is the**

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

Extra MCQ

**3 By demand we mean**

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

MTP Mar 19

**4 Effective Demand depends on:**

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

MTP Mar 19

**5 Quantity demanded is a:**

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

A.Q.

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

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

A.Q.

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

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

**Determinants of Demand**

**8 Which of the following is true ?**

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

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<b>ICAI SM</b>	
<b>9</b>	<b>Which of the following pairs of goods is an example of substitutes?</b>
a) Tea and sugar. b) Tea and coffee. c) Pen and ink. d) Shirt and trousers.	

<b>SEQ, ICAI SM</b>	
<b>10</b>	<b>All of the following are determinants of demand except:</b>
a) Tastes and preferences. b) Quantity supplied. c) Income of the consumer d) Price of related goods.	

<b>SEQ, ICAI SM</b>	
<b>11</b>	<b>If the price of Pepsi decreases relative to the price of Coke and 7-UP, the demand for</b>
a) Coke will decrease. b) 7-Up will decrease. c) Coke and 7-UP will increase. d) Coke and 7-Up will decrease.	

<b>ICAI SM</b>	
<b>12</b>	<b>The price of tomatoes increases and people buy tomato puree. You infer that tomato puree and tomatoes are</b>
a) Normal goods b) Complements c) Substitutes d) Inferior goods	

<b>ICAI SM</b>	
<b>13</b>	<b>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 ___</b>
a) increase; increase b) increase; decrease c) decrease; decrease d) decrease; increase	

<b>MTP May 20, ICAI SM</b>	
<b>14</b>	<b>If the price of orange Juice increases, the demand for apple Juice will ___</b>
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	

<b>ICAI SM</b>	
<b>15</b>	<b>Which of the following is an incorrect statement?</b>
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	

<b>SEQ</b>	
<b>16</b>	<b>___ and ___ do not directly affect the demand curve</b>
a) the price of related goods, consumer incomes b) Consumer incomes, tastes c) the costs of production, bank opening hours d) the price of related goods, preferences	

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MTP Dec 22, A.Q.	
17	The most crucial determinant of demand for an item is ____
a) Income of consumer b) Prices of other related goods c) Taste and preference of consumer d) It's own price	
MTP Oct 20	
18	Coco-cola and Pepsi are substitutes. A rise in the price of coco-cola will ____ the demand for Pepsi and the quantity of Pepsi sold will ____
a) Increase; increase b) Increase; decrease c) Decrease; decrease d) Decrease; increase	
MTP Oct 20	
19	If price of good A increases relative to the price of its substitutes B and C, then demand for
a) B will decrease b) C will decrease c) B and C will increase d) B and C will decrease	
MTP Aug 18	
20	____ pair of commodities is an example of substitutes
a) Coffee and milk b) Diamond and cow c) Pen and ink d) Mustard oil and coconut oil	
MTP Aug 18	
21	If an increase in the price of blue jeans leads to an increase in the demand for tennis shoes, then blue jeans and tennis shoes are ____
a) Complements. b) Inferior goods c) Normal goods. d) Substitutes	

MTP Mar 18	
22	If distribution of income is more equal, then the propensity to consumer of the country is
a) Relatively High b) Relatively Low c) Unaffected d) None of the above	
MTP Mar 18, MTP Dec 22	
23	When price of a substitute of X commodity falls, the demand for X
a) Rises b) Falls c) Remains unchanged d) Any of the above.	
MTP Dec 22, MTP Jun 22	
24	Computers & computer software are
a) Substitute goods b) Complementary goods c) Independent goods d) Normal goods	
Extra MCQ	
25	Ceterus paribus, if the price of Tea decreases, then
a) Demand of coffee will decrease. b) Demand of coffee will increase c) Demand of coffee will not change. d) Demand of tea will decrease.	
PYQ Jun 23	
26	Increase in price of pulses leads to increase in demand of green vegetables
a) Substitutes b) Complimentary goods c) Normal goods d) None of the above	

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Extra MCQ

27 In case of luxury goods,

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

Extra MCQ

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

- a) Increase in income leads to higher demand, but this increase will be less than proportionate to the increase in income
- b) Increase in income leads to lower demand, but this decrease will be less than proportionate to the increase in income
- c) Increase in income leads to no change in demand
- d) Increase in income leads to higher demand, but this increase will be more than proportionate to the increase in income

Extra MCQ

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

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

MTP Oct 20, ICAI SM

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.
- 30 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

Extra MCQ

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

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

Extra MCQ

32 Which of the following is incorrect?

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

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

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

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

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

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

a) (1) & (2) are false b) (1) & (2) are true c) (1) is true & (2) is false d) (1) is false & (2) is true	
---	--

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

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

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Extra MCQ

40 An individual's demand for a product may be affected by his seeing one in his neighbour's or friend's house because he figures out that if his neighbour or friend can afford it, he too can. This happens because of

- a) Veblen Effect
- b) Snob Effect
- c) Demonstration Effect
- d) Price Effect

MTP Dec 22

41 Related goods are of \_\_\_ types.

- a) two
- b) three
- c) four
- d) five

MTP Nov 22, May 23

42 "The increase in demand of a commodity due to the fact that others are also consuming the same commodity" is known as \_\_\_\_\_

- a) Veblen effect
- b) Bandwagon effect
- c) Snob effect
- d) Demonstration effect

MTP Nov 22

Match the following

LIST-I

- (a) Tea and Coffee
- (b) Car and Petrol
- (c) Gold & Diamond
- (d) Ragl and Bajara

LIST II

- 1. Veblen goods
- 2. Substitutes
- 3. Giffen goods
- 4. Complementary

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

PYQ Jun 22

44 Due to increase in price of coffee, the demand for tea increases. The two commodities under consideration are

- a) Substitute goods
- b) Complementary goods
- c) Unrelated goods
- d) Producers goods

Law of Demand - Basics

ICAI SM

45 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.

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

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

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

MTP Dec 22	
49	Traditional approach of law of demand was propounded by _____
a) Giffen b) Paul A Samuelson c) Alfred Marshall d) Pique	

**Rationale of Law of Demand**

ICAI SM	
50	When total demand for a commodity whose price has fallen increases, it is due to:
a) Income effect. b) Substitution effect c) Complementary effect d) Price effect	

ICAI SM	
51	With a fall in the price of a commodity
a) Consumer's real income increases b) Consumer's real income decreases c) There is no change in the real income of the consumer d) None of the above	

SEQ	
52	The 'substitution effect' takes place due to change in
a) income of the consumer b) prices of the commodity c) relative prices of the commodities d) all of the above	

MTP Apr 21	
53	In case of inferior goods:
a) Income effect and substitution effect work in opposite direction b) Income effect and substitution effect work in same direction c) It leads consumer to purchase less of a good and more of the substitute d) None of these	

MTP Oct 19	
54	Inferior goods are those goods whose income effect is-
a) Negative b) Positive c) Zero d) None of these	

Extra MCQ	
55	In the case of inferior goods, the expansion in demand due to a price fall will take place only if the -
a) income effect outweighs the substitution effect b) substitution effect outweighs the income effect c) substitution effect equals the income effect d) None of the above	

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MTP Dec 22, MTP Mar 21

56 When violation of law of demand occurs:

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

MTP Oct 18

57 The total effect of a price change of commodity is

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

MTP Jun 22

58 The substitution effect works to encourage a consumer to purchase more of a product when the price of that product is falling because-

- a) The consumer's real income has increased.
- b) The consumer's real income has decreased.
- c) The product is now relatively less expensive than before.
- d) Other products are now less expensive than before.

MTP Mar 21, Mar 22, Dec 22, Apr 23

59 The substitution effect will be stronger when:

- a) the goods are closer substitute
- b) there is lower cost of switching to the substitute good.
- c) there is lower inconvenience while switching to the substitute good.
- d) all the above

Extra MCQ

60 Which of the following is not a rationale of law of demand-

- a) Law of diminishing marginal utility
- b) Demand for necessities
- c) Arrival of new consumers
- d) Multiple uses of same commodity

Extra MCQ

61 As per the rationale of law of demand, when the price of a commodity falls, then

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

PYQ Jun 22

62 The substitution effect will be what when the price of the product falls?

- a) Zero
- b) Negative
- c) Positive
- d) Lower cost

**Exceptions of Law of Demand**

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

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

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

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MTP Oct 20, ICAI SM	
64	Conspicuous goods are also known as
a) Prestige goods b) Snob goods c) Veblen goods d) All of the above	
ICAI SM	
65	With an increase in the price of diamond, the quantity demanded also increases. This is because it is a:
a) Substitute good b) Complementary good c) Conspicuous good d) None of the above	
ICAI SM, MTP May 23	
66	An example of goods that exhibit direct price-demand relationship is
a) Giffen goods b) Complementary goods c) Substitute goods d) None of the above	
ICAI SM	
67	At higher prices people demand more of certain goods not for their worth but for their prestige value - This is called
a) Veblen effect b) Giffens paradox c) Speculative effect d) None of the above	
A.Q.	
68	The price of a piece of jewellery rises, the demand for it may also rise as consumers attach a _____ to owning & displaying expensive items.
a) money value b) use value c) snob value d) None of these	

MTP Apr 21	
69	Exception to the law of demand
a) Speculative effect b) Fear of Shortage c) Ignorance d) All the above	
MTP Mar 18	
70	Giffen goods are those goods
a) For which demand increases as price increases b) That have a high income elasticity of demand c) That are in short supply d) None of these	
MTP Mar 22, Apr 23	
71	For Giffen good the Engel curve is:
a) Positive sloped b) Vertical c) horizontal d) Negative sloped	
MTP Mar 22, May 23	
72	According to Hicks and Allen the demand curve slope downwards due to _____
a) Law of diminishing marginal utility b) Income effect and substitution effect c) Either (a) or (b) d) None of these	
MTP Dec 22	
73	In spite of the fact that the price of the television sets, refrigerators, air conditions etc. have been continuously rising their demand does not stand any tendency to fall because they are
a) Conspicuous goods b) Giffen goods c) Speculative goods d) Conspicuous necessities.	

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PYQ Jun 22

74

In case of Veblen goods, the demand curve is

- a) Horizontal
- b) Vertical
- c) Upward sloping to the right
- d) Downward sloping to the right

PYQ Jun 22

75

Which of the following statements is not correct?

- a) Giffen goods exhibit negative relationship between price and demand
- b) Conspicuous goods exhibit positive relationship between price and demand
- c) Incomplete information and irrational behaviour of consumer is one of the reasons of exception to the law of demand
- d) Law of demand states inverse relationship between price of a commodity and its quantity demanded

PYQ Jun 22

76

Which of the following is not an exception to the law of demand?

- a) Giffen goods
- b) Speculative goods
- c) Conspicuous goods
- d) White goods

Demand Curve & Demand Schedule

Extra/MCQ

77

Which of the following is correct?

- a) Demand curve has a positive slope, with price on the vertical axis and quantity on the horizontal axis
- b) Demand curve has a positive slope, with price on the horizontal axis and quantity on the vertical axis
- c) Demand curve has a negative slope, with price on the vertical axis and quantity on the horizontal axis
- d) Demand curve has a negative slope, with price on the horizontal axis and quantity on the vertical axis

ICAI SM

78

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

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

SEQ

79

If the demand curve for good X is downward-sloping, an increase in the price will result in

- a) A decrease in the demand for good X.
- b) No change in the quantity demanded for good X.
- c) A larger quantity demanded for good X.
- d) A smaller quantity demanded for good X.

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80	A market demand curve is a graphical presentation of the _____
a) Demand schedule b) Market demand schedule c) Supply schedule d) Market supply schedule	
<b>MTP Dec 22</b>	
81	When real income rather than money income is kept constant in drawing a consumer's demand curve for a commodity, the demand curve is negatively sloped.
a) Always b) Never c) Sometimes d) Often.	

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

**Changes in Demand**

<b>MTP Oct 20, Mar 22, Nov 22, Apr 23, A.Q., ICAI SM</b>	
83	Contraction of demand is the result of _____
a) decrease in the number of consumers. b) increase in the price of the good concerned. c) increase in the prices of other goods. d) decrease in the income of purchasers.	

<b>ICAI SM</b>	
84	Suppose the price of Pepsi increases, we will expect the demand curve of Coca Cola to: _____
a) Shift towards left since these are substitutes b) Shift towards right since these are substitutes c) Remain at the same level d) None of the above	

<b>ICAI SM</b>	
85	A movement along the demand curve for soft drinks is best described as: _____
a) An increase in demand. b) A decrease in demand. c) A change in quantity demanded. d) A change in demand.	

<b>MTP May 20, ICAI SM</b>	
86	What will happen in the rice market if buyers are expecting higher rice prices in the near future?
a) The demand for rice will increase and the demand curve will shift to the right b) The demand for rice will decrease and the demand curve will shift to the left c) The demand for rice will be unaffected as it is a necessity d) The demand for wheat will increase and the demand curve will shift to the right	

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MTP Oct 20, ICAI SM

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

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

ICAI SM

88 **An increase in the demand for computers, other things remaining same, will:**

- a) Increase the number of computers bought.
- b) Decrease the price but increase the number of computers bought.
- c) Increase the price of computers.
- d) Increase the price and number of computers bought

ICAI SM

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

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

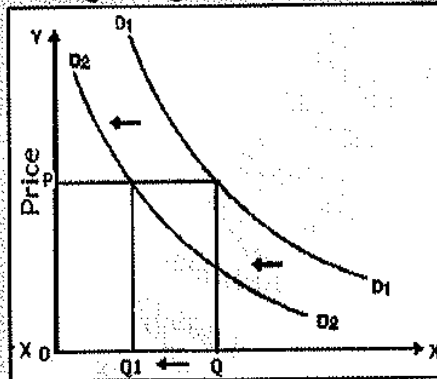
MTP Oct 20, ICAI SM

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

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

ICAI SM

The diagram given below shows



91

- 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.

ICAI SM

92 **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

MTP Apr 21	
93	<b>If the Price of Thumps Up increase the demand curve of Pepsi will:</b>
a) Remain at the same level b) Shift towards right c) Shift towards left d) None of those	
ICAI SM	
94	<b>If roller- coaster ride is a function of amusement park visit, then, if the price of amusement park entry falls</b>
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	
ICAI SM	
95	<b>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?</b>
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	
Extra MCQ	
96	<b>During expansion, economies experience increased employment &amp; increased level of income. How would a expansion likely to affect market demand for new houses?</b>
a) Demand curve will shift to the left. b) Demand curve will shift to right. c) Demand will not shift, but the quantity of houses sold per month will increase. d) Demand will not shift, but the quantity of houses sold per month will decrease	

MTP Oct 19	
97	<b>A downward movement along a demand curve indicate-</b>
a) Increase in demand b) Decrease in demand c) Contraction of demand d) Expansion of Demand	
MTP Mar 22	
98	<b>A fall in the price of a commodity where everything else is held constant, will lead to</b>
a) An increase in quantity demand b) A decrease in demand c) An increase in demand d) None of these	
Extra MCQ	
99	<b>Redistribution of Income away from groups of people who favour the commodity will lead to</b>
a) Increase in demand b) Decrease in demand c) Contraction of demand d) Expansion of Demand	
Extra MCQ	
100	<b>During _____ quantity demanded increases at all the prices</b>
a) Expansion of Demand b) Contraction of Demand c) Increase in Demand d) Decrease in Demand	
Extra MCQ	
101	<b>During _____ quantity demanded decreases at all the prices</b>
a) Expansion of Demand b) Contraction of Demand c) Increase in Demand d) Decrease in Demand	

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PYQ Jun 22

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

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

**Price Elasticity of Demand – Percentage Method**

ICAI SM

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

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

MTP Oct 20, ICAI SM

104 The price of a commodity decreases from Rs 6 to Rs 4 and the quantity demanded of the good increases from 10 units to 15 units, find the coefficient of price elasticity.

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

A.Q.

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

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

MTP Oct 20

106 If as a result of 20 percent fall in the ticket fares the demand for watching movie in the cinema hall increases by 10 percent, then price elasticity is

- a) 0
- b) Greater than 0 but less than 1
- c) 1
- d) Greater than 1

A.Q.

**Match the following**

**LIST I**

A	for a given 10% change in price demand changes by zero per cent.
B	for a given 10% change in price demand changes by 5%
C	for a given 10% change in price demand changes by 10%
D	for a given 10% change in price demand changes by 20%.

**LIST 2**

1	$e > 1$
2	$e = 1$
3	$e < 1$
4	$e = 0$

107

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

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

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

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

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

MTP May 20	
111	Refer the above and find the value of z.
a) 14 b) 1 c) 0.07 d) 5	

MTP Oct 19	
112	When the price of commodity increases by 40% and its quantity demanded falls from 150 to 120 units, then the price elasticity of demand for a commodity is-
a) -0.8% b) 0.8% c) 0.5% d) -0.5%	

MTP Oct 19	
113	A consumer demands 5 units of a commodity at the price of Rs. 4 per unit. He demands 10 units when the price falls to Rs 3 per unit. Price elasticity of demand is equal to-
a) 3 b) 2 c) 1.5 d) 4	

ICAI SM	
114	The price of a good decreases from Rs 100 to Rs 60 per unit. If the price elasticity of demand for it is 1.5 and the original quantity demanded is 30 units, calculate the new quantity demanded.
a) 60 units b) 45 units c) 48 units d) 54 units	

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Extra MCQ	
115	The price of a good decreases from Rs 80 to Rs 60 per unit. If price elasticity of demand = 2 Original Qty demanded = 50 units. Calculate the new qty demanded.
a) 25 units b) 75 units c) 100 units d) 0 units	

ICAI SM	
116	The quantity demanded by a consumer at price Rs 9 per unit is 800 units. Its price falls by 25% and quantity demanded rises by 160 units. Calculate its price elasticity of demand.
a) 0.50 b) 0.80 c) 1.25 d) 2	

PYQ Jun 22	
117	The price of X commodity decreases from Rs. 10 to 8, owing to which its demand increases from 100 to 120 units. Calculate the price elasticity of demand
a) (-) 1 b) 1 c) 0.8 d) 1.2	

Price Elasticity of Demand - Point Method

MTP Oct 20, ICAI SM	
118	In the case of a straight line demand curve meeting the two axes, the price-elasticity of demand at the midpoint of the line would be :
a) 0 b) 1 c) 1.5 d) 2	

ICAI SM	
119	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 Rs 100. d) None of the above.	

MTP Oct 18	
120	If R point bisects the demand curve in two equal part, then elasticity at R equals _____
a) Zero b) Five c) Two d) One	

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

SEQ	
122	If a point on a demand curve of any commodity lies on X Axis then price elasticity of demand of that commodity at that point will be : _____
a) Infinite b) More than zero c) Less than zero d) zero	

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MTP Apr 21	
123	From the following demand curve determine the elasticity at the given price $Q = 1200 - 10P$ When $P = 5$ , $dQ/dP = 10$
a) Elastic b) Inelastic c) Unitary elastic d) None of these	

**Price Elasticity of Demand – Arc Method**

ICAI SM	
124	Suppose the price of movies seen at a theatre rises from Rs 120 per person to Rs 200 per person. The theatre manager observes that the rise in price causes attendance at a given movie to fall from 300 persons to 200 persons. What is the price elasticity of demand for movies? (Use Arc Elasticity Method)
a) 0.5 b) 0.8 c) 1.0 d) 1.2	

SEQ, ICAI SM	
125	Suppose a department store has a sale on its silverware. If the price of a plate-setting is reduced from Rs 300 to Rs 200 and the quantity demanded increases from 3,000 plate settings to 5,000 plate-settings, what is the price elasticity of demand for silverware? (Use Arc Elasticity Method)
a) 0.8 b) 1.0 c) 1.25 d) 1.50	

ICAI SM	
126	If the local pizzeria raises the price of a medium pizza from Rs. 60 to Rs. 100 and quantity demanded falls from 700 pizzas a night to 100 pizzas a night, the price elasticity of demand for pizzas is : (Use Arc Elasticity Method)
a) 0.67 b) 1.5 c) 2.0 d) 3.0	

MTP Dec 22, A.Q.	
127	With reference to Arc elasticity measures the responsiveness of demand _____ on the demand curve.
a) at one given point b) at intercepts on X-axis & Y-axis c) between two points d) Any of the above	

A.Q.	
128	<p>In the above figure, DD1 is the demand curve of a commodity. There are two points on demand curve i.e., A and B with (P, Q) as (10, 2) &amp; (8, 3) respectively. If initial point is A OR initial point is B, price elasticity of demand will be</p>
a) same in both cases by point method of price elasticity of demand b) different in both cases by Arc method of price elasticity of demand c) same in both cases by Arc method & different by point method of price elasticity of demand d) None of these	

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MTP Aug 18, May 20

129

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

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

MTP May 20

130

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

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

MTP Mar 18, Mar 19

131

(Use Arc Method)  
If price of Banana rises from Rs. 30 to Rs. 40 and supply increases from 240 to 300 elasticity of supply is:

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

MTP Mar 22

132

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

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

MTP Mar 18

133

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

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

Price Elasticity of Demand  
Interpretation of Values

ICAI SM

134

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

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

ICAI SM

135

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

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

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MTP Oct 20, SEQ, ICAI SM		Extra MCQ	
136	The price of hot dogs increases by 22% and the quantity of hot dogs demanded falls by 25%. This indicates that demand for hot dogs is :	139	The numerical value of elasticity of demand for interpretation, can assume any value between _____
a) Elastic. b) Inelastic. c) Unitarily elastic. d) Perfectly elastic.		a) $-\infty$ to 0 b) $-\infty$ to $\infty$ c) 0 to $\infty$ d) 1 to $\infty$	
ICAI SM		MTP Apr 19, MTP Apr 21	
137	If electricity demand is inelastic, and electricity charges increase, which of the following is likely to occur?	140	When the demand curve is parallel to X axis (horizontal) elasticity of demand will be _____
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.		a) Zero b) Infinity c) Less than Unity d) None of these	
MTP Mar 18, SEQ, ICAI SM		MTP Mar 21, May 23	
138	Suppose the demand for meals at a medium-priced restaurant is elastic. If the management of the restaurant is considering raising prices, it can expect a relatively:	141	When $e = 0$ , elasticity of demand is :
a) Large fall in quantity demanded. b) Large fall in demand. c) Small fall in quantity demanded. d) Small fall in demand.		a) perfectly elastic b) unitary elastic c) inelastic d) perfectly inelastic demand	

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MTP Mar 21	
142	When a small change in price leads to a large change in demand the demand is
<p>a) inelastic b) elastic c) stagnant d) fixed</p>	

MTP Jun 22	
143	<p>Consider the following statements and select the correct answer from the given options. Assertion (A): Demand curve is vertical when elasticity of demand is zero. Reason (R): Marginal utility of a product is increasing</p>
<p>a) Both (A) and (R) are true and (R) is the correct explanation of (A) b) Both (A) and (R) are true and (R) is not the correct explanation of (A) c) (A) is true but (R) is false d) (A) is false but (R) is true</p>	

MTP Apr 19	
144	When quantity demanded changes by larger percentage than does price, elasticity is termed as:
<p>a) Inelastic b) Elastic c) Perfectly Elastic d) Perfectly Inelastic</p>	

MTP Jun 22	
145	Which of the following statements is correct?
<p>a) When the slope of the demand curve is zero, demand is infinitely elastic and when the slope is infinite, elasticity is zero. b) When the slope of the demand curve is zero, the elasticity is also zero and when the slope is infinite, elasticity is also infinite. c) When the slope of the demand curve is zero, the elasticity is unity and also when the slope is infinite, elasticity is unity. d) None of these</p>	

MTP Jun 22	
146	The share of the tax borne by seller will be larger
<p>a) If demand for product is less elastic. b) If demand for product is inelastic. c) If demand for product has greater elasticity. d) If elasticity of supply of product is larger.</p>	

MTP Mar 22	
147	A movement along a curve rather than a shift in the curve can be measured by:-
<p>a) Cross elasticity of demand b) Income elasticity of demand c) Price elasticity of demand &amp; Price elasticity of Supply d) None of these</p>	

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<b>PYQ Jun 22</b>	
<b>148</b>	If the proportionate change in price is greater than the proportionate change in quantity demanded of a commodity, the price elasticity of demand will be
a) Zero b) Inelastic c) Elastic d) Infinite	

**Price Elasticity of Demand –  
Total Outlay Method**

<b>ICAI SM</b>	
<b>149</b>	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.	

<b>ICAI SM</b>	
<b>150</b>	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.	

<b>SEQ, ICAI SM</b>	
<b>151</b>	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..	

<b>Extra MCQ</b>	
<b>152</b>	If demand for a good is inelastic, then as per total outlay method
a) Quantity Effect > Price Effect b) Quantity Effect = Price Effect c) Quantity Effect < Price Effect d) (a) or (c)	

<b>ICAI SM</b>	
<b>153</b>	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.	

<b>ICAI SM, MTP Mar 22</b>	
<b>154</b>	'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	

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MTP Oct 20, ICAI SM

155

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

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

ICAI SM

156

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

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

MTP Aug 18, May 20, Nov 22, SEQ

157

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

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

MTP Mar 18

158

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

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

A.Q.

159

If the price of a commodity raised by 12% and Ed is (-) 0.63, the expenditure made on the commodity by a consumer will

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

MTP Oct 18

160

If a good has price elasticity greater than one then:

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

MTP Mar 22

161

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

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

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<b>MTP Mar 22</b>	
<b>162</b>	If increasing railway fare increases revenue and decreasing then decrease revenue then the demand for railway travel has a price elasticity of _____
a) Greater than 1 b) 1 c) Greater than 0 but less than 1 d) None of these	

<b>MTP Dec 22</b>	
<b>163</b>	An increase in the price of a commodity when demand is inelastic causes the total expenditures of consumers of the commodity to _____
a) increase b) decrease c) remain unchanged d) any of the above.	

<b>PYQ Jun 22</b>	
<b>164</b>	A situation where after a price decrease, more units are sold causing increase in revenue is called as which of the following?
a) Price effect b) Quantity effect c) Income effect d) Substitution effect	

**Determinants of Price Elasticity of Demand**

<b>PYQ Jun 22</b>	
<b>165</b>	The demand for the commodity is _____ when a consumer is a habitual consumer.
a) Relative elasticity b) Inelastic c) Unit elasticity d) Perfectly elastic	

<b>MTP Mar18, Apr 19, Oct 19, ICAI SM</b>	
<b>166</b>	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.	

<b>ICAI SM</b>	
<b>167</b>	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	

<b>ICAI SM</b>	
<b>168</b>	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	

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

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MTP Mar 22, May 23

170

What are the determinant of Price elasticity of demand:

- a) Time Period
- b) Tied Demand
- c) Price range
- d) All the above

MTP Oct 19

171

Availability of close substitutes makes the demand-

- a) Less elastic
- b) More elastic
- c) Parallel to X axis
- d) Parallel to Y axis

MTP Oct 19

172

Demand for water is -

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

MTP Oct 19

173

Which of the following goods has inelastic demand-

- a) Salt
- b) Food grains
- c) Medicines
- d) All of the above

MTP Oct 19

174

Demand for pepsi is elastic because-

- a) Its falls under luxuries
- b) Its consumption can be postponed
- c) Its substitutes are available in the market
- d) It is a multiple use product

MTP Oct 18

175

If the elasticity of demand for a commodity is perfectly inelastic then which of the following is incorrect?

- a) The commodity must be essential to those who purchase it.
- b) The commodity must have many substitutes.
- c) The commodity will be purchased regardless of increase in its price.
- d) The elasticity of demand for this commodity must equal zero.

ICAI SM

176

Which of the following statements is correct?

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

SEQ, MTP Mar 22, May 23

177

Demand for electricity is elastic because \_\_\_\_\_

- a) it is very expensive
- b) it has a number of close substitutes
- c) it has alternative uses
- d) none of the above

A.Q.

178

Which of the following groups of goods have inelastic demand?

- a) Salt, Smart Phone and Branded Lipstick
- b) School Uniform, Branded Goggles and Smart Phone
- c) Salt, School Uniform and Medicine
- d) Medicine, Branded Sports Shoes and Diamond ring



MTP Dec 22, A.Q.	
179	During lockdown due to COVID-19, a consumer finds the vegetable vendors selling vegetables in the street have raised the prices of vegetables than usual prices. She will buy ___ vegetables than/as her usual demand showing the demand of vegetables is ___
a) more, inelastic demand b) less, elastic demand c) same, inelastic demand d) same, elastic demand	

Extra MCQ	
180	As a group, a good in generic form may have ___ demand, but when we consider its various brands, we say that a particular brand has ___ demand
a) inelastic, elastic b) elastic, inelastic c) inelastic, inelastic d) elastic, elastic	

**Income Elasticity of Demand**

MTP Aug 18, Apr 19, SEQ, ICAI SM	
181	In the case of an inferior good, the income elasticity of demand is:
a) positive. b) Zero. c) Negative. d) infinite.	

MTP Aug 18, Oct 19, SEQ, ICAI SM	
182	If a good is a luxury, its income elasticity of demand is:
a) Positive and less than 1. b) Negative but greater than -1. c) Positive and greater than 1. d) Zero	

ICAI SM	
183	Suppose a consumer's income increases from Rs 30,000 to Rs Rs. 36,000. As a result, the consumer increases her purchases of compact discs (CDs) from 25 CDs to 30 CDs. What is the consumer's income elasticity of demand for CDs? (Use Arc Elasticity Method)
a) 0.5 b) 1.0 c) 1.5 d) 2.0	

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

ICAI SM	
185	For a normal good with a downward sloping demand curve:
a) The price elasticity of demand is negative; the income elasticity of demand is negative. b) The price elasticity of demand is positive; the income elasticity of demand is negative. c) The price elasticity of demand is positive; the income elasticity of demand is positive. d) The price elasticity of demand is negative; the income elasticity of demand is positive.	

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ICAI SM

186

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

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

ICAI SM

187

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

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

ICAI SM

188

The luxury goods like jewellery and fancy articles will have

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

ICAI SM

189

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

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

MTP Aug 18, May 20, ICAI SM

190

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

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

MTP May 20, ICAI SM

191

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

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

ICAI SM

192

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

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

**ICAI SM**

**193** 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.

**MTP Mar 18, SEQ**

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

a) inferior good  
 b) luxury good  
 c) Necessity  
 d) can't say

**SEQ, MTP May 23**

**195** In case of inferior goods, income elasticity is :

a) zero  
 b) positive  
 c) Negative  
 d) none

**SEQ**

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

a) Necessity  
 b) Luxury  
 c) Inferior goods  
 d) None of these

**MTP Mar 21, Apr 23**

**197** For luxuries goods the income elasticity is :

a)  $e > 1$   
 b)  $e < 1$   
 c)  $e = 0$   
 d) none of these

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

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

a) +.5  
 b) -.5  
 c) +2  
 d) -2

**Extra MCQ**

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

a) less than one  
 b) greater than one  
 c) equal to one  
 d) Zero

**MTP Oct 19**

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

a) Inferior goods  
 b) Luxury goods  
 c) Normal goods  
 d) Can't say

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MTP Apr 19

201

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

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

MTP Apr 19

202

Normal goods have:

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

MTP Mar 19

203

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

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

ICAI SM

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

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

204

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

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

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

<b>MTP Aug 18</b>	
<b>205</b>	<b>Which of the following is incorrect?</b>
<p>a) The cross elasticity of demand for two substitutes is positive.</p> <p>b) The income elasticity of demand is the percentage change in quantity demanded of a good due to a change in the price of a substitute.</p> <p>c) The cross elasticity of demand for two complements is negative.</p> <p>d) The price elasticity of demand is always negative, except for Giffen goods.</p>	

<b>MTP Mar 18</b>	
<b>206</b>	<b>Calculate income-elasticity for a household when the income of this household rises by 5% and the demand for buttons does not change at all.</b>
<p>a) Infinity</p> <p>b) 1</p> <p>c) 5</p> <p>d) Zero</p>	

<b>MTP Dec 22</b>	
<b>207</b>	<b>Elasticity is greater than unity for</b>
<p>a) Luxuries</p> <p>b) Necessaries</p> <p>c) Complementary good</p> <p>d) None of these</p>	

<b>MTP Dec 22</b>	
<b>208</b>	<b>Income elasticities _____ in the short run and long run</b>
<p>a) differ</p> <p>b) Same</p> <p>c) Can't say</p> <p>d) Both (a) and (b)</p>	

<b>MTP Nov 22</b>	
<b>209</b>	<b>A necessity is defined as a good having:</b>
<p>a) Positive income elasticity of demand</p> <p>b) Negative income elasticity of demand</p> <p>c) Income elasticity between zero and 1.</p> <p>d) income elasticity of more than 1.</p>	

**Cross Price Elasticity of Demand**

<b>ICAI SM</b>	
<b>210</b>	<b>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</b>
<p>a) -0.25</p> <p>b) 0.25</p> <p>c) -4</p> <p>d) 4</p>	

<b>MTP Mar 21, ICAI SM</b>	
<b>211</b>	<b>A relative price is</b>
<p>a) price expressed in terms of money</p> <p>b) what you get paid for babysitting your cousin</p> <p>c) the ratio of one money price to another</p> <p>d) equal to a money price</p>	

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SEQ, ICAI SM

212 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

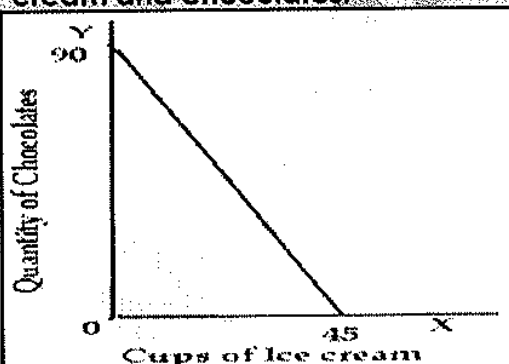
MTP Jun 22

213 For substitutes, cross elasticity of demand is-

- a) Positive
- b) Negative
- c) Zero
- d) Always less than one

MTP Oct 20, ICAI SM

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



214

The prices of these two commodities respectively are

- a) Rs. 10 and Rs 20
- b) Rs 20 and Rs. 10
- c) Rs. 10 and Rs 5
- d) Any of the above

MTP May 20, ICAI SM

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

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

ICAI SM

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

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

ICAI SM

217 The cross elasticity between Bread and DVDs is:

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

SEQ

218 The elasticity of substitution between two perfect substitutes is:

- a) zero
- b) greater than zero
- c) less than infinity
- d) infinite

MTP Mar 21, SEQ

219 Cross elasticity of demand between tea and coffee is:

- a) Positive
- b) negative
- c) zero
- d) infinity

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ICAI SM		SEQ
220	<p>The following diagram shows the relationship between price of Good X and quantity demanded of Good Y. What we infer from the diagram is</p>	<p>221 The price elasticity of demand when the price of X decreases from Rs. 40 per piece to Rs. 20 per piece will be equal to: (Use Arc Method)</p> <p>a) 1.5 b) 1.0 c) 1.66 d) 0.6</p>
	<p>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</p>	<p>222 The cross elasticity of monthly demand for Y when the price of X decrease from Rs. 40 to Rs. 20 is equal to: (Use Arc Method)</p> <p>a) +1 b) -1 c) -1.5 d) +1.5</p>
<p>Read the following data and answer Questions Number 221-226</p> <p>XYZ are three commodities where X and Y are complements whereas X and Z are substitutes.</p> <p>A shopkeeper sells commodity X at Rs. 40 per piece. At this price he is able to sell 100 pieces of X per month.</p> <p>After some time he decreases the price of X to Rs. 20.</p> <p>Following the price decrease -</p> <ul style="list-style-type: none"> <li>• he is able to sell 150 pieces of X per month,</li> <li>• demand for Y increases from 25 units to 50 units and</li> <li>• demand for commodity Z decreases from 150 to 75 units.</li> </ul>		<p>223 We can say that commodity X in economics is a/an</p> <p>a) luxury good b) inferior Good c) normal Good d) none of the above</p>
		<p>224 What can be said about price elasticity of demand for X?</p> <p>a) Demand is unit elastic b) Demand is highly elastic c) Demand is perfectly elastic d) Demand is inelastic</p>

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<b>SEQ</b>	
<b>225</b>	Suppose income of residents of locality increase by 50% & qty increases by 20%. What is income elasticity of demand of X?
a) 0.6 b) 0.4 c) 1.25 d) 1.35	

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

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

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

<b>MTP Apr 19, Nov 22, PYQ Jun 23</b>	
<b>229</b>	If two goods are totally unrelated, then cross elasticity between them is:
a) Zero b) One c) Infinite d) None of the above	

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

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

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

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

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

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

MTP Oct 18	
Read the following data and answer Questions number 236-241  A shopkeeper sells gel pen at Rs. 10 per pen. At this price he can sell 120 per month. After some time, he raises the price to Rs. 15 per pen. Following the price rise:	
<ul style="list-style-type: none"> <li>• Only 60 pens were sold every month</li> <li>• The number of refills bought were down from 200 to 150.</li> <li>• Number of ink pen customers bought went up from 90 to 180 per month</li> </ul>	

MTP Oct 18	
236	The price elasticity of demand when gel pen's price increases from Rs.10 per pen to Rs.15 per pen is _____ equal _____ to: (use arc elasticity)
a) 2.5 b) 1.0 c) 1.66 d) 2.66	

MTP Oct 18	
237	The cross elasticity of monthly demand for refills when the price of gel pen increase from Rs. 10 to Rs. 15 is equal to: Use arc elasticity
a) -0.71 b) + 0.25 c) -0.1 d) + 0.38	

MTP Oct 18	
238	The cross elasticity of monthly demand for ink pen when the price of gel pen increases from Rs. 10 to Rs. 15 is equal to:
a) + 1.66 b) -1.05 c) -2.09 d) + 2.09	

MTP Oct 18	
239	What can be said about the price elasticity of demand for pen?
a) It is perfectly elastic b) It is elastic c) It is perfectly inelastic d) It is inelastic	

MTP Oct 19, May 20	
240	Suppose income of the residents of locality increases by 50% and the quantity of gel pens demanded increases by 20%. What is income elasticity of demand for gel pen?
a) 0.4 b) 0.6 c) 1.25 d) 1.50	

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MTP Oct 18	
241	We can say that gel pen in economics sense is a/an.
a) Luxury good b) inferior good c) Normal good d) Nothing can be said.	

MTP Oct 18	
242	If the quantity demanded of coffee increases by 5% when the price of tea increases by 20%, the cross-price elasticity of demand between tea and coffee is
a) -0.25 b) 0.25 c) -4 d) 4	

ICAI SM	
243	The cross price elasticity between two goods X and Y is known to be - 0.8. If the price of good Y rises by 20%, how will the demand for X change?
a) + 80 % b) - 80 % c) - 16 % d) + 16 %	

ICAI SM	
244	The price of 1kg of tea is Rs 30. At this price 5kg of tea is demanded. If the price of coffee rises from Rs 25 to Rs 35 per kg, the quantity demanded of tea rises from 5kg to 8kg. Find out the cross price elasticity of tea.
a) 2.50 b) -2.50 c) +1.50 d) -1.50	

ICAI SM	
245	The price of 1 kg of sugar is Rs 50. At this price 10 kg is demanded. If the price of tea falls from Rs 30 to Rs 25 per kg, the consumption of sugar rises from 10 kg to 12 kg. Find out the cross price elasticity and comment on its value.
a) 2.40 b) -2.40 c) +1.20 d) -1.20	

MTP Dec 22	
246	If the amounts of two commodities purchased both increase or decrease when the price of one change, the cross elasticity of demand between them is
a) negative b) positive c) zero d) 1.	

**Advertisement Elasticity of Demand**

PYQ Jun 22	
247	If the advertisement expenditure on X commodity increases by 20% and demand for it increases only by 5%. The advertisement elasticity of demand for X commodity is
a) 0.25 b) (-) 0.25 c) 4 d) (-) 4	

PYQ Jun 22	
248	Advertising elasticity of demand is typically _____
a) Negative b) Positive c) Always zero d) None of the above	

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Extra MCQ	
249	When the advertisement expenditure on MIMO Mobile Phone was Rs 2,00,000, the company could sell only 20,000 units. The company thought of increasing the sales and thus increased the advertisement expenditure to Rs 3,50,000, leading to an increase in sale by 25,000 units. What is the advertisement elasticity?
a) 1.67 b) 0.33 c) -0.33 d) -1.67	
Demand Forecasting	
MTP Oct 19, ICAI SM	
250	A good which cannot be consumed more than once is known as
a) Durable good b) Non-durable good c) Producer good d) None of the above	
A.Q.	
251	The demand for labour in response to the wage rate is _____ whereas the demand for same labour in response to the price of electronic goods where labour enters as an input is _____
a) Derived Demand, Direct Demand b) Direct Demand, Derived Demand c) Individual Demand, Market Demand d) Company Demand, Industry Demand	
MTP Apr 21	
252	The Delphi process is a technique of
a) Budget Analysis b) Demand forecasting c) Cost Analysis d) None of these	

MTP Apr 21	
253	Marketing Planning is based on:
a) Demand forecasting b) Demand function c) Demand estimation d) Demand Analysis	
MTP Mar 19	
254	Lesser production of _____ would lead to lesser production in future
a) Public goods b) Consumer goods c) Agricultural goods d) Capital goods	
MTP Mar 21	
255	Demand for factor of production is
a) supplementary demand b) intermediate goods c) derived demand d) complementary demand	
SEQ	
256	The demand for a factor of production is said to be a derived demand because
a) It is a function of the profitability of an enterprise b) It depends on the supply of complementary factors c) It stems from the demand for the final product d) It arises out of means being scarce in relation to wants	

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Extra MCQ

257

Forecasting of demand is the art and science of predicting the probable demand for a product or a service at some future date on the basis of

- a) past behaviour patterns of some related events
- b) prevailing trends in the present
- c) (a) & (b)
- d) none of the above

Extra MCQ

258

Forecasting of demand is useful in-

- a) efficient production planning & process selection
- b) budgetary planning
- c) Cost control
- d) All of the above

Extra MCQ

259

Which of the following statements are incorrect regarding the Scope of Demand Forecasting ?

- a) Demand forecasting can be at the international level
- b) Demand forecasting cannot be done for a small firm in a local area
- c) Scope of the forecasting task will depend upon the area of operation of the firm in the present as well as what is proposed in future.
- d) Demand forecasting can be done for a small firm in a local area

Extra MCQ

260

Which of the following statement is correct ?

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

Demand Forecasting – Extra MCQs

Extra MCQ

261

Under which method of demand forecasting, consumers are given a specified sum of money and asked to spend in a store on goods with varying prices, packages, displays etc.

- a) Barometric Method
- b) Consumer Clinics
- c) Survey of Buyers' Intentions
- d) Classical Method

Extra MCQ

262

Which of the following refers to forecasting the demand for a particular firm's product

- a) Macro-Level Forecasting
- b) Industry-Level Forecasting
- c) Long Term Forecasting
- d) Firm-Level Forecasting

Extra MCQ

263

If the demand for a product is independent of the demand for other goods, then it is called \_\_\_\_\_

- a) Firm's demand
- b) Autonomous Demand
- c) Derived Demand
- d) Short Run Demand

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Extra MCQ	
264	Under this method of demand forecasting, a relationship is established between the quantity demanded (dependent variable) and the determinants of demand (Independent variables or explanatory variables).
a) Grass Roots approach b) Collective Opinion Method c) Controlled Experiments d) Regression Analysis	
Extra MCQ	
265	_____ refers to demand with its immediate reaction to changes in product price and prices of related commodities
a) Long-Run Demand b) Short-Run Demand c) Derived Demand d) Autonomous Demand	
Extra MCQ	
266	Which of the following statement is true about non-durable goods ?
a) These goods do not quickly wear out b) These goods yield utility over a period of time c) These goods meet only the current demand d) These goods can be consumed more than once	
Extra MCQ	
267	In which of the following method, scientifically chosen sample of potential customers are interviewed
a) Complete enumeration method b) Sample Survey Method c) End-Use Method d) Delphi Technique	

Extra MCQ	
268	Which of the following is incorrect regarding the Collective Opinion Method ?
a) It is also known as sales force opinion method or grass roots approach b) This method is subjective as personal opinions can possibly influence the forecast c) This method of forecasting could be useful in the long run d) This method of forecasting could be useful in the short run	
Extra MCQ	
269	Which method is useful when bulk of sale is made to industrial producers who generally have definite future plans ?
a) Survey of Buyers' Intention b) Grass Roots Approach c) Delphi Technique d) Regression Analysis	
Extra MCQ	
270	Which method is best suited in circumstances where intractable changes are occurring and the relevant knowledge is distributed ?
a) Collective Opinion Method b) Survey of Buyer's Intention c) Barometric Method d) Expert Opinion Method	

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Extra MCQ

271

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

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

Extra MCQ

272

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

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

Extra MCQ

273

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

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

Extra MCQ

274

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

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

Extra MCQ

275

The demand which will ultimately exist as a result of changes in pricing, promotion or product improvement, after enough time is allowed to let the market adjust is called as

- a) Short Run Demand
- b) Derived Demand
- c) Autonomous Demand
- d) Long Run Demand

Extra MCQ

276

In which of the following method burden of forecasting is put on the customers

- a) Expert Opinion Method
- b) Collective Opinion Method
- c) Survey of Buyers' Intentions
- d) None of the above

Extra MCQ

277

Under which technique, firms solicit the opinion of specialists through a series of carefully designed questionnaires

- a) Expert Opinion Method
- b) Collective Opinion Method
- c) Survey of Buyers' Intentions
- d) None of the above

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

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

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

<b>Extra MCQ</b>	
<b>281</b>	<b>Durable Goods have _____</b>
<p>a) Repeated Demand</p> <p>b) Replacement Demand</p> <p>c) (a) &amp; (b)</p> <p>d) None of the above</p>	

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

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

<b>MTP May 23</b>	
<b>284</b>	<b>Heavy advance orders for capital goods is an example of-</b>
<p>a) Coincident Indicator</p> <p>b) Leading Indicator</p> <p>c) Lagging Indicator</p> <p>d) All of the above</p>	

<b>Extra MCQ</b>	
<b>285</b>	<b>Which of the following is not a disadvantage of Controlled Experiment Method?</b>
<p>a) It is expensive as well as time consuming</p> <p>b) It is risky because it may lead to unfavourable reactions from dealers, consumers and competitors</p> <p>c) It is easy to determine what conditions should be taken as constant and what factors should be regarded as variable demand</p> <p>d) It is practically difficult to satisfy the condition of homogeneity of markets</p>	

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Extra MCQ

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

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

Extra MCQ

287 The objective of advertisement is to \_\_\_\_\_

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

Additional Practice

PYQ Jun 22

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

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

MTP Apr 23

289 Methods of demand forecasting are \_\_\_\_\_

- (a) Survey of Buyer's intension
- (b) Collective opinion Method
- (c) Both (a) and (b)
- (d) None of these

Extra MCQ

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

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

MTP Dec 22

291 What are the determinants of price elasticity of demand

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

Extra MCQ

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

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

MTP May 23

293 Ceteris paribus means: \_\_\_\_\_

- (a) Holding supply constant
- (b) Holding demand constant
- (c) Price being constant
- (d) other factors being constant.



MTP Apr 23	
294	Rationale of the law of demand is:
(a) Price effect of a fall in price (b) Different uses (c) Arrival of new consumers (d) All of these	
MTP May 23	
295	There will be _____ in the demand Curve of cars with an increase in the Price of Petrol
(a) Leftward shift (b) Rightward Shift (c) Upward Movement (d) Downward Movement	
PYQ Jun 23	
296	In the price of a gel pen increases from Rs 40 to Rs 50 and in response to this the quantity demand decreases from 25 units to 20 units. Coefficient of price elasticity will be
a) 1.25 b) -1.25 c) 0.8 d) -0.8	
PYQ Jun 23	
297	When no. of tourists increase at a place for which the room rent of hostel also increases. Then the elasticity of supply of room will be
a) Zero b) $< 1$ c) $> 1$ d) $= 1$	
MTP May 23	
298	The commonly available technique of demand forecasting are:
(a) Survey of buyer's intention (b) Expert opinion method (c) Least Square method (d) All of these	

PYQ Jun 23	
299	Suppose there is an increase in income by 15%, which increase demand by 30% the income elasticity of demand will be
a) 0.67 b) 0.5 c) 2 d) 3	
MTP Apr 23	
300	If the price of A rises by 10% and the demand for B increases by 15% then the Cross elasticity will be:
(a) -1.5 (b) 1.5 (c) 2 (d) None of these	
MTP Apr 23	
301	Snob effect is explained as _____
(a) It is a function of consumption of others (b) It is a function of price (c) Both (a) and (b) (d) None of these	
PYQ Jun 23	
302	Price effect is described as which of followings
a) Income effect + Veblen effect b) Substitution effect + Veblen effect c) Income effect + substitution effect d) Veblen effect + demonstration effect	
PYQ Jun 23	
303	Which of the following is not an exception to the law of demand?
a) Speculative goods b) Giffen goods c) Necessary goods d) Normal goods.	

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MTP Apr 23

304 Which of the following is not the exception to the law of demand:

- (a) Speculative goods
- (b) Conspicuous necessities
- (c) Future expectation about prices
- (d) Income effect

PYQ Jun 23

305 Leftward shift of demand curve of coffee represents

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

PYQ Jun 23

306 Which of the following method is used to calculate Elasticity of demand when change in price and quantity demand are large

- a) Zero elasticity
- b) Cross elasticity
- c) Point elasticity
- d) Arc elasticity

PYQ Jun 23

307 Movement along the same demand curve represents

- a) Change in demand
- b) Change in Quantity demand
- c) Increase in demand
- d) Decrease in demand

PYQ Jun 23

308 When oranges has - (0.58) income elasticity the commodity orange is called as

- a) Orange is a necessary good
- b) Orange is a inferior good
- c) Orange is a substitute good
- d) none

MTP May 23

309 Cross elasticity between complementary goods is:

- (a) Negative
- (b) Positive
- (c) Either of these
- (d) None of these

Notes:

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Answer Key – Economics Chapter 2 – Unit 1

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

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Answer Key – Economics Chapter 2 – Unit 1

201	B	216	C	231	A	246	A	261	B	276	C	291	D	306	D
202	A	217	C	232	D	247	A	262	D	277	A	292	C	307	B
203	C	218	D	233	D	248	B	263	B	278	C	293	D	308	B
204	A	219	A	234	A	249	A	264	D	279	B	294	D	309	A
205	B	220	D	235	C	250	B	265	B	280	C	295	A		
206	D	221	D	236	C	251	B	266	C	281	B	296	D		
207	A	222	B	237	A	252	B	267	B	282	A	297	C		
208	A	223	C	238	A	253	A	268	C	283	D	298	D		
209	C	224	D	239	B	254	D	269	A	284	B	299	C		
210	B	225	B	240	A	255	C	270	D	285	C	300	B		
211	C	226	D	241	C	256	C	271	D	286	B	301	A		
212	C	227	A	242	B	257	C	272	B	287	D	302	C		
213	A	228	A	243	C	258	D	273	B	288	B	303	D		
214	B	229	A	244	C	259	B	274	A	289	C	304	D		
215	A	230	C	245	D	260	C	275	D	290	C	305	A		

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**UNIT 2**

**Classification of Wants**

ICAI SM, MTP May 23

1 Comforts lie between

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

A.Q.

2 Luxuries are goods that are

- a) Enjoyable and essential
- b) Enjoyable but not essential
- c) Essential but not enjoyable
- d) Neither enjoyable nor essential

**Basics of Utility**

MTP Mar 19, ICAI SM

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

- a) The demand for the good.
- b) The usefulness of the good in consumption.
- c) The expected satisfaction derived from consuming the good.
- d) The rate at which consumers are willing to exchange one good for another.

A.Q.

4 The desire for a commodity by a person depends upon the \_\_\_\_\_ he expects to obtain from it.

- a) Utility
- b) Pleasure
- c) Taste
- d) None of these

A.Q.

5 People know utility of goods by means of \_\_\_\_\_

- a) price
- b) introspection
- c) demand
- d) desire

A.Q.

6 Being \_\_\_\_\_ utility varies with different persons.

- a) absolute
- b) objective
- c) subjective
- d) None of these

A.Q.

7 By way of an optimal choice, a consumer tends to

- a) save money
- b) purchase large quantity
- c) maximize satisfaction
- d) maximize satisfaction subject to constraints like tastes and preferences

MTP Nov 22

8 All desires, tastes and motives of human beings are called \_\_\_\_\_ in economics.

- a) Willingness
- b) Demand
- c) Wants
- d) None of these

**Cardinal Approach – Law of Diminishing Marginal Utility**

SEQ, ICAI SM, MTP Apr 23

9 Total utility is maximum when :

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

ICAI SM	
10	The successive units of stamps collected by a little boy give him greater and greater satisfaction. This is a clear case of
<p>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</p>	

MTP Oct 19, MTP Aug 18, ICAI SM	
11	The second glass of lemonade gives lesser satisfaction to a thirsty boy, this is a clear case of:
<p>a) Law of demand b) Law of diminishing returns c) Law of diminishing marginal utility d) Law of supply</p>	

SEQ	
12	Consumer stops purchasing the additional units of the commodity when
<p>a) marginal utility starts declining b) marginal utility become zero c) marginal utility is equal to marginal utility of money d) total utility is increasing</p>	

MTP Dec 22, A.Q.	
13	At saturation point of TU curve, the slope of TU curve is _____
<p>a) 1 b) Infinity c) Zero d) Positive</p>	

A.Q.	
14	Condition of equilibrium using utility analysis of demand can be expressed as
<p>a) <math>MUX/PX = QX</math> b) <math>PX QX = MUM</math> c) <math>MUX/PX = MUY/PY = MUM</math> d) <math>MUX = MUM</math></p>	

A.Q.	
15	MU curve will be below X-axis when
<p>a) MU is zero b) TU is falling c) MU is negative d) Both (B) and (C)</p>	

A.Q.	
16	A falling MU curve illustrates
<p>a) The principle of diminishing marginal utility b) The principle of diminishing marginal rate of substitution c) The principle of equi-marginal utility d) Any of the above</p>	

MTP Apr 21	
17	If $MUX = 30$ , $Px = 5$ $MUY = 40$ the value of $Py$ will be
<p>a) 10 b) 15 c) 6.67 d) None of these</p>	

MTP Mar 21	
18	MU from last unit consumed of commodity Y = 50 Units and MUM = 10. Consumer is in equilibrium and consuming commodity y only. Find the Price of Commodity Y—
<p>a) 5 b) 10 c) 40 d) None of these</p>	

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<b>MTP Oct 18, Oct 20</b>	
<b>19</b>	<b>Marginal utility approach to demand was given by-</b>
a) J R Hicks b) Alfred Marshall c) Robbins d) A C Pigou	

<b>Extra MCQ</b>	
<b>20</b>	<b>Which of the following is incorrect relating to Law of Diminishing Marginal Utility ?</b>
a) Law may not apply in case of prestigious goods b) Law may not hold in case of hobbies c) Law applies in case of habit forming commodities d) Law may not be operating in cases such as creative art	

<b>MTP Oct 19</b>	
<b>21</b>	<b>A consumer of two goods X and Y is in equilibrium. Price of good X is Rs. 10 &amp; price of good Y is Rs. 20 respectively. If <math>MU_x</math> is 60 utils, then the <math>MU_y</math> is-</b>
a) 30 utils b) 120 utils c) 60 utils d) 6 utils	

<b>MTP Nov 22, MTP Apr 19</b>	
<b>22</b>	<b>Cardinal Measurability of utility means:</b>
a) Utility can be measured b) Utility cannot be measured c) Utility can be ranked d) Utility can be measured in some case	

<b>MTP Mar 18</b>	
<b>23</b>	<b>Law of diminishing marginal utility may not apply to:</b>
a) Money b) Butter c) Pepsi, Coke etc. d) Ice cream	

<b>MTP Nov 22, MTP Jun 22</b>	
<b>24</b>	<b>Diminishing marginal utility implies that the</b>
a) marginal utility of a good diminishes over time. b) total utility is negative. c) last unit of a good consumed will contribute most to the consumer's satisfaction. d) first unit of a good consumed will contribute most to the consumer's satisfaction.	

<b>MTP Jun 22</b>	
<b>25</b>	<b>Marshallian theory of consumer's behavior is based on</b>
a) Hypothesis of additive utilities. b) Hypothesis of independent utilities. c) Both (A) and (B) d) Weak ordering	

<b>MTP Jun 22</b>	
<b>26</b>	<b>The law of diminishing marginal utility states that</b>
a) total utility is maximized when a consumer obtain the same amount of utility per unit of each product consumed b) beyond some point additional units of a product will yield less and less extra satisfaction to a consumer. c) price must be lowered to induce firms to supply more of a product. d) it will take larger and larger amounts of resources beyond some point to produce successive units of a product	

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MTP Jun 22

27 A consumer is in equilibrium when s/he is deriving \_\_\_\_\_ satisfaction from the goods.

- a) maximum
- b) possible
- c) maximum possible
- d) None of these

MTP Jun 22

28 The oldest approach to the theory of demand is \_\_\_\_\_.

- a) the total utility approach
- b) the cardinal utility approach
- c) the ordinal utility approach
- d) None of these

MTP Mar 22

29 After reaching the saturation point, consumption of additional units of the commodity cause:

- a) Total utility to fall and marginal utility to increase
- b) Total utility and marginal utility both to increase
- c) Total utility to fall and marginal utility to become negative
- d) Total utility to become negative and marginal utility to fall

Read the table & answer ques no. 30-31

No. of products	Total utility	Marginal utility
0	0	-
1	3600	
2	6800	
3	9600	
4	12000	
5	14000	
6	15600	
7	16800	
8	17600	
9	18000	

MTP Oct 18

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

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

MTP Oct 18

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

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

PYQ Jun 23

32 Supposing that total utility is 100 at 10 units of consumption of a commodity. If consumer increases the consumption by one more unit and owing to that total utility increases to 108. The marginal utility of last unit consumed will be

- a) 8
- b) 100
- c) 102
- d) 101

Extra MCQ

33 Which of the following statement is incorrect ?

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

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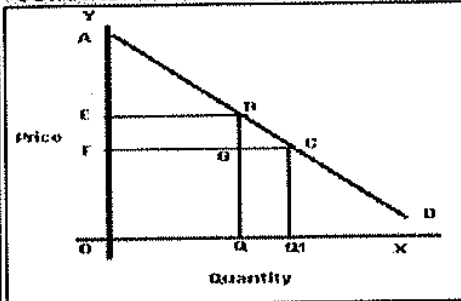
MTP Jun 22	
34	Law of Equi-marginal Utility can be expressed as-
a) $MU_x/P_x = Q_x$ b) $P_x Q_x = MU_m$ c) $MU_x/P_x = MU_y/P_y = MU_m$ d) $MU_x = MU_m$	
Extra MCQ	
35	According to Marshall, consumer has diminishing utility for each additional unit of a commodity and therefore, he will be willing to pay
a) only less for each additional unit b) only more for each additional unit c) The same for each additional unit d) As per the situation	
MTP Dec 22	
36	Traditional economic theory could not explain choices involving risk because it assumed that
a) MU always declines b) MU first declines and then rises c) MU first rises and then declines d) MU always increases.	
PYQ Jun 22	
37	When total utility is diminishing, the marginal utility is
a) Diminishes b) Zero c) Negative d) Increases	
Consumer Equilibrium – Single Commodity	
MTP Oct 19	
38	If the consumer consumes only one commodity X, he will be in equilibrium when-
a) $MU_x > P_x$ b) $MU_x < P_x$ c) $MU_x = P_x$ d) None of these	

Consumer Surplus	
MTP Apr 21, MTP Oct 18, ICAI SM	
39	By consumer surplus, economists mean
a) The area inside the budget line above the price of the commodity b) The area between the average revenue and marginal revenue curves. c) The difference between the maximum amount a person is willing to pay for a good and its market price. d) The difference between the market price and the supply curve	
ICAI SM	
40	When price falls from E to F, then which of the following statements is true about this consumer?
a) Increase in consumer surplus by EFGR b) Increase in consumer surplus by AER c) Increase in consumer surplus by EFCR d) None of The above	
MTP Nov 22, MTP Aug 18, Mar 19, SEQ	
41	The law of consumer surplus is based on :
a) indifferent curve analysis b) revealed preference theory c) law of substitution d) the law of diminishing marginal utility	
MTP May 23	
42	Consumer surplus is derived from:
(a) Law of diminishing marginal utility (b) Marginal rate of substitution. (c) Budget line (d) None of these	

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ICAI SM

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



43

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

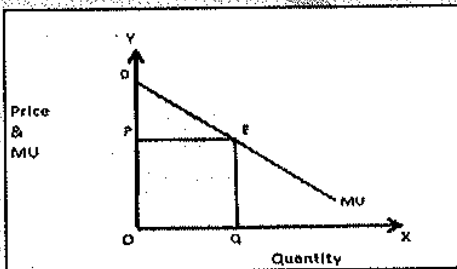
MTP Oct 20, ICAI SM

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

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

A.Q.

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



45

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

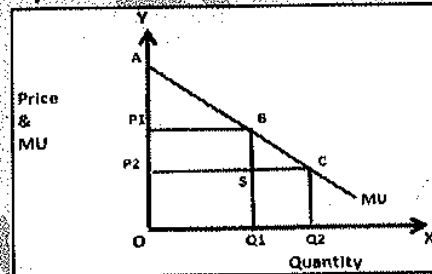
MTP Mar 21, MTP Mar 22

46 A rise in price will -

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

A.Q.

47 In following diagram, when price of commodity decreases from P1 to P2, the gain in consumer's surplus is equal to



47

- a) AP1B
- b) AP2C
- c) P1P2CB
- d) BSC

MTP Mar 18, Mar 19

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

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

Extra MCQ

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

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

<b>MTP Mar 19</b>	
<b>50</b>	<b>Consumer Surplus is:</b>
a) What a consumer is ready to pay + what he actually pays b) What a consumer is ready to pay - what he actually pays c) What he actually pays - what a consumer is ready to pay d) None of the above	
<b>MTP Oct 18</b>	
<b>51</b>	<b>A buyer's willingness to pay is that buyer's:</b>
a) minimum amount he is willing to pay for a good. b) producer surplus. c) consumer surplus d) maximum amount he is willing to pay for a good	
<b>MTP Aug 18</b>	
<b>52</b>	<b>Consumer surplus is highest in case of:</b>
a) Necessities b) Luxuries c) Comforts d) Conventional necessities	
<b>MTP Nov 22, MTP Jun 22</b>	
<b>53</b>	<b>A rise in price of a good _____ consumer surplus.</b>
a) Reduces b) Increases c) Either (A) and (B) d) Doesn't effect	
<b>MTP Apr 23</b>	
<b>54</b>	<b>What are the limitation of Consumer Surplus:</b>
(a) Consumer surplus cannot be measured precisely (b) Consumer surplus derived from a commodity is affected by availability of substitute (c) Both (a) & (b) (d) None of these	

<b>MTP Mar 21, MTP Mar 22</b>	
<b>55</b>	Consider the following statements and select the correct answer from the given options. <b>Assertion (A): Consumer surplus is the difference between the potential price and actual price.</b> <b>Reason (R): There exists an inverse relationship between the price and consumer surplus.</b>
a) Both (A) and (R) are true and (R) is the correct explanation of (A) b) Both (A) and (R) are true and (R) is not the correct explanation of (A) c) (A) is true but (R) is false d) (A) is false but (R) is true	
<b>Extra MCQ</b>	
<b>56</b>	<b>The slope of TU is _____</b>
a) Increasing b) Decreasing c) Always zero d) None of the above	
<b>MTP Nov 22, MTP Dec 22</b>	
<b>57</b>	<b>The price which a consumer would be willing to pay for a commodity equals to his _____.</b>
a) Total utility b) Marginal utility c) Average utility d) Does not have any relation to any of these	
<b>PYQ Jun 22</b>	
<b>58</b>	<b>Consumer's surplus = what the consumer is ready to pay minus _____?</b>
a) What is actual price of the product b) What is income of the consumer c) What he actually pays d) What is actual surplus	

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**Ordinal Approach – Indifference Curve**

MTP Oct 18, ICAI SM

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

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

SEQ, ICAI SM

60 An indifference curve slopes down towards right since more of one commodity, less of another result in:

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

SEQ

61 The Slope of Indifference Curve indicates

- a) Marginal Rate of Substitution of x for y
- b) Prices of x and y
- c) Slope of the budget line
- d) Change in prices

ICAI SM

62 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 budget line cuts the indifference curve

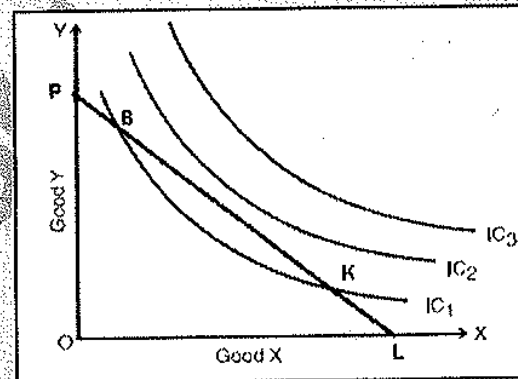
MTP Apr 23

63 The rate at which the consumer is prepared to exchange good x and y is:

- (a) Marginal rate of substitution
- (b) Elasticity of Substitution
- (c) Diminishing Marginal Utility
- (d) None of these

ICAI SM

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



64

- 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 and less of Y and reach point K
- d) Consumer same quantity of Good Y and more of Good X

ICAI SM

65 Which of the following statements is true about this consumer? In the 60 MCQ

- 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

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ICAI SM	
66	Which of the following is a property of the indifference curve ?
a) Indifference curves are convex to the origin b) Indifference curves slope downwards from left to right c) No two indifference curves can cut each other d) All of the above are the properties of Indifference curves.	
SEQ	
67	The indifference curve approach does not assume:
a) Rationality on the parts of consumers b) Ordinal measurement of satisfaction c) Consistent consumption pattern behaviour of consumers d) Cardinal measurement of utility	
SEQ, MTP Apr 23	
68	Under income effect, consumer
a) Move along original indifference curve b) moves to higher or lower indifference curve c) always purchases higher quantities of both the commodities d) none of the above	
SEQ, MTP Apr 23	
69	Indifference curve of two perfect substitutes, will be :
a) Straight line b) L-shaped c) U-shaped d) C-shaped	
PYQ Jun 23	
70	If indifference curve is 'L' shaped then two goods will be called as
a) Perfect superior goods b) Perfect inferior goods c) Perfect quality goods d) Perfect complementary goods.	

Extra MCQ	
71	Generally, MRS is falling as _____
a) Want of a good is satiable so when a consumer has more of it, his intensity of want for it decreases b) Most goods are imperfect substitutes of one another c) Both (a) & (b) d) None of the above	
Extra MCQ	
72	The indifference curve becomes _____ as we move down and to the right.
a) Steeper (high sloped) b) flatter (less sloped) c) Parallel to Y axis d) None of the above	
MTP Nov 22, A.Q.	
73	A consumer's preferences are monotonic if and only if between two bundles, the consumer prefers the bundle which has _____
a) more of one of the goods b) less of at least one of the goods c) more of at least one of the goods and less of the other good. d) more of at least one of the goods and no less of the other good.	
A.Q.	
74	Which of the following is incorrect regarding indifference curve approach of consumer's behavior?
a) Indifference curve analysis assumes utility is merely orderable and not quantitative. b) Consumer is capable of comparing the different levels of utilities or satisfactions from different commodities. c) Consumer can say by how much one level of satisfaction is higher or lower than other. d) None of these	

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A.Q.	
75	<b>According to ordinal approach of consumer's behavior-</b>
<p>a) Consumer is able to indicate the exact amounts of utilities that he derives from commodity or any combinations of them.</p> <p>b) Utility being psychological feeling is not quantifiable.</p> <p>c) The consumer is capable of simply comparing the different levels of satisfaction.</p> <p>d) Both (B) and (C)</p>	

A.Q., MTP Jun 22	
76	<b>Which of the following statements is correct regarding indifference curve?</b>
<p>a) Two ICs may not intersect each other.</p> <p>b) Two ICs may intersect each other</p> <p>c) Two ICs are always parallel to each other</p> <p>d) None of these</p>	

MTP Nov 22, A.Q.	
77	<b>Law of diminishing marginal rate of substitution is associated with</b>
<p>a) Marshall</p> <p>b) Hicks</p> <p>c) Slutsky</p> <p>d) Keynes</p>	

MTP Mar 21	
78	<b>When goods are complementary the indifference curve is :</b>
<p>a) is a straight line</p> <p>b) is convex to the origin</p> <p>c) consist of two straight line with a right angle bent.</p> <p>d) none of these</p>	

A.Q.	
79	<b>According to principle of diminishing marginal rate of substitution.</b> <b>A) One commodity must be decreased while other is increased.</b> <b>B) Commodity which is increased has higher marginal significance</b> <b>C) Commodity which is decreased has higher marginal significance</b> <b>D) Neither qualitative nor quantitative concept of these statements:</b>
<p>a) Only a is correct</p> <p>b) Both a and b are correct</p> <p>c) Both a and c are correct</p> <p>d) All are correct</p>	

MTP Oct 19	
80	<b>The slope of indifference curve is given by-</b>
<p>a) Budget line</p> <p>b) Marginal rate of transformation</p> <p>c) Marginal rate of substitution</p> <p>d) None of these</p>	

MTP MAR 18, Apr 19	
81	<b>Which is not the assumption of Indifference curve Analysis?</b>
<p>a) The consumer is rational and possesses full information about all the aspects of economic environment</p> <p>b) The consumer is not capable of ranking all combinations</p> <p>c) If consumer prefers combination A to B, and B to C, then he must prefer combination A to C</p> <p>d) If combination A has more commodities than combination B, then A must be preferred to B.</p>	

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MTP Apr 19	
82	Indifference curve is convex to the origin due to:
a) Falling MRS b) Rising MRS c) Constant MRS d) None of the above	

MTP Mar 18, MTP Apr 19	
83	Which of the following statement is false?
a) An indifference curve is concave to the origin b) An indifference curve is convex to the origin c) A higher indifference curve is better than a lower indifferent curve d) An indifference curve is a curve which represents all those combinations of two goods which give same satisfaction to the consumer	

MTP Mar 19	
84	Indifference Curve analysis is based on
a) Ordinal utility b) Cardinal utility c) Marginal utility d) None of the above	

MTP Mar 19	
85	When two goods are perfect substitutes of each other then
a) MRS is falling b) MRS is rising c) MRS is constant d) None of the above	

MTP Mar 19	
86	_____ depicts complete picture of consumer tastes and preferences.
a) Budget line b) Average cost curve c) Indifference map d) Marginal revenue curve	

MTP Oct 18	
87	Which of the following is not a property of the indifference curve?
a) Indifference curves are convex to the origin b) Indifference curves slope downwards from left to right c) No two indifference curves can cut each other d) None of the above	

Extra MCQ	
88	Which of the following is not a property of the indifference curve ?
a) Indifference curves slope downward to the right b) Indifference curves slope downward to the right c) Indifference curves may or may not intersect each other d) Indifference curve will not touch either axes	

MTP Mar 22	
89	When two goods are perfect substitute for each other:
a) Indifference curve for these two goods are straight parallel line with a constant slope along the curve b) Indifference curve has a constant MRS c) Concave to the Origin d) Both (a) and (b)	

MTP Dec 22	
90	The substitution effect for a fall in the price of a commodity (ceteris paribus) is given by
a) a movement up a given indifference curve b) a movement from a higher to a lower indifference curve c) a movement down a given indifference curve d) any of the above.	

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MTP Nov 22

91 Match the following  
LIST-I  
(a) Two perfect substitute goods  
(b) Two perfect complementary goods  
(c) Indifference curve is always  
(d) Higher IC gives higher level of satisfaction

LIST - II

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

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

PYQ Jun 22

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

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

### Budget Line

ICAI SM

93 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

ICAI SM, MTP May 23

94 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.

A.Q.

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

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

A.Q.

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

- a)  $\frac{P_p}{P_N}$
- b)  $\frac{P_N}{P_p}$
- c)  $\frac{M}{P_N}$
- d)  $\frac{M}{P_p}$



<b>Extra MCQ</b>	
<b>97</b>	<b>We can write the budget constraint for two goods X and Y as -</b>
a) $P_x.Q_x + P_y.Q_y \leq B$ b) $P_x.Q_x + P_y.Q_y < B$ c) $P_x.Q_x + P_y.Q_y > B$ d) $P_x.Q_x + P_y.Q_y = B$	

<b>MTP Oct 19</b>	
<b>98</b>	<b>The slope of consumer's budget line is -</b>
a) Positive and constant b) Negative and decreasing c) Negative and constant d) Positive and increasing	

<b>MTP Dec 22</b>	
<b>99</b>	<b>A consumer who is below the personal budget line (rather than on it)</b>
a) Is not spending all personal income b) Is spending all personal income c) may or may not be spending all personal income d) Is in equilibrium.	

<b>MTP Dec 22</b>	
<b>100</b>	<b>Shift in the budget line when prices are constant are due to</b>
a) Change in income b) Change in demand c) Change in utility d) None of these	

<b>MTP Nov 22</b>	
<b>101</b>	<b>The other name of the Budget line is:</b>
a) Demand line b) Price line c) Supply line d) None of the above	

**Consumer Equilibrium – Original Approach**

<b>SEQ</b>	
<b>102</b>	<b>The consumer is in equilibrium when the following condition is satisfied</b>
a) $\frac{MU_x}{MU_y} > \frac{P_x}{P_y}$ b) $\frac{MU_x}{MU_y} < \frac{P_x}{P_y}$ c) $\frac{MU_x}{MU_y} = \frac{P_x}{P_y}$ d) None of the above	

<b>MTP Apr 19, Mar 21</b>	
<b>103</b>	<b>The Consumer is in equilibrium when:</b>
a) the budget line is tangent to the indifference curve b) marginal rate of substitution of one good for another must be equal to the price ratio of the two goods c) either a or b d) none of these	

<b>MTP Oct 19</b>	
<b>104</b>	<b>The consumer is in equilibrium at a point where the budget line</b>
a) Is above an indifference curve b) Is below an indifference curve c) Is tangent to an indifference curve d) Cuts an indifference curve	

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

MTP May 23	
106	The budget line is also known as:
(a) Production Possibility Curve (b) Consumption Possibility Curve (c) Iso Utility Curve (d) None of these	

Answer Key – Economics Chapter 2 – Unit 2

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

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**UNIT 3**

**Basics of Supply**

ICAI SM

**1** The quantity supplied of a good or service is the amount that

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

ICAI SM, MTP Apr 23

**2** Supply is the

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

ICAI SM

**3** Supply is a \_\_\_ concept

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

A.Q., MTP Apr 23

**4** Supply and stock are \_\_\_

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

**Determinants of Supply**

ICAI SM

**5** An increase in the supply of a good is caused by :

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

ICAI SM

**6** An increase in the number of sellers of bikes will increase the

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

ICAI SM

**7** Which of the following statements is correct?

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

MTP Mar 22

**8** Behavior of Supply depends upon:

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

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ICAI SM

9

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

- 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

Law of Supply

MTP Mar 21

10

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

- a) proportionate
- b) homogenous
- c) inverse
- d) direct

MTP May 20

11

Which of the following statements is correct?

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

MTP Apr 19

12

Supply of a good and its price have

- a) Negative relationship
- b) Inverse relationship
- c) No relationship
- d) Positive relationship

MTP Mar 22

13

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

- a) Price of Inputs
- b) Weather Conditions
- c) Technology
- d) The price of the Commodity under consideration

Changes in Supply

ICAI SM

14

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

- 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.

ICAI SM

15

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.

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ICAI SM	
16	In the book market, the supply of books will decrease if any of the following occurs except
a) a decrease in the number of book publishers b) a decrease in the price of the book c) an increase in the future expected price of the book d) an increase in the price of paper used	

ICAI SM	
17	In a very short period, the supply
a) can be changed b) can not be changed c) can be increased d) none of the above	

ICAI SM	
18	If the supply of bottled water decreases, other things remaining the same, the equilibrium price _____ and the equilibrium quantity _____
a) increases ; decreases b) decreases; increases c) decreases; decreases d) increases; increases	

ICAI SM	
19	When supply curve moves to the left, it means
a) lesser quantity is supplied at a given price b) larger quantity is supplied at a given price c) prices have fallen and quantity is supplied at a lower price d) none of the above	

ICAI SM	
20	When supply curve moves to right, it means
a) supply increases and more quantity is supplied at a given price b) supply decreases and less quantity is supplied at a given price c) supply remains constant at a given price d) none of the above	

MTP Oct 19, ICAI SM	
21	The supply curve shifts to the right because of _____
a) improved technology b) increased price of factors of production c) increased excise duty d) all of the above	

ICAI SM	
22	Which of the following alternatives would be true if the event presented in the following diagram occurs?
a) A fall in wage costs of the firm along with a fall in consumer incomes b) A shortage of raw materials and consequent increase in raw material price c) An increase in subsidy by the government and a reduction in taxes d) Decrease in the market price of the commodity in question	

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

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

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

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

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

**Elasticity of Supply**

<b>ICAI SM</b>	
28	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	

<b>ICAI SM</b>	
29	A 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	

<b>MTP Aug 18, Mar 22, Apr 23, SEQ, ICAI SM</b>	
30	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	

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MTP Oct 18, Mar 19, ICAI SM	
31	A horizontal supply curve parallel to the quantity axis implies that the elasticity of supply is :
a) Zero. b) Infinite. c) Equal to one. d) Greater than zero but less than one.	
ICAI SM	
32	If price of computers increases by 10% and supply increases by 25%. The elasticity of supply is :
a) 2.5 b) 0.4 c) (-) 2.5 d) (-) 0.4	
ICAI SM	
33	The elasticity of supply is defined as the
a) responsiveness of the quantity supplied of a good to a change in its price b) responsiveness of the quantity supplied of a good without change in its price c) responsiveness of the quantity demanded of a good to a change in its price d) responsiveness of the quantity demanded of a good without change in its price	
ICAI SM	
34	Elasticity of supply is measured by dividing the percentage change in quantity supplied of a good by _____
a) Percentage change in income b) Percentage change in quantity demanded of goods c) Percentage change in price d) Percentage change in taste and preference	

ICAI SM	
35	Elasticity of supply is zero means
a) perfectly inelastic supply b) perfectly elastic supply c) imperfectly elastic supply d) none of the above	
ICAI SM	
36	Elasticity of supply is greater than one when
a) Proportionate change in quantity supplied is more than the proportionate change in price. b) Proportionate change in price is greater than the proportionate change in quantity supplied. c) change in price and quantity supplied are equal d) None of the above	
ICAI SM	
37	If change in quantity supplied is exactly equal to relative change in price then elasticity of supply is
a) Less than one b) Greater than one c) One d) None of the above	
MTP Oct 20, ICAI SM	
38	The supply function is given as $Q = -100 + 10P$ . Find the elasticity using point method, when price is Rs. 15.
a) 4 b) -3 c) -5 d) 3	

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Extra MCQ

39

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

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

ICAI SM

40

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

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

- 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

MTP Aug 18, SEQ

41

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

- a) zero.
- b) infinite.
- c) one.
- d) unable to be determined from this information.

A.Q.

42

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

- a) Product of slope of supply curve and ratio of quantity supply to price
- b) Elasticity of supply is equal to the slope of supply curve.
- c) Product of reciprocal of slope of supply curve and ratio of price to quantity supplied
- d) Elasticity of supply is equal to reciprocal of slope of supply curve.

A.Q.

43

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

- a) Upward movement on same supply curve
- b) Downward movement on same supply curve
- c) Leftward shift in supply curve
- d) Rightward shift in supply curve

MTP Apr 21

44

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

- a) 0.5
- b) 0.4
- c) 1
- d) None of these



MTP Mar 21	
45	The producer reduces supply from 100 units to 50 units. When the price falls from Rs 20 to Rs 10, the price elasticity of supply will be :
a) 1 b) 2 c) 5 d) none of these	

MTP Oct 19	
46	If price of automobiles 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	

MTP Oct 19, MTP Aug 18, ICAI SM	
47	The supply curve for perishable commodities is-
a) elastic b) inelastic c) perfectly elastic d) perfectly inelastic	

MTP Apr 19	
48	Which of the following has the lowest price elasticity of supply?
a) Luxury b) Necessities c) Salt d) Perishable goods	

MTP Oct 18	
49	If the price of apples rises from Rs. 30 per quarter kg. to Rs. 40 quarter per kg and the supply increases from 240 kg to 300 kg. Elasticity of supply is:
a) 0.77 b) 0.67 c) (-) 0.67 d) (-) .77	

Extra MCQ	
50	To improve price elasticity of supply an organisation can
a) Improve the technology used b) Increase production capacity c) Expand storage space for stock while making sure that products can last long while stored d) All of the above	

MTP Jun 22	
51	Slope of supply curve is 0.6, calculate elasticity of supply when initial price is \$ 30 per unit & initial qty is 100 units.
a) 0.5 b) 5.55 c) (-) 0.5 d) (-) 0.18	

ICAI SM	
52	If price of commodity X increases from Rs 2,000 to Rs 2,100 per unit and consequently the quantity supplied rises from 2,500 units to 3,000 units. Calculate the elasticity of supply.
a) 5 b) 4 c) 3 d) 1	

Extra MCQ	
53	The supply curve shows _____
a) the highest quantity willingly supplied by the suppliers at each price and b) the minimum price which will induce suppliers to offer the various quantities for sale c) the highest price which will induce suppliers to offer the various quantities for sale d) Both (a) & (b)	

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PYQ Jun 22, MTP Dec 22, May 23

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

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

MTP Dec 22

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

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

PYQ Jun 22

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

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

PYQ Jun 22

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

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

### Determinants of Price Elasticity of Supply

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

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

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

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

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

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

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

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

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

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

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63	If the labour employed is scarce or are required to be highly skilled and specific and if they require longer training period, then elasticity of supply will be
a) High b) Low c) Zero d) Infinite	
64	If factors of production used in production of commodity are commonly available & can be easily substituted, then price elasticity of supply will be
a) High b) Low c) Zero d) Infinite	
<b>MTP Oct 19, ICAI SM</b>	
65	If the demand is more than supply, then the pressure on price will be
a) Upward b) Downward c) Constant d) None of the above	
<b>MTP Aug 18, May 20</b>	
66	When a market is in equilibrium:
a) No shortages exist. b) Quantity demanded equals quantity supplied. c) A price is established that clears the market. d) All of the above are correct.	
<b>MTP Jun 22</b>	
67	The market demand curve for a perfectly competitive industry is: $Q_d = 12 - 2P$ and the market supply curve is: $Q_s = 3 + P$ . The market will be in equilibrium if
a) $P = 6$ and $Q = 9$ b) $P = 5$ and $Q = 2$ c) $P = 4$ and $Q = 4$ d) $P = 3$ and $Q = 6$	

<b>Social Efficiency</b>	
<b>Extra MCQ</b>	
68	_____ represents the net gains to society from all exchanges that are made in a particular market
a) Market Equilibrium b) Consumer welfare c) Social Efficiency d) None of the above	
<b>Extra MCQ</b>	
69	Social efficiency consists of two components _____
a) Price Effect & Income Effect b) Demand & Supply c) consumer surplus & producer surplus d) None of the above	
<b>Extra MCQ</b>	
70	_____ is the benefit derived by sellers from the sale of a unit above and beyond their cost of producing that unit. This occurs when the price they receive in the market is more than the minimum price at which they would be prepared to supply
a) Consumer surplus b) Producer surplus c) Consumer Welfare d) (a) or (c)	
<b>Extra MCQ</b>	
71	_____ is represented by the area above the supply curve and below the price line
a) Consumer surplus b) Producer surplus c) Consumer Welfare d) (a) or (c)	

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Additional Practice

MTP Nov 22, May 23, ICAI SM

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

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

A.Q.

73 Elasticity of demand and supply are \_\_\_\_\_ concepts

- a) Relative
- b) Absolute
- c) Both (A) and (B)
- d) Neither (A) and (B)

MTP Mar 22

74 A theory is :

- a) An assumption
- b) A hypothesis
- c) A validated hypothesis
- d) None of these

A.Q.

75 Law of demand is a qualitative concept where as price elasticity of demand is

- a) also qualitative concept
- b) Quantitative concept
- c) Quantitative and qualitative concept
- d) Neither qualitative nor quantitative concept

MTP Mar 22

76 "Supply creates its own demand" statement is given by \_\_\_\_\_

- a) Marshall
- b) J B Say
- c) Ricardo
- d) Kuznets

PYQ Jun 23

77 Due to introduction of 5G mobiles in market, price of such mobiles have increased by 20% & there by supply increased by 40% elasticity of supply will be \_\_\_\_\_

- a) 0.5
- b) -0.5
- c) -2
- d) 2

Answer Key - Economics Chapter 2 - Unit 3

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

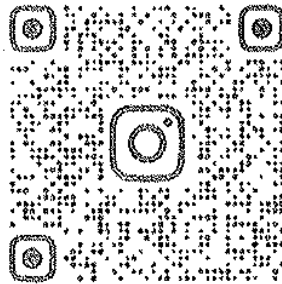
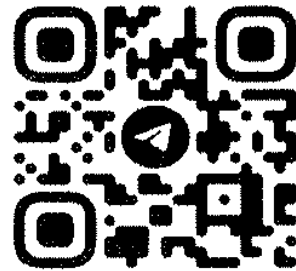
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CA Foundation – December 2023  
Business Economics

**Chapter 3**  
**Theory of Production & Cost**

MCQ Compiler by MVSIR

**UNIT 1**

**Basics of Production**

ICAI SM

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

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

ICAI SM

**2** Which of the following statements is true?

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

MTP Aug 18, SEQ

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

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

MTP Oct 18 Apr 19 Oct 20

**4** Which of the following is considered production in Economics?

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

**Factors of Production - Land**

SEQ, ICAI SM

**5** Which of the following is not a characteristic of land?

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

MTP Apr 23

**6** Which of the following is not the characteristic of land?

- a) It is a passive factor
- b) It has multiple uses
- c) It's supply is fixed
- d) It is a active factor.

PYQ Jun 22

**7** 'Land is heterogeneous' implies which of the following?

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

**Factors of Production - Labour**

MTP Mar 19

**8** Which of the following is not the characteristic of Labour?

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

**Factors of Production - Capital**

MTP Apr 19

**9** Capital is a :

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

10	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.	

MTP Apr 19

11	Which of the following is not included in the stages of capital formation?
a) Savings b) Mobilisation of Income c) Mobilisation of saving d) Investment	

MTP Mar 19

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

MTP Apr 19, ICAI SM

13	Which of the following is a function of an entrepreneur?
a) Initiating a business enterprise. b) Risk bearing. c) Innovating. d) All of the above.	

MTP May 20, Mar 22, Apr 23, ICAI SM

14	Most important function of entrepreneur is to _____
a) Innovate b) Bear the sense of responsibility c) Finance d) Earn profit	

15	An entrepreneur _____ foreseeable risks such as fire, theft, etc. as these can be insured against
a) needs to bear b) need not bear c) (a) or (b) d) None of the above	

MTP Nov 22

16	Which is not the function of an entrepreneur?
a) Initiating a business enterprise and resource co-ordination b) Risk bearing or uncertainty bearing c) Innovation d) Mobilisation of savings	

### Enterprises Objectives & Problems

A.Q.

17	Which one of the following is not a national objective of an enterprise?
a) To provide fair deal to the employees at different levels. b) To remove inequality of opportunities & provide fair opportunity to all to work and to progress. c) To produce according to national priorities. d) To help the country become self reliant & avoid dependence on other nations.	

A.Q.

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

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<b>A.Q.</b>	
<b>19</b>	<b>Human objectives of an enterprise are-</b>
<p>a) To provide fair deal to the employees at different levels.</p> <p>b) To develop new skills and abilities and provide a work climate in which they will grow mature.</p> <p>c) Only (A)</p> <p>d) Both (A) and (B)</p>	

<b>A.Q.</b>	
<b>20</b>	<b>Which of the following is not a problem of an enterprise?</b>
<p>a) Problem relating to location &amp; size.</p> <p>b) Problem of making huge profit.</p> <p>c) Problem relating to finance.</p> <p>d) Problem relating to organizational structure.</p>	

<b>MTP Dec 22, A.Q.</b>	
<b>21</b>	<b>After identifying the market, the enterprise has to make decision regarding 4 Ps. Which one of the following is not one of these 4 Ps.</b>
<p>a) Promotion</p> <p>b) Place</p> <p>c) People</p> <p>d) Product</p>	

**Production Function**

<b>ICAI SM</b>	
<b>22</b>	<b>Which of the following is the best definition of "production function"?</b>
<p>a) The relationship between market price and quantity supplied.</p> <p>b) The relationship between the firm's total revenue and the cost of production.</p> <p>c) The relationship between the quantities of inputs needed to produce a given level of output.</p> <p>d) The relationship between the quantity of inputs and the firm's marginal cost of production.</p>	

<b>SEQ</b>	
<b>23</b>	<b>A firm's production function:</b>
<p>a) Shows how much output and the level of input required for the firm to maximize profits</p> <p>b) Establishes the minimum level of output that can be produced using the available resources</p> <p>c) Shows the maximum output that can be produced with a given amount of inputs with available technology</p> <p>d) Shows labour force which is employed</p>	

<b>ICAI SM</b>	
<b>24</b>	<b>What is a production function?</b>
<p>a) Technical relationship between physical inputs and physical output.</p> <p>b) Relationship between fixed factors of production and variable factors of production.</p> <p>c) Relationship between a factor of production and utility created by it.</p> <p>d) Relationship between quantity of output produced and time taken to produce the output</p>	

<b>ICAI SM</b>	
<b>25</b>	<b>The production function:</b>
<p>a) Is the relationship between the quantity of inputs used and the resulting quantity of product.</p> <p>b) Tells us the maximum attainable output from a given combination of inputs.</p> <p>c) Expresses the technological relationship between inputs and output of a product.</p> <p>d) All the above</p>	

<b>PYQ Jun 23</b>	
<b>26</b>	<b>Technological relationship between inputs &amp; output.</b>
<p>a) Production function</p> <p>b) Marketing</p> <p>c) Supply function</p> <p>d) Social function</p>	

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27	<b>The production function is a relationship between a given combination of inputs and:</b>
<p>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.</p>	

**MTP Mar 22**

28	<b>What are the main assumption of Production Function:</b>
<p>a) Relationship between inputs and output exists for a specific period of time                  b) There is a given state of the art in production Technology.                  c) Input consideration Included in a particular function output resulting from their utilization is at the maximum level.                  d) All the above</p>	

**Short Run Vs Long Run**

<b>ICAI SM</b>	
29	<b>The short run, as economists use the phrase, is characterized by:</b>
<p>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</p>	

<b>ICAI SM</b>	
30	<b>To economists, the main difference between the short run and the long run is that:</b>
<p>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.</p>	

**SEQ, ICAI SM**

31	<b>In describing a given production technology, the short run is best described as lasting:</b>
<p>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</p>	

**MTP Mar 21, ICAI SM**

32	<b>Laws of production does not include ____</b>
<p>a) returns to scale.                  b) law of diminishing returns to a factor.                  c) law of variable proportions.                  d) least cost combination of factors.</p>	

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ICAI SM	
33	<b>A fixed input is defined as</b>
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.	
A.Q.	
34	<b>In the long run which factor of production is fixed?</b>
a) Labour b) Capital c) Building d) None of these	
MTP Oct 19	
35	<b>Long run production function related to-</b>
a) Returns to a factor b) Returns to scale c) Both a and b d) None of these	
PYQ Jun 23	
36	<b>Returns to scale occurs due to _____</b>
a) Small run b) Long run c) Very-small run d) undetermined	

Law of Variable Proportion	
ICAI SM	
37	<b>Identify the correct statement:</b>
a) The average product is at its maximum when marginal product is equal to average product. b) The law of increasing returns to scale relates to the effect of changes in factor proportions. c) Economies of scale arise only because of indivisibilities of factor proportions. d) Internal economies of scale can accrue when industry expands beyond optimum.	
MTP Mar 18, ICAI SM	
38	<b>The marginal product of a variable input is best described as:</b>
a) total product divided by the number of units of variable input b) the additional output resulting from a one unit increase in the variable input. c) the additional output resulting from a one unit increase in both the variable and fixed inputs. d) the ratio of the amount of the variable input that is being used to the amount of the fixed input that is being used.	
ICAI SM	
39	<b>The "law of diminishing returns" applies to:</b>
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	
MTP Apr 23	
40	<b>In law of variable proportion how many stages are there:</b>
(a) 1 (b) 3 (c) 5 (d) None of these	

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ICAI SM

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

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

MTP Oct 19, ICAI SM

42 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 43 - 45

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

MTP Mar 18, ICAI SM

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

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

MTP Mar 18, ICAI SM

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

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

MTP Mar 18, ICAI SM

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

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

ICAI SM

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

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

MTP Aug 18, ICAI SM

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

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

ICAI SM	
48	<b>The law of variable proportions is drawn under all of the assumptions mentioned below except the assumption that:</b>
a) the technology is changing. b) there must be some inputs whose quantity is kept fixed. c) we consider only physical inputs and not economically profitability in monetary terms. d) the technology is given and stable.	

ICAI SM											
49	<b>The production process described below exhibits</b>										
<table border="1" style="width: 100%; text-align: center;"> <thead> <tr> <th>Number of Workers</th> <th>Output</th> </tr> </thead> <tbody> <tr> <td>0</td> <td>0</td> </tr> <tr> <td>1</td> <td>23</td> </tr> <tr> <td>2</td> <td>40</td> </tr> <tr> <td>3</td> <td>50</td> </tr> </tbody> </table>		Number of Workers	Output	0	0	1	23	2	40	3	50
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											

ICAI SM	
50	<b>In the short run, the firm's product curves show that</b>
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	

ICAI SM	
51	<b>Average product is defined as</b>
a) total product divided by the total cost. b) total product divided by marginal product. c) total product divided by the number of units of variable input. d) marginal product divided by the number of units of variable input.	

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

ICAI SM, MTP Mar 21	
53	<b>Marginal product, mathematically, is the slope of the</b>
a) total product curve. b) average product curve. c) marginal product curve. d) implicit product curve	

ICAI SM	
54	<b>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:</b>
a) 50 b) 100 c) 150 d) 200	

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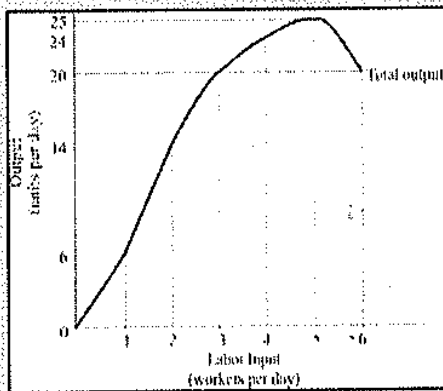
ICAI SM

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

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

ICAI SM

Use the following diagram to answer the question given below it



56

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

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

ICAI SM

57 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.

A.Q.

58 Law of diminishing returns to scale is relevant to

- a) Short period
- b) Long period
- c) Market period
- d) None of these

A.Q.

59 In second stage of the Law of Variable Proportion-

- a) MP diminishes & AP increases
- b) AP diminishes but MP increases
- c) Both MP & AP diminish
- d) Both MP & AP increase

A.Q.

Match List I with List II and choose the correct answer using the codes given below

LIST I

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

LIST 2

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

60

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

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<b>MTP Apr 21</b>	
<b>61</b>	<b>Production function in short run is called:</b>
a) Production possibility frontier b) Return to Scale c) Laws of variable d) None of these	

<b>MTP Oct 20, ICAI SM</b>	
<b>62</b>	<b>Which one of the following is not an assumption of law of variable proportion?</b>
a) Technology of production remains unchanged. b) Only physical inputs & output are considered. c) All units of variable factors are different. d) There must be some inputs whose quantity is kept fixed	

<b>Extra MCQ</b>	
<b>63</b>	<b>Stage 2 of law of variable proportion ends when _____</b>
a) AP is maximum b) TP is maximum c) MP is zero d) Both (b) & (c)	

<b>MTP Mar 21</b>	
<b>64</b>	<b>The stages in law of variable proportion is :</b>
a) 1 b) 2 c) 3 d) 4	

<b>MTP Mar 21</b>	
<b>65</b>	<b>The producer's demand for a factor of production is governed by the _____ of that factor</b>
a) price b) marginal productivity c) availability d) Profitability	

<b>MTP Mar 21</b>	
<b>66</b>	<b>In case of diminishing return to a factor:</b>
a) marginal product diminishes b) total product increase at increasing rate c) total product increases at diminishing rate d) both a and c	

<b>MTP Mar 21</b>	
<b>67</b>	<b>Negative return sets in at the stage when :</b>
a) MP is negative b) MP is diminishing c) MP is rising d) none of these	

<b>MTP Oct 19</b>	
<b>68</b>	<b>In the third phase of Law of variable proportions, MP becomes-</b>
a) Zero b) Negative c) Positive d) None of these	

<b>MTP Oct 19, Apr 23</b>	
<b>69</b>	<b>Law of variable proportion is related to-</b>
a) Short-run b) Long-run c) Both a and b d) Very short run	

<b>MTP Oct 19</b>	
<b>70</b>	<b>When Marginal product is zero, then Total product is -</b>
a) Zero b) Falling c) Rising d) Maximum	

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MTP Oct 19

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

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

MTP Apr 19

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

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

MTP Apr 19

73 When is TP maximum

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

MTP Apr 19

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

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

MTP Mar 19

75 The Law of variable proportions examines the Production function with:

- a) One factor variable and only one factor fixed
- b) One factor variable keeping quantities of other factors fixed
- c) All factors variable
- d) None of the above

MTP Mar 19

76 When is average product at its maximum point?

- a) When AP intersects MP
- b) When AP intersects TP
- c) When MP is highest
- d) At the point of inflexion

Extra MCQ

77 Which of the following stage(s) of Law of Variable Proportion are known as "economic non-sense" or "economic absurdity"

- a) Stage 1
- b) Stage 2
- c) Stage 3
- d) Both (a) & (c)

MTP Aug 18

Read table & answer questions 78-82

Labour Input	Output	Average Product	Marginal Product
0	0	-	-
2			25
4	90		
6	120		
8	140		
10		14	
12		10	

MTP Aug 18

78 At a labour of 2, output is:

- a) 25
- b) 30
- c) 50
- d) 75

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MTP Aug 18	
79	At a labour input of 4, output per worker is:
a) 20 b) 22.5 c) 45 d) 90	

MTP Aug 18	
80	At a labour input of 6, the marginal product of labour is:
a) 120 b) 30 c) 15 d) 10	

MTP Aug 18	
81	Output per worker is maximized at a labour input of:
a) 2 b) 4 c) 6 d) 8	

MTP Aug 18	
82	The firm's output is at a short run maximum at a labour input of:
a) 6 b) 10 c) 12 d) 2	

MTP Aug 18	
83	The law of diminishing returns:
a) States that beyond some level of a variable input, the average product of that variable input begins to increase steadily. b) Assumes that there is technological improvement over time. c) States that beyond some level of a variable input, the marginal product of that variable begins to decrease steadily. d) Informs a firm whether or not to use a factor input.	

MTP Mar 18	
84	At the point of inflexion, the marginal product is
a) Increasing b) Decreasing c) Maximum d) Negative	

MTP Nov 22, MTP Jun 22	
85	"Returns to a factor" refers to the effect on total output of changes in
a) One factor only b) Various inputs separately c) All the inputs simultaneously d) None of the above	

MTP Jun 22	
86	The law of diminishing returns only applies in cases where
a) There is increasing scarcity of factors of production b) The price of extra unit of a factor is increasing c) There is atleast one fixed factor of production d) Capital is a variable input	

MTP Mar 22	
87	When the average product of labour is maximized the marginal product of labour:
a) Equal zero b) is maximized c) Equal APL d) None of these	

MTP Mar 22	
88	A rational producer will always produce in which stage of law of variable proportion:
a) Stage I b) Stage II c) Stage III d) None of these	

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MTP Mar 22

89 The law of variable proportions come into being when \_\_\_\_\_

- a) There are only two variable factors
- b) There is a fixed factor and a variable factor
- c) All factors are variable
- d) Variable factors yield less.

**Returns to Scale**

MTP Mar 19, ICAI SM

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

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

ICAI SM

91 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.

PYQ Jun 23

92 The stage of "Decreasing returns to scale" occur when

- a) Decrease in output is less than increase in input
- b) Decrease in output is greater than increase input
- c) Increase in input is less than increase in output
- d) Increase in output is less than increase in input

MTP Aug 18, SEQ

You are given the following data:

Output	Total Cost
0	0
1	15
2	30
3	45
4	60
5	75

93

The above data is an example of:

- a) Constant returns to scale.
- b) Decreasing returns to scale.
- c) Increasing returns to scale.
- d) Globalization.

SEQ

94

If all inputs are trebled and the resultant output is doubled, this is a case of:

- a) constant returns to scale
- b) Increasing returns to scale
- c) diminishing returns to scale
- d) negative returns to scale

A.Q.

95

If all inputs are increased in the same proportion, then it is the case of

1. Short run production function
2. Long run production function
3. Law of Variable Proportion
4. Law of Returns to Scale

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

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A.Q.	
96	"Returns to Scale" refers to the effect on total output of changes in
a) a factor b) various inputs separately c) all the inputs simultaneously d) None of these	

MTP Apr 21	
97	Linear homogeneous function means:
a) Input and output increases by same proportions. b) Input increases by some proportions and output increase more than proportionately c) Input increase by some proportion and output less than the proportionately d) None of these	

MTP Mar 18, Mar 19, Apr 19, May 20	
98	If as a result of 50 per cent increase in all inputs, the output rises by 75 per cent, this is a case of:
a) increasing returns of a factor b) increasing returns to scale c) constant returns to a factor d) constant returns to scale	

MTP Aug 18	
99	If one unit of labour and one unit of capital give 200 units of output, two units of labour and two units of capital give 400 units of output and 5 units of labour and five units of capital give 1000 units of output then this is a case of
a) Constant returns of scale b) Increasing returns to scale c) Decreasing returns to scale d) None of these	

MTP Mar 22	
100	If both factor prices and quantity moves in the same direction then it is called _____
a) Decreasing Cost Industry b) Increasing Cost Industry c) Constant Cost Industry d) None of these	

MTP Mar 22	
101	Increasing return to scale applies to:
a) Long run b) Short run c) Either (a) or (b) d) None of these	

**Cobb Douglas Production Function**

A.Q.	
102	The homogeneous Cobb-Douglas production function given as: $Q = L^{(1/2)} K^{(1/2)}$ exhibits-
a) Constant returns to scale b) Decreasing returns to scale c) Increasing returns to scale d) All of the above at various level of output	

A.Q.	
103	Cobb-Douglas function When, P = Actual output L = Labour C = Capital b = No. of units of labour k = Exponent of labour j = Exponent of capital is represented as-
a) $P = b L^j C^k$ b) $P = b L^{(1/j)} C^{(1/k)}$ c) $P = b L^k C^j$ d) $P = 1/b L^k C^j$	

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MTP Apr 21

104

Suppose production function is given by  $\sqrt{L}K = 15$  what type of return does it exhibit?

- a) Constant return
- b) Increasing return
- c) Decreasing return
- d) None of these

MTP Mar 21

105

In the Cobb Douglas function the change in output due to increase in one additional unit of an input is called?

- a) elasticity
- b) return to scale
- c) total product
- d) marginal revenue

MTP Jun 22

106

A factor of production is said to be superior if its expenditure elasticity

- a) is negative
- b) lies in unit interval
- c) exceeds unity
- d) is zero

MTP Jun 22

107

Production function:  
 $Q = 4L^{(1/2)}K^{(2/3)}$

- a) increasing returns to scale
- b) decreasing returns to scale
- c) constant returns to scale
- d) increasing returns to a factor

MTP Nov 22, May 23

108

In the Cobb-Douglas production function given as:  
 $Q = A.L^a.K^{(1-a)}$   
share of labour in total production is

- a) a
- b) 1 - a
- c) A
- d) aL

Production Optimisation

ICAI SM

109

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

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

MTP Aug 18, May 21, SEQ

110

An Isoquant slopes :

- a) downward to the left
- b) downward to the right
- c) upward to the left
- d) upward to the right

MTP Nov 22, A.Q.

111

Assertion (A): An Iso-cost line is a straight line.  
Reason (R): The market rate of exchange between the two inputs is constant.

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

A.Q.

112 The schedule given below representing the combinations of two variable inputs (Labour & Capital) for two Isoquants of output 100 and 200 respectively

IQ1			
Combination	Output	Capital	Labour
I	100	90	10
II	100	60	20
III	100	40	30
IV	100	30	40
IQ2			
Combination	Output	Capital	Labour
I	200	85	5
II	200	70	10
III	200	60	15
IV	200	55	20

On the basis of above schedule, which of the following statement is true?

a) elasticity  
b) return to scale  
c) total product  
d) marginal revenue

MTP Nov 22, SEQ

113 The producer is in equilibrium at a point where the cost line is:

a) above the isoquant  
b) below the isoquant  
c) cutting the isoquant  
d) tangent to isoquant

114 Isoquant word is made up of two words i.e., Iso & Quant. Where quant means quantity or output then Iso means-

a) Maximum  
b) Equal  
c) Minimum  
d) None of these

A.Q.

115 Isoquant curve is convex to the origin due to diminishing MRTS. If X-axis is labour (L) axis & Y-axis is Capital (K) axis then MRTS = ?

a)  $\frac{\Delta L}{\Delta K}$   
b)  $\frac{\Delta K}{\Delta L}$   
c)  $\frac{1}{\Delta K}$   
d) (A) & (B)

MTP Apr 21

116 Which of the Statement is correct:

a) Isoquant slopes downwards from left to right  
b) No two Isoquant can intersect each other  
c) Isoquants are convex to the origin  
d) All the above

MTP Apr 21

117 The slope of Isocost line is

a) w/r  
b) r/w  
c) r x w  
d) None of these

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MTP Jun 22	
118	Which of the following is correct regarding the slope of iso-cost line? Slope of iso-cost line can change due to 1. Change in factor(s) price(s) 2. Change in total outlay or total cost.
a) 1 only b) 2 only c) 1 & 2 both d) None of these	

MTP Dec 22	
122	Within the relevant range, isoquants
a) are negatively sloped b) are convex to the origin c) cannot cross d) are all of the above.	

MTP Jun 22	
119	Isoquant word is made up of two words i.e., Iso & Quant. Where Iso means equal then Quant means-
a) Quantity sold b) Output c) Quantity demanded d) Quantity supplied	

MTP May 23	
123	The transformation of physical inputs into output is known as
(a) Supply (b) Demand (c) Cost (d) Production	

MTP Mar 22	
120	Isoquant are also called:
a) Equal product curves b) Production Indifference curves c) ISO product curves d) All of the above	

MTP Mar 22	
121	Who describes production function as the relationship between the maximum amount of output can be produced and the input required to make that output :
a) Samuelson b) Malthas c) Hicks d) None of these	

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Answer Key – Economics Chapter 3 – Unit 1

1	A	21	C	41	D	61	C	81	A	101	A	121	A
2	A	22	C	42	B	62	C	82	B	102	A	122	D
3	A	23	C	43	C	63	D	83	C	103	C	123	D
4	A	24	A	44	A	64	C	84	C	104	A		
5	D	25	D	45	B	65	B	85	A	105	B		
6	D	26	A	46	C	66	D	86	C	106	C		
7	B	27	B	47	A	67	A	87	C	107	A		
8	C	28	D	48	A	68	B	88	B	108	A		
9	A	29	A	49	B	69	A	89	B	109	D		
10	B	30	C	50	D	70	D	90	C	110	B		
11	B	31	D	51	C	71	A	91	C	111	B		
12	D	32	D	52	D	72	C	92	D	112	A		
13	D	33	B	53	A	73	B	93	A	113	D		
14	A	34	D	54	B	74	B	94	C	114	B		
15	B	35	B	55	D	75	B	95	D	115	D		
16	D	36	B	56	D	76	A	96	C	116	D		
17	A	37	A	57	B	77	D	97	A	117	A		
18	B	38	B	58	B	78	C	98	B	118	C		
19	D	39	A	59	C	79	B	99	A	119	B		
20	B	40	B	60	B	80	C	100	C	120	D		

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**UNIT 2**

**Cost Concepts**

MTP Aug 18, SEQ, ICAI SM

1 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

ICAI SM, MTP May 23

2 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.

ICAI SM

3 Implicit cost can be defined as

- a) Money payments made to non-owners of firm for self-owned factors employed in 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

MTP May 20, ICAI SM

4 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.

Suppose that a sole proprietorship is earning total revenues of Rs. 10,00,000 and is incurring explicit costs of Rs. 7,50,000. The owner could work for another company for Rs.3,00,000 a year

SEQ

5 What will be the implicit cost of the firm?

- a) Rs. 3,00,000
- b) Rs. 2,50,000
- c) Rs. 7,50,000
- d) insufficient data

SEQ

6 The above mentioned firm is earning:

- a) Accounting profit of Rs. 2,50,000.
- b) Economic loss of Rs. 50,000
- c) Both a and b are correct.
- d) None of the above is correct.

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<b>MTP Aug 18, SEQ, ICAI SM</b>	
<b>7</b>	Suppose in the above mentioned question, the owner had invested Rs. 500,000 by withdrawing from his saving accounts on which he was earning 5% interest per annum, the economic profit or loss is
a) economic profit of Rs. 75,000 b) economic loss of Rs. 75,000 c) economic profit of Rs. 2,50,000 d) economic loss of Rs. 2,50,000	

<b>SEQ</b>	
<b>8</b>	If the total cost of manufacturing commodity 'X' is Rs. 1,50,000. Out of this implicit cost is Rs. 80,000 what will be explicit cost:
a) Rs. 95,000 b) Rs. 1,25,000 c) Rs. 80,000 d) Rs. 70,000	

<b>MTP Dec 22, A.Q.</b>	
<b>9</b>	Cost incurred which has 'no relevance' to future planning are
a) Marginal Cost b) Sunk Cost c) Book Cost d) Average Cost	

<b>SEQ, ICAI SM</b>	
<b>10</b>	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 lease for factory equipment	

<b>MTP Apr 21</b>	
<b>11</b>	Which of the following is a variable cost in the short run?
a) Rent b) Wages c) Internal payments on borrowed financial capital d) None of these	

<b>MTP Apr 21</b>	
<b>12</b>	Normal profit is part of :
a) Implicit Costs b) Average Cost c) Explicit Cost d) None of these	

<b>MTP Apr 21</b>	
<b>13</b>	Relative price of goods reflects their:
a) Opportunity Cost b) Fixed Cost c) Average Cost d) None of these	

<b>MTP Mar 21, May 23</b>	
<b>14</b>	The interest on own capital is:
a) implicit cost b) future cost c) explicit cost d) past cost	

<b>MTP Mar 18, Apr 19, Oct 20</b>	
<b>15</b>	Suppose that an owner is earning total revenue of Rs. 1,00,000 and is incurring explicit cost of Rs. 60,000. If the owner could work for another company for Rs. 30,000 a year, we would conclude that:
a) The firm is earning economic profit or Rs. 10,000 b) The firm is earning accounting profit or Rs. 40,000 c) The firm is earning economic profit of Rs. 40,000 d) Both (a) and (b)	

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<b>MTP Aug 18, May 20</b>	
<b>16</b>	Suppose that a sole proprietorship is earning total revenues of Rs. 1,00,000 and is incurring explicit costs of Rs. 75,000. If the owner could work for another company for Rs. 30,000 a year, we would conclude that :
a) The firm is incurring an economic loss. b) Implicit costs are Rs. 25,000. c) The total economic costs are Rs. 1,00,000. d) The individual is earning an economic profit of Rs. 25,000.	

<b>MTP Aug 18, May 20</b>	
<b>17</b>	If there are implicit costs of production:
a) economic profit will be equal to accounting profit. b) economic profit will be less than accounting profit. c) economic profits will be zero. d) economic profit will be more than accounting profit	

<b>MTP Oct 19</b>	
<b>18</b>	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	

<b>MTP Oct 19</b>	
<b>19</b>	Economic costs includes-
a) Accounting costs b) Implicit costs c) Both a and b d) None of above	

<b>MTP Oct 19</b>	
<b>20</b>	Example of Fixed cost is-
a) Electricity bill b) Interest on loans c) Expenses on raw material d) Wages of daily workers	

<b>MTP Oct 19</b>	
<b>21</b>	Example of variable cost is -
a) Salary of permanent staff b) Rent of premises c) License fees d) Wages	

<b>MTP Apr 19</b>	
<b>22</b>	Variable cost includes the cost of
a) Buying land and building b) Hire charges of machinery c) Insurance premium d) Material bought	

<b>MTP Nov 22, MTP Mar 19, Apr 19</b>	
<b>23</b>	_____ is an implicit cost of production
a) Wages of the labour b) Charges for electricity c) Interest on owned money capital d) Payment for raw material	

<b>MTP Mar 19</b>	
<b>24</b>	Accounting profit is equal to:
a) Total Revenue – Total variable cost b) Total Revenue – Total direct cost c) Total Revenue – Total Cost d) Total Revenue – Total Explicit cost and Total Implicit Cost	

<b>MTP Mar 19</b>	
<b>25</b>	Economic cost means
a) Accounting cost + Implicit cost b) Accounting cost + Marginal cost c) Cash cost + Opportunity cost d) Implicit cost	

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<b>MTP Oct 18</b>	
<b>26</b>	<b>Which of the following is correct?</b>
<p>a) Firms that earn accounting profits are economically profitable.</p> <p>b) Opportunity cost plus accounting cost equals economic cost.</p> <p>c) When a firm's demand curve slopes down marginal revenue will rise as output rises.</p> <p>d) Firms increase profits by selling more output than their rivals.</p>	

<b>MTP Mar 18</b>	
<b>27</b>	<b>Suraj is a high school senior thinking about becoming an economic research assistant. Shyam just graduated from college with an economic degree and is looking for a job as an economic research assistant. For whom is the college tuition an opportunity cost?</b>
<p>a) Suraj</p> <p>b) Shyam</p> <p>c) Both Suraj and Shyam</p> <p>d) Neither Suraj nor Shyam</p>	

**Read the following paragraph and answer questions 28-31**

Nicole owns a small pottery factory. She can make 1,000 pieces of pottery per year and sell them for Rs. 100 each. It costs Nicole Rs. 20,000 for the raw materials to produce the 1,000 pieces of pottery. She has invested Rs. 1,00,000 in her factory and equipment: Rs. 50,000 from her savings and Rs. 50,000 borrowed at 10 percent. (Assume that she could have loaned her money out at 10 per cent too.) Nicole can work at a completing pottery factory for Rs. 40,000 per year.

<b>MTP Oct 18</b>	
<b>28</b>	<b>The accounting cost at Nicole's pottery factory is:</b>
<p>a) Rs.25,000</p> <p>b) Rs.50,000</p> <p>c) Rs.80,000</p> <p>d) Rs.75,000</p>	

<b>MTP Oct 18</b>	
<b>29</b>	<b>The economic cost at Nicole's factory is:</b>
<p>a) Rs.75,000</p> <p>b) Rs.70,000</p> <p>c) Rs.80,000</p> <p>d) Rs.30,000</p>	

<b>MTP Oct 18</b>	
<b>30</b>	<b>The accounting profit at Nicole's pottery factory is:</b>
<p>a) Rs.30,000</p> <p>b) Rs.50,000</p> <p>c) Rs.80,000</p> <p>d) Rs.75,000</p>	

<b>MTP Oct 18</b>	
<b>31</b>	<b>The economic profit at Nicole's factory is:</b>
<p>a) Rs. 75,000</p> <p>b) Rs. 35,000</p> <p>c) Rs. 80,000</p> <p>d) Rs. 30,000</p>	

<b>MTP Oct 18</b>	
<b>32</b>	<b>A buyer's willingness to pay is that buyer's:</b>
<p>a) product cost</p> <p>b) physical cost</p> <p>c) real cost</p> <p>d) opportunity cost</p>	

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MTP Aug 18

33

The cost that firm incurs in hiring or purchasing any factor of production is referred to as \_\_\_\_\_

- a) Explicit cost
- b) Implicit cost
- c) Variable cost
- d) Fixed cost

MTP Mar 18

34

Gopal inherited 1 acre of land from his father in 1960. Today the value of that land is Rs. 90 lakh per acre. What is the opportunity cost of Gopal for keeping that land? His father paid Rs. 50,000 for this land.

- a) Nothing, since the land was inherited
- b) Rs. 50,000 which his father paid
- c) Rs. 90 lakh, since the amount Gopal is getting now if he sells it
- d) Both (b) and (c)

MTP Mar 22

35

Which of the following is not part of the opportunity cost of going on holiday?

- a) The money you spent on a theatre show
- b) The money you could have made if you had stayed at home and worked
- c) The money you spent on airline tickets
- d) The money you spent on food

MTP Dec 22

36

Accounting costs are

- a) Implicit cost
- b) Explicit Costs
- c) Economics Costs
- d) None of these

MTP Nov 22

37

Opportunity cost is \_\_\_\_\_.

- a) A cost that cannot be avoided.
- b) The cost incurred in the past before we make a decision about what to do in the future.
- c) That which we forego or give up when we make a choice or a decision.
- d) The additional benefit of buying an additional unit of a product.

PYQ Jun 22

38

Total economic costs = explicit costs + implicit cost + \_\_\_\_\_

- a) Super normal profit
- b) Super-normal loss
- c) Normal profit
- d) Economic profit

### Cost Function

ICAI SM, MTP Apr 21, May 23

39

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

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

### Short Run Total Costs

ICAI SM

40

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

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

MTP Mar 18, Mar 19, ICAI SM	
41	Total cost in the short run is classified into fixed costs and variable costs. Which one of the following is a variable cost?
a) Cost of raw materials. b) Cost of equipment. c) Interest payment on past borrowings. d) Payment of rent on building.	

ICAI SM, MTP Mar 21	
42	Which of the following statements is correct concerning the relationships among the firm's cost functions?
a) $TC = TFC - TVC$ . b) $TVC = TFC - TC$ . c) $TFC = TC - TVC$ . d) $TC = TVC - TFC$	

MTP Oct 18, SEQ, ICAI SM	
43	Which cost increases continuously with the increase in production?
a) Average cost. b) Marginal cost. c) Fixed cost. d) Variable cost	

MTP Mar 22, ICAI SM	
44	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.	

MTP Nov 22	
45	Given $TC = 2000 + 15Q - 6Q^2 + Q^3$ , How much is TFC at $Q = 2000$ ?
a) 2000 b) 975 c) 30,000 d) Can't be determined	

MTP May 20, ICAI SM	
46	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 fixed cost and total variable cost.	

A.Q.	
47	The area of a rectangle formed by drawing perpendiculars on both axis from a point on AFC curve is equal to _____
a) Total cost b) Marginal cost c) Average cost d) Total fixed cost	

MTP Apr 21	
48	The Shape of TC Curve of the monopolist is _____
a) U Shape b) S Shape c) Inverse S Shape d) None of these	

MTP Apr 21	
49	A mfg. company has $TFC = 120$ lakhs, $TVC = 100Q + 7Q^2 + 0.25Q^3$ Calculate the MC?
a) $100 + 14Q + 0.75Q^2$ b) $120 + 7Q^2 + 0.25Q^3$ c) $100 + 7Q^2 + 0.25Q^3$ d) 107.25	

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Extra MCQ

50 If  $TC = 50 + 20Q + 3Q^2$ ,  
Then  $MC = ?$

- a) 73
- b)  $50 + 20Q + 9Q^2$
- c)  $70 + 9Q^2$
- d)  $20 + 9Q^2$

MTP Apr 19, Apr 23, ICAI SM

51 The vertical difference between TVC and TC is equal to-

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

MTP Oct 19

52 The total cost of producing 30 units of output is Rs. 300. If average fixed cost at this level of output is Rs. 7, then the total variable cost will be -

- a) Rs. 160
- b) Rs. 140
- c) Rs. 90
- d) Rs. 120

MTP Oct 19

53 Total costs is the vertical summation of -

- a) TFC and TVC
- b) AFC and AVC
- c) TVC and AVC
- d) None of these

MTP Mar 22

54 How do the TVC curve behaves when the law of diminishing return begins to operate-

- a) Rise at a decreasing rate
- b) Fall at an increasing rate
- c) Fall at a decreasing rate
- d) Rise at an increasing rate

MTP Oct 19

55 TVC can be calculate as-

- a)  $AVC/Q$
- b)  $TC - TFC$
- c)  $AC - AFC$
- d) None of these

Extra MCQ

56 The total cost of producing 50 units of output is Rs. 500. If average variable cost at this level of output is Rs. 8, then the total fixed cost will be -

- a) 400
- b) 100
- c) 600
- d) 20

Short Run Average Costs

SEQ, ICAI SM, MTP Mar 19

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

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

MTP Apr 21, May 23, SEQ, ICAI SM

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

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

MTP Nov 22

59 Which one of the following cost curve is not in U-shape?

- a) AC
- b) MC
- c) AFC
- d) AVC

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Use the following data to answer questions 60-62

Output (O)	Total Cost (TC) [In Rs.]
0	240
1	330
2	410
3	480
4	540
5	610
6	690

SEQ, ICAI SM

60 The average fixed cost of 2 units of output is :

- a) Rs. 80
- b) Rs. 85
- c) Rs. 120
- d) Rs. 205

SEQ, ICAI SM

61 The marginal cost of the sixth unit of output is :

- a) Rs. 133
- b) Rs. 75
- c) Rs. 80
- d) Rs. 450

SEQ, ICAI SM

62 Diminishing marginal returns start to occur between units:

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

ICAI SM

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

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

MTP Mar 19, Oct 20, ICAI SM

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

- a) Rs. 200
- b) Rs. 50
- c) Rs. 300
- d) Rs. 100

MTP Apr 19, ICAI SM

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

- a) Rs. 280
- b) Rs. 60
- c) Rs. 120
- d) Rs. 1400

SEQ, ICAI SM, MTP May 23

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

- a) Rs. 60
- b) Rs. 30
- c) Rs. 40
- d) Rs. 20

ICAI SM

67 The efficient scale of production is the quantity of output that minimizes

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

ICAI SM

68 When marginal costs are below average total costs,

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

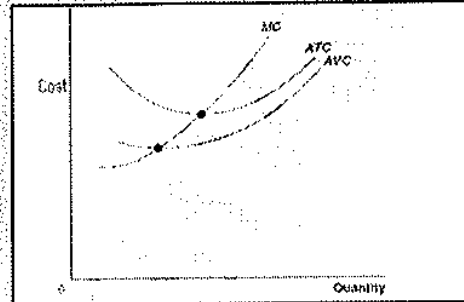
MTP Oct 19, A.Q.

69 Which one of the following cost curve is rectangular hyperbola in shape?

- a) TFC
- b) MC
- c) AFC
- d) AVC

ICAI SM

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



70

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

A.Q.

71 The areas of all rectangles formed by drawing perpendiculars on both axis from different points on AFC curve are \_\_\_\_

- a) same
- b) different
- c) (A) or (B)
- d) can't be determined

Extra MCQ

72 The behaviour of average total cost curve depends upon the behaviour of \_\_\_\_

- a) AVC curve
- b) AFC curve
- c) MC Curve
- d) Both (a) & (b)



MTP Nov 22, A.Q.	
73	<p>Consider the following statements about the relationship between cost and production</p> <ol style="list-style-type: none"> <li>1. When AP rises, AVC falls</li> <li>2. When AP reaches at maximum, AVC is minimum</li> <li>3. When AP falls, AVC rises</li> <li>4. Which of the above statements is correct?</li> </ol>
<p>a) 1 &amp; 2 b) 3 only c) 1, 2 &amp; 3 d) 2 &amp; 3</p>	

MTP Mar 18	
74	<p>Suppose the short run cost function can be written as <math>TC = 250 + 10Q</math>. Average Fixed cost equals:</p>
<p>a) <math>250/Q</math> b) 250 c) 10 d) <math>250/Q + 10</math></p>	

MTP Dec 22, A.Q.	
75	<p>U Shaped average cost curve is based on</p>
<p>a) Law of variance proportions b) Law of increasing cost c) Law of decreasing cost d) None of these</p>	

PYQ Jun 22	
76	<p>Which cost decreases continuously with increase in production ?</p>
<p>a) Average fixed cost b) Average variable cost c) Marginal cost d) Average total cost</p>	

Marginal Costs	
MTP May 20, SEQ, ICAI SM	
77	<p>Diminishing marginal returns implies:</p>
<p>a) decreasing average variable costs. b) decreasing marginal costs. c) increasing marginal costs. d) decreasing average fixed costs.</p>	

ICAI SM, MTP Mar 19, MTP Mar 22	
78	<p>With which of following is concept of marginal cost closely related?</p>
<p>a) Variable cost. b) Fixed cost. c) Opportunity cost. d) Economic cost</p>	

ICAI SM	
79	<p>Which of the following is correct?</p>
<p>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 average cost is rising, marginal cost is above the average cost. d) When the average cost is falling, the marginal cost must be rising</p>	

MTP Apr 19, ICAI SM, SEQ	
80	<p>Marginal cost is defined as:</p>
<p>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.</p>	

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**81** Which of the following is true of the relationship between the marginal cost function and the average cost function?

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

**Extra MCQ**

**85** Marginal Cost is the slope of \_\_\_\_\_

a) Total Cost  
b) Total Fixed Cost  
c) Total Variable Cost  
d) Both (a) & (c)

**MTP Aug 18, ICAI SM**

**82** A firm's average total cost is Rs. 300 at 5 units of output and Rs. 320 at 6 units of output. The marginal cost of producing the 6th unit is

a) Rs. 20  
b) Rs. 120  
c) Rs. 320  
d) Rs. 420

**A.Q.**

**86** Match the following and choose the correct answer using the codes given below

Average Cost	
A	AC horizontal
B	AC rises
C	AC falls
D	AC falls first & then rises
Marginal Cost	
I.	MC will rise at a greater rate
II.	MC falls but at a higher rate
III.	MC falls at higher rate & then rises at higher rate
IV.	MC will coincide with it

**83** A firm's average variable cost is Rs. 200 at 4 units of output and Rs. 230 at 5 units of output. Total Fixed Cost = Rs 100. The marginal cost of producing the 5th unit is ?

a) Rs. 30  
b) Rs. 350  
c) Rs. 230  
d) Rs. 130

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

**ICAI SM**

**84** Marginal cost changes due to changes in \_\_\_\_\_

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

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A.Q.	
87	Marginal cost is less than the Average Cost when Average Cost falls with
a) an increase in output b) a decrease in output c) constant output d) None of these	

A.Q.	
88	Which of the following is not a formula for marginal cost?
a) $MCN = TCN - TCN-1$ b) $MC = \frac{\Delta TC}{\Delta Q}$ c) $MCN = TVCN - TVCN-1$ d) $MCN = TFCN - TFCN-1$	

MTP Dec 22, A.Q.	
89	Which of following is incorrect ?
a) $TC = AC \times Q$ b) $\sum MC = TC$ c) $\sum MC = TVC$ d) $\sum MC + TFC = TC$	

MTP Apr 19	
90	If firm's average cost curve is falling then marginal curve must be.
a) Falling b) Rising c) Below average cost curve d) None of the above	

MTP Apr 19	
91	Which of the following is correct?
a) Marginal cost is always less than the average cost. b) Marginal cost is always more than the average cost. c) Marginal cost is always equal to the average cost at its minimum point. d) Marginal cost is always equal to the average cost	

MTP Apr 19	
92	When average cost curve is rising then, marginal cost
a) Must be decreasing b) Must be above the average cost curve c) Must be constant d) Must be equal to average cost	

MTP Aug 18, Mar 19	
93	The MC curve cuts the AVC and ATC curves
a) At its falling point b) At its minimum Point c) At its rising point d) At different points	

94	The marginal cost for a firm of producing the 9th unit of output is Rs. 20. Average cost at the same level of output is Rs. 15. Which of the following must be true?
a) marginal cost and average cost are both falling b) marginal cost and average cost are both rising c) marginal cost is rising and average cost is falling d) it is impossible to tell if either of the curves are rising or falling	

MTP Dec 22	
95	Short run marginal cost of the firm will be increasing when
a) average cost is decreasing b) total cost is increasing c) Average fixed cost is decreasing d) None of these	

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**Long Run Average Costs**

SEQ, ICAI SM

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

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

ICAI SM

97 Which of the following statements concerning the long run average cost curve is false?

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

ICAI SM

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

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

MTP Apr 19, SEQ

99 The LAC curve

- a) Falls when the LMC curve falls
- b) Rises when the LMC curve rises
- c) Goes through the lowest point of the LMC curve
- d) Falls when  $LMC < LAC$  and rises when  $LMC > LAC$

ICAI SM, MTP Mar 22

100

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

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

Extra MCQ

101

Short run average cost (SAC) curve is also known as \_\_\_\_\_

- a) Planning curve
- b) Envelope curve
- c) Plant Curve
- d) Both (a) & (b)

Extra MCQ

102

Empirical evidence shows modern firms face \_\_\_\_\_ LAC curve, which implies that initially when output is increased due to increase in size of plant, per unit cost falls rapidly due to economies of scale. The LAC curve does not increase even after a sufficiently large scale of output as it continues to enjoy economies of scale.

- a) U-shaped
- b) Boat shaped
- c) L-shaped
- d) Both (a) & (b)

<b>SEQ</b>	
<b>103</b>	<b>Which is the other name that is given to the long run average cost curve?</b>
a) profit curve b) planning curve c) demand curve d) indifference curve	

<b>MTP Oct 19, Mar 21</b>	
<b>104</b>	<b>Long run average cost (LAC) is :</b>
a) u shaped b) is also called envelope curve c) both a and b d) none of these	

<b>MTP Jun 22</b>	
<b>105</b>	<b>Which of the following is correct regarding long run cost?</b> 1. It is least cost of producing each level of output 2. LAC curve is envelope of SAC curves. 3. LAC is U-shaped
a) 1 & 2 only b) 2 & 3 only c) 1 & 3 only d) 1, 2 & 3	

<b>ICAI SM</b>	
<b>106</b>	<b>A firm's long-run average total cost curve is</b>
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.	

<b>MTP Dec 22</b>	
<b>107</b>	<b>The reason behind the upward sloping portion of the long run cost curve is</b>
a) economy of scale b) diseconomy of scale c) diminishing marginal rate of substitution d) None of these	

**Economics & Diseconomies of Scale**

<b>ICAI SM</b>	
<b>108</b>	<b>Decentralisation of decision making &amp; mechanisation of managerial functions enhance efficiency &amp; productivity of managers. It is a case of ____</b>
a) Internal economies of scale b) Internal diseconomies of scale c) External economies of scale d) External diseconomies of scale	

<b>ICAI, MTP May 20, Apr 21</b>	
<b>109</b>	<b>If a very small factory were to expand its scale of operations in the long run it is likely that it would initially experience:</b>
a) Constant returns to scale b) Diseconomies of scale c) Economies of scale d) None of these	

<b>A.Q.</b>	
<b>110</b>	<b>Diminishing returns are due to ____ and increasing returns are due to ____</b>
a) Internal diseconomies, Internal economies b) Internal economies, Internal diseconomies c) External diseconomies, Internal economies d) Internal diseconomies, external economies	

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<b>MTP Mar 21</b>	
<b>111</b>	<b>Certain benefit an Industry gets when it expands its scale of production is known as:</b>
a) Internal economies b) diseconomies c) external economies d) Profit	

<b>MTP Jun 22</b>	
<b>112</b>	<b>Economies and diseconomies of scale explain why the</b>
a) short run average fixed cost curve declines so long as output increases. b) marginal cost curve must intersect the minimum point the firm's average variable cost curve. c) long run average cost curve is typically U-shaped. d) short run average total cost curve is U-shaped.	

<b>MTP Jun 22</b>	
<b>113</b>	<b>Which one of the following is not an internal economies of scale?</b>
a) Technical economies b) Financial economies c) Economies due to localization of industries d) Marketing economies	

<b>MTP Mar 21, Apr 23</b>	
<b>114</b>	<b>The distinction between selling cost and production cost was made by:</b>
a) Chamberlin b) Sweezy c) Mrs Joan Robinson d) None of these	

<b>MTP Apr 23</b>	
<b>115</b>	<b>Accounting costs are also called:</b>
(a) Explicit cost (b) Implicit Cost (c) Either a or b (d) None of these	

<b>MTP May 23</b>	
<b>116</b>	<b>X, Y and Z are confused with the formula for defining TC (a) X Says : <math>TC = TVC + TFC</math> (b) Y Says: <math>TC = AC \times \text{output}</math> (c) Z Says: <math>TC = \Sigma MC + TFC</math> Identify who amongst them is correct</b>
(a) X (b) Y (c) Z (d) All of them	

<b>MTP May 23</b>	
<b>117</b>	<b>Which two curves are intersected by MC Curve at their minimum points:</b>
(a) AC and AVC (b) AC and AFC (c) AC and TVC (d) AVC and AFC	

<b>MTP May 23</b>	
<b>118</b>	<b>Which of the following is a variable cost for a firm?</b>
(a) Interest on Loan (b) Monthly rent (c) Insurance Premium (d) Wages to Employees	

<b>MTP Apr 23</b>	
<b>119</b>	<b>Which of the following involve a trade-off ?</b>
(a) Taking a nap (b) Going to University (c) Watching a football game on Saturday afternoon (d) All of these	

<b>MTP May 23</b>	
<b>120</b>	<b>Which curve is not affected by fixed cost?</b>
(a) MC Curve (b) TC Curve (c) AC Curve (d) AFC Curve	

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Answer Key – Economics Chapter 3 – Unit 2

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

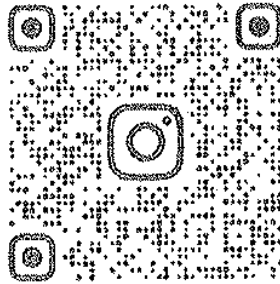
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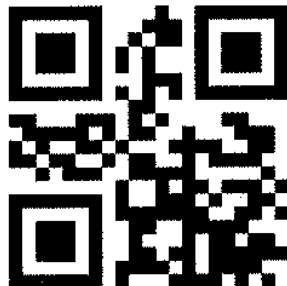
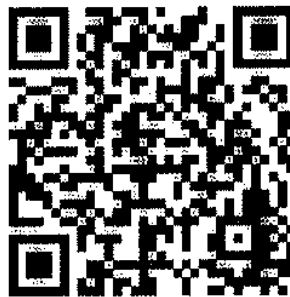


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CA Foundation – December 2023  
Business Economics

**Chapter 4**  
**Price Determination in Different  
Markets**

MCQ Compiler by MVSIR

**UNIT 1**

**Basics**

ICAI SM

**1** In Economics, the term 'market' refers to a:

- a) place where buyer and seller bargain a product or service for a price
- b) place where buyer does not bargain
- c) place where seller does not bargain
- d) none of the above

ICAI SM

**2** For market the essential condition is

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

MTP Mar 21, SEQ

**3** The opportunity cost of a good is

- a) the time lost in finding it
- b) the quantity of other goods sacrificed to get another unit of that good
- c) the expenditure on the good
- d) the loss of interest in using saving

MTP Mar 19

**4** Economic goods are goods which:

- a) Cannot be increased in quantity
- b) Obey the law of Micro Economics
- c) Are limited in supply and are scarce
- d) Are limited to man-made goods.

MTP Jun 22

**5** In economics, we are concerned with

- a) Value in use only
- b) Exchange value only
- c) Both value in use and exchange value
- d) None of the above

MTP Jun 22

**6** Exchange value is determined in

- a) the monopoly market
- b) the oligopoly market
- c) in the market where exchange of goods and services takes place
- d) None of these

MTP Jun 22, PYQ Jun 23

**7** Price of goods express their

- a) Value in use
- b) Exchange value
- c) Economic value
- d) Both (B) and (C)

MTP Nov 22

**8** Value in exchange is also known as

- a) Value in use
- b) Economic value
- c) Both (a) and (b)
- d) None of these

MTP Nov 22

**9** Which one of the following features of the term market is incorrect?

- a) Market is the collection of buyers and sellers with the potential to trade.
- b) A market need not be a formal.
- c) A market need not to be held in a particular place.
- d) A market must be formal or to be held in a particular place.

MTP Nov 22

**10** The study of demand and supply model is useful in explaining

- a) How government works
- b) How markets work
- c) How consumers behave
- d) None of these

PYQ MTP 22	
11	A market is a network of dealings between which of the following ?
a) Dealers and wholesalers b) Buyers and sellers c) Owners and channel partners d) Sales man and competitors	
MTP Oct 19, ICAI SM	
12	In a very short period market:
a) the supply is fixed b) the demand is fixed c) demand and supply are fixed d) none of the above	
ICAI SM, MTP Mar 22, Apr 23	
13	Time element was conceived by
a) Adam Smith b) Alfred Marshall c) Pigou d) Lionel Robinson	
MTP Oct 21, ICAI SM	
14	Generally, perishable goods like butter, eggs, milk, vegetables etc., will have
a) regional market b) local market c) national market d) none of the above	
MTP May 20, May 23, ICAI SM	
15	Secular period is also known as
a) very short period b) short period c) very long period d) long period	
MTP May 20, Apr 23, ICAI SM	
16	Stock exchange market is an example of
a) unregulated market b) regulated market c) spot market d) none of the above	

MTP May 20, ICAI SM	
17	The market for the ultimate consumers is known as
a) whole sale market b) regulated market c) unregulated market d) retail market	
ICAI SM	
18	Example of a commodity said to have an International Market.
a) Perishable Goods. b) High Value and Small Bulk Commodities. c) Product whose trading is restricted by government. d) Bulky Articles.	
MTP Jun 22, May 23, Apr 23	
19	In economics, generally the classification of the markets is made on the basis of
a) Time b) Geographic area c) Volume of business d) All of these	
Extra MCQ	
20	_____ allocate productive resources to producers
a) Retail Market b) Product Market c) Factor Market d) Both (a) & (b)	
MTP Dec 22, PYQ Jun 23	
21	On the basis of nature of transaction the market is classified into
a) Regulated and Unregulated market b) Wholesale and Retail market c) Spot and future Market d) None of these	

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PYQ Jun 22

22

When commodities are sold in small quantities are called as which of the following ?

- a) Wholesale market
- b) Regulated market
- c) Spot market
- d) Retail market

PYQ Jun 22

23

Very short period market is suitable for which of the following products?

- a) Gold and silver
- b) Vegetable and fruits
- c) Bricks and sand
- d) Supply of capital

Concepts of TR, MR, AR

ICAI SM

24

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

- a) Rs. 20
- b) Rs. 19
- c) Rs. 10
- d) Rs. 1

ICAI SM

25

Marginal Revenue is equal to:

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

ICAI SM

26

Average revenue curve is also known as

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

ICAI SM

27

Which of the following statements is incorrect?

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

ICAI SM

28

Total revenue =

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

ICAI SM

29

Average revenue is the revenue earned

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

ICAI SM

30

AR can be symbolically written as:

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

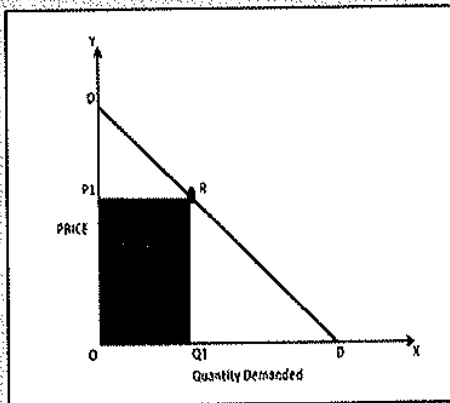
ICAI SM	
31	AR is also known as:
a) Price b) Income c) Revenue d) none of the above	
ICAI SM	
32	Marginal revenue can be defined as the change in total revenue resulting from the:
a) Gold and silver b) Vegetable and fruits c) Bricks and sand d) Supply of capital	
ICAI SM, MTP May 23	
33	When $e > 1$ then MR is
a) zero b) negative c) Positive d) one	
MTP May 20, ICAI SM	
34	When $e = 1$ then MR is
a) Positive b) zero c) One d) negative	
MTP May 20, ICAI SM	
35	When $e < 1$ then MR is
a) Negative b) zero c) Positive d) one	

ICAI SM	
36	Assume that when Price is Rs.10, the quantity demanded is 5 units and when Price is Rs. 12 the quantity demanded is 4 units. Based on this information, what is the Marginal Revenue resulting from increase in output from 4 units to 5 units.
a) Rs.5 b) Rs.4 c) Rs.2 d) Rs.3	
ICAI SM	
37	Average revenue is equal to.
a) The change in P & Q due to a one unit change in output. b) Nothing but price of one unit of output. c) The change in quantity divided by change in price. d) Graphically it denotes the firm's supply curve.	
MTP Nov 22, MTP Apr 19, SEQ	
38	Relationship between AR, MR and Price elasticity of demand is
a) $MR = AR + [e - 1/e]$ b) $MR = AR \times [e - 1/e]$ c) $AR = MR \times [e - 1/e]$ d) $MR = AR \times [e/e - 1]$	
MTP Oct 18, SEQ	
39	If a seller realizes Rs. 10,000 after selling 100 units and Rs. 14,000 after selling 120 units. What is the marginal revenue here?
a) Rs. 4000 b) Rs. 450 c) Rs. 200 d) Rs. 100	

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A.Q.

40 In the below figure, if DD is the demand curve and R is a given point on it then the area of shaded portion OP1RQ1 is \_\_\_\_\_



- a) Total Revenue (TR)
- b) Marginal Revenue (MR)
- c) Total Cost (TC)
- d) None of these

A.Q.

41 If the price of a product is Rs.20/unit and its price elasticity of demand is (-) 0.25. Its MR will be \_\_\_\_\_

- a) 60
- b) 100
- c) - 60
- d) None of these

A.Q.

42 If the price elasticity of demand of a product is (-) 3, what should be the price of the product for its MR to be Rs. 20?

- a) Rs. 10/unit
- b) Rs. 20/unit
- c) Rs. 30/unit
- d) Rs. 40/unit

A.Q.

43 If a product has elastic demand, its marginal revenue (MR) will be \_\_\_\_\_. (Given that the price of the product is Rs.5/unit)

- a) Positive
- b) Zero
- c) Negative
- d) can't be determined

A.Q.

44 For an imperfectly competitive firm

- a) Total revenue curve is straight upsloping line because a firm's sales are independent of product price.
- b) The marginal revenue curve lies above the demand curve because any reduction in price applies to all units sold.
- c) The marginal revenue curve lies below the demand curve because any reduction in price applies to all units sold.
- d) Marginal revenue curve lies below the demand curve because any reduction in price applies to only extra unit sold.

MTP Mar 21

45 When the output increases from 20 to 30 units and TR increases from Rs 400 to Rs 500 then MR is

- a) 20
- b) 10
- c) 15
- d) none of these

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MTP Oct 18, Oct 21

46 Marginal revenue will be negative if elasticity of demand is

- a) Less than one
- b) More than one
- c) Equal to one
- d) Equal to Zero

Use the following data to answer questions 47-49

Quantity (Q)	Price (P)
1	40
2	30
3	20
4	10

MTP Oct 21

47 The total revenue of third unit is

- a) 35
- b) 40
- c) 60
- d) 30

MTP Oct 21

48 The average revenue of second unit is-

- a) 40
- b) 45
- c) 20
- d) 30

MTP Oct 21

49 The marginal revenue of fourth unit is-

- a) -20
- b) 25
- c) 30
- d) 40

MTP May 20

50 Marginal product, mathematically, is the slope of the

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

MTP Aug 18

51 Which is the other name that is given to the demand curve?

- a) Profit curve
- b) Average Revenue curve
- c) Average Cost Curve
- d) Indifference Curve

MTP Mar 19

52 Assume that when price is Rs. 40 quantity demanded is 9 units, and when price is Rs. 38, quantity demanded is 10 units. Based on this information, what is the marginal revenue resulting from an increase in output from 9 units to 10 units?

- a) Rs. 20
- b) Rs. 40
- c) Rs.38
- d) Rs. 1

MTP Jun 22, MTP Nov 22

53 When total revenue is increasing

- a) Marginal revenue may be either positive or negative.
- b) The demand curve is relatively inelastic.
- c) Marginal revenue is positive.
- d) Marginal revenue is negative.

MTP Jun 22

54 Total revenue along with Total cost helps to determine

- a) Profit maximizing output
- b) Profit/unit
- c) Price/unit
- d) Total revenue

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MTP Dec 22

55 Total Revenue is maximise when marginal revenue is \_\_\_\_\_

- a) 1
- b) 0
- c) High
- d) None of these

PYQ Jun 22

56 Assume that at price Rs. 100 /- per unit, the quantity demanded is 900 units. When price falls to Rs. 90 /- the quantity demanded increases to 1000 units. Compute the marginal revenue.

- a) 0
- b) Rs. 10
- c) Rs. 90
- d) Rs. 100

PYQ Jun 22

57 Which of the following statement is not correct ?

- a) Marginal revenue is the revenue of an additional unit sold of a commodity
- b) Total revenue is obtained by multiplying the total number of units sold with the price per unit of a commodity
- c) Average revenue is the revenue earned per unit of an output
- d) Total revenue is the sum total of average revenue

PYQ Jun 22

58 Another name of demand curve is

- a) MR-curve
- b) AR-curve
- c) TR-curve
- d) MC-curve

Behavioral Principles

MTP May 20, ICAI SM

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

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

ICAI SM

60 It is assumed in economic theory that

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

MTP Oct 19, Oct 21, SEQ, ICAI SM, MTP  
Mar 18, Apr 19

61 A firm encounters its "shutdown point" when:

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

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ICAI SM	
62	Suppose that, at the profit-maximizing level of output, a firm finds that market price is less than average total cost, but greater than average variable cost. Which of the following statements is correct?
<p>a) The firm should shutdown in order to minimise its losses.</p> <p>b) The firm should raise its price enough to cover its losses.</p> <p>c) The firm should move its resources to another industry.</p> <p>d) The firm should continue to operate in the short run in order to minimize its losses.</p>	

MTP Mar 19, ICAI SM	
63	When price is less than average variable cost at the profit-maximising level of output, a firm should:
<p>a) produce where marginal revenue equals marginal cost if it is operating in the short run.</p> <p>b) produce where marginal revenue equals marginal cost if it is operating in the long run.</p> <p>c) shutdown, since it will lose nothing in that case.</p> <p>d) shutdown, since it cannot even cover its variable costs if it stays in business.</p>	

MTP Mar 19, SEQ	
64	At shut down point :
<p>a) Price is equal to AVC</p> <p>b) Total revenue is equal to TVC</p> <p>c) Total loss of the firm is equal to TFC</p> <p>d) All of the above</p>	

MTP Aug 18, May 20	
65	"I am making a loss, but with the rent I have to pay, I can't afford to shut down at this point of time." If this entrepreneur is attempting to maximize profits or minimize losses, his behavior in the short run is:
<p>a) Rational, if the firm is covering its variable cost</p> <p>b) Rational, if the firm is covering its fixed cost</p> <p>c) Irrational, since plant closing is necessary to eliminate losses</p> <p>d) Irrational, since fixed costs are eliminated if a firm shuts down</p>	

MTP Nov 22, MTP Jun 22	
66	If a firm's total revenue is not enough to make good even the _____, it is better for firm to shut down.
<p>a) Total fixed cost</p> <p>b) Marginal cost</p> <p>c) Average fixed cost</p> <p>d) Total variable cost</p>	

MTP Mar 18, Aug 18, Oct 21	
67	In the long run any firm will eventually leave the industry if
<p>a) Price does not at least cover average total cost.</p> <p>b) Price does not equal marginal cost.</p> <p>c) Economies of scale are being reaped.</p> <p>d) Price is greater than long run average cost</p>	

Extra MCQ	
68	On the upper portion of the demand curve, the value of marginal revenue will be _____
<p>a) Negative</p> <p>b) Zero</p> <p>c) Positive</p> <p>d) Any of the above</p>	

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MTP Nov 22

69

In the long-run, some firms will exit the market if the price of the good offered for sale is less than:

- a) marginal revenue.
- b) marginal cost.
- c) average total cost.
- d) average revenue.

PYQ Jun 22

70

It will be profitable for a firm to expand output till which of the following condition ?

- a) Marginal revenue is greater than marginal cost
- b) Marginal revenue is less than marginal cost
- c) Marginal cost is greater than marginal revenue
- d) Marginal revenue is equal to marginal cost

PYQ Jun 23

71

Which one of the following is not element of market

- a) Buyer
- b) Service
- c) Firm
- d) Bargaining for price

PYQ Jun 23

72

Suppose a seller realizes Rs. 100 by selling 10<sup>th</sup> unit of commodity and Rs. 120 by selling 11<sup>th</sup> unit. What is the MR of 11<sup>th</sup> unit

- a) 100
- b) 120
- c) 20
- d) 10

Answer Key – Economics Chapter 4 – Unit 1

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

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**UNIT 2**

**Determination of Prices**

ICAI SM

In the table below what will be equilibrium market price?

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

- 1
- a) Rs. 2
  - b) Rs. 3
  - c) Rs. 4
  - d) Rs. 5

SEQ. ICAI SM

2 With a given supply curve, a decrease in demand causes

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

MTP Oct 21, ICAI SM

3

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

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

MTP Oct 21, ICAI SM

4

If supply increases in a greater proportion than demand

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

MTP Oct 21, ICAI SM

5

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

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

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MTP Oct 21, ICAI SM

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

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

A.Q.

7 At a particular price level, there are no forces tending to move it either up or down

1. The firm is in equilibrium
2. The price is in equilibrium
3. The equilibrium price of the firm
4. The equilibrium price & quantity of the firm

- a) 1 & 4 only
- b) 1, 2 & 4 only
- c) 3 & 1 only
- d) 4 only

MTP Mar 21

8 A rise in supply and demand in equal proportion will result in

- a) increase in equilibrium price and decrease in equilibrium quantity
- b) decrease in equilibrium price and increase in equilibrium quantity
- c) no change in equilibrium price and increase in equilibrium quantity
- d) increase in equilibrium price and no change in equilibrium quantity

MTP May 20

9 If good growing conditions increases the supply of strawberries and hot weather increases the demand for strawberries, the quantity of strawberries bought

- a) increases and the price might rise, fall or not change.
- b) does not change but the price rises.
- c) does not change but the price falls.
- d) increases and the price rises

MTP Aug 18

10 Which of the following situation does not lead to an increase in equilibrium price?

- a) An increase in demand, without a change in supply
- b) A decrease in supply accompanied by an increase in demand
- c) A decrease in supply without a change in demand
- d) An increase in supply accompanied by a decrease in demand

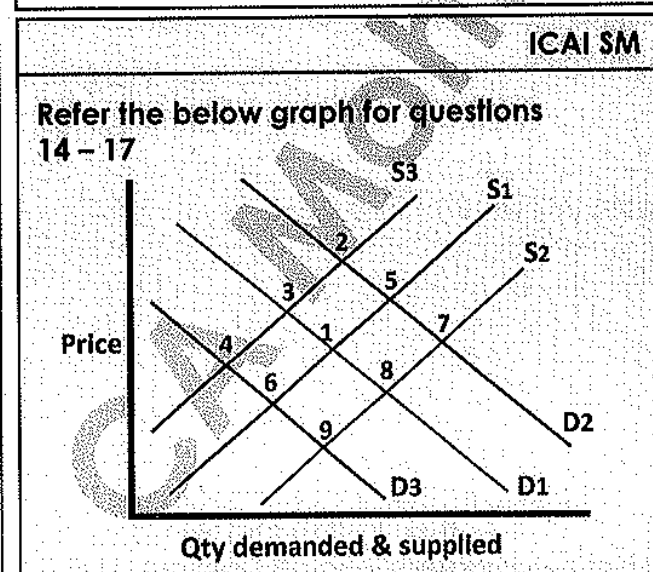
MTP Oct 18

11 A drought in India leads to unusually low level of wheat production. This would lead to a rise in price of wheat and fall in the quantity of wheat demanded due to:

- a) excess demand at the original price.
- b) excess supply at the original price.
- c) the supply curve shifting to the right.
- d) the demand curve shifting to the left

<b>MTP Aug 18</b>	
<b>12</b>	Suppose consumer tastes shift toward the consumption of apples. Which of the following statements is an accurate description of the impact of this event on the market for apples?
<p>a) There is an increase in the quantity demanded of apples and in the supply for apples</p> <p>b) There is an increase in the demand and supply of apples.</p> <p>c) There is an increase in the demand for apples and a decrease in the supply of apples.</p> <p>d) There is an increase in the demand for apples and an increase in the quantity supplied.</p>	

<b>MTP Jun 22</b>	
<b>13</b>	When demand increases and supply decreases,
<p>a) the equilibrium price and quantity both rise</p> <p>b) the equilibrium price and quantity both fall</p> <p>c) the equilibrium price rises but nothing certain can be said about the change in equilibrium quantity.</p> <p>d) the equilibrium quantity rises but nothing certain can be said about the change in equilibrium price.</p>	



<b>ICAI SM</b>	
<b>14</b>	Assume X is a normal good. Holding everything else constant, assume that income rises and the price of a factor of production also increases.
<p>a) Point 3</p> <p>b) Point 5</p> <p>c) Point 8</p> <p>d) Point 2</p>	

<b>ICAI SM</b>	
<b>15</b>	We are analyzing the market for good Z. The price of a complement good, good Y, declines. At the same time, there is technological advance in the production of good Z.
<p>a) Point 6</p> <p>b) Point 7</p> <p>c) Point 3</p> <p>d) Point 1</p>	

<b>ICAI SM</b>	
<b>16</b>	Heavy rains in Maharashtra during 2005 and 2006 caused havoc with the rice crop.
<p>a) Point 9</p> <p>b) Point 3</p> <p>c) Point 4</p> <p>d) Point 5</p>	

<b>ICAI SM</b>	
<b>17</b>	Assume that consumers expect the prices of new cars to significantly increase next year.
<p>a) Point 5</p> <p>b) Point 6</p> <p>c) Point 1</p> <p>d) Point 2</p>	

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PYQ Jun 23

18 When demand for commodity is decreasing as a result of fall in income and its supply remains constant, what will be the impact on its price

- a) Price increases
- b) Price decreases
- c) Certain change in price
- d) Uncertain change in price

Answer Key – Economics Chapter 4 – Unit 2

1	C	6	C	11	A	16	B
2	C	7	D	12	D	17	A
3	D	8	C	13	C	18	B
4	D	9	A	14	D		
5	C	10	D	15	B		

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**UNIT 3**

**Perfect Competition**

MTP Oct 19, ICAI SM

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

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

SEQ, ICAI SM

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

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

ICAI SM

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

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

MTP Oct 18, ICAI SM, SEQ

4 Which of the following is not a characteristic of a "price-taker"?

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

MTP Mar 18

5 In perfectly competitive firm, MC curve above AVC is \_\_\_ Curve of firm

- a) Average cost
- b) Marginal revenue
- c) Demand
- d) Supply

ICAI SM

6 Which of the following is not a condition of perfect competition?

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

ICAI SM

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

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

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MTP Aug 18, ICAI SM	
8	Price-taking firms, i.e., firms that operate in a perfectly competitive market, are said to be "small" relative to the market. Which of the following best describes this smallness?
<p>a) The individual firm must have fewer than 10 employees.</p> <p>b) The individual firm faces a downward-sloping demand curve.</p> <p>c) The individual firm has assets of less than Rs. 20 lakhs.</p> <p>d) The individual firm is unable to affect market price through its output decisions.</p>	

Extra MCQ	
9	In _____ market, price being given, a firm decides only about the output.
<p>a) Monopoly</p> <p>b) Monopolistic competition</p> <p>c) Oligopoly</p> <p>d) Perfect competition</p>	

MTP Mar 19, Apr 19, MTP Mar 22, ICAI SM	
10	For a price-taking firm :
<p>a) marginal revenue is less than price.</p> <p>b) marginal revenue is equal to price.</p> <p>c) marginal revenue is greater than price.</p> <p>d) the relationship between marginal revenue and price is indeterminate</p>	

ICAI SM	
11	Under which of the following forms of market structure does a firm have no control over the price of its product?
<p>a) Monopoly</p> <p>b) Monopolistic competition</p> <p>c) Oligopoly</p> <p>d) Perfect competition</p>	

ICAI SM	
12	The firm in a perfectly competitive market is a price-taker. This designation as a price-taker is based on the assumption that
<p>a) the firm has some, but not complete, control over its product price.</p> <p>b) there are so many buyers and sellers in the market that any individual firm cannot affect the market.</p> <p>c) each firm produces a homogeneous product.</p> <p>d) there is easy entry into or exit from the market place</p>	

ICAI SM	
13	A purely competitive firm's supply schedule in the short run is determined by
<p>a) its average revenue.</p> <p>b) its marginal revenue.</p> <p>c) its marginal utility for money curve.</p> <p>d) its marginal cost curve</p>	

ICAI SM, MTP May 23	
14	Which of the following statements is incorrect?
<p>a) Even a monopolistic firm can have losses.</p> <p>b) Firms in a perfectly competitive market are price takers.</p> <p>c) It is always beneficial for a firm in a perfectly competitive market to discriminate prices.</p> <p>d) Kinked demand curve is related to an oligopolistic market.</p>	

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SEQ	
15	Which of the following statement is incorrect?
a) Even monopolist can earn losses b) Firms in a perfectly competitive market are price-takers c) It is always beneficial for a firm in the perfectly competitive market to discriminate prices d) Economic laws are less exact than the laws of physical sciences	

MTP Oct 21, ICAI SM, MTP Oct 21

16	When _____, we know that the firms are earning just normal profits
a) $AC = AR$ b) $MC = MR$ c) $MC = AC$ d) $AR = MR$	

MTP Mar 18, Oct 18, ICAI SM

17	When _____, we know that the firms under perfect competition must be producing at the minimum point of the average cost curve and so there will be productive efficiency
a) $AC = AR$ b) $MC = AC$ c) $MC = MR$ d) $AR = MR$	

MTP Nov 22, MTP Apr 19, Oct 21

18	An economy achieves "productive efficiency" when:
a) The best quality goods are produced b) The highly skillful resources in the country are fully employed c) All resources are utilized and goods and services are produced at least cost d) None of the above	

ICAI SM	
19	When _____, there will be allocative efficiency meaning thereby that the cost of the last unit is exactly equal to the price consumers are willing to pay for it and so that the right goods are being sold to the right people at the right price
a) $MC = MR$ b) $MC = AC$ c) $MC = AR$ d) $AR = MR$	

MTP May 20, ICAI SM

20	Agricultural goods markets depict characteristics close to
a) perfect competition b) oligopoly. c) monopoly. d) monopolistic competition.	

ICAI SM

21	Which of the following is not a characteristic of a competitive market?
a) There are many buyers and sellers in the market. b) The goods offered for sales are largely the same. c) Firms generate small but positive supernormal profits in the long run. d) Firms can freely enter or exit the market.	

ICAI SM

22	Which of the following markets would most closely satisfy the requirements for a perfectly competitive market?
a) Electricity b) Cable television c) Cola d) Milk	

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ICAI SM

23

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

- a) Demand curve is downward sloping
- b) The demand curve always lies above the marginal revenue curve
- c) Average revenue need not be equal to price
- d) Price is given and is determined by the equilibrium in the entire market

ICAI SM

24

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

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

ICAI SM

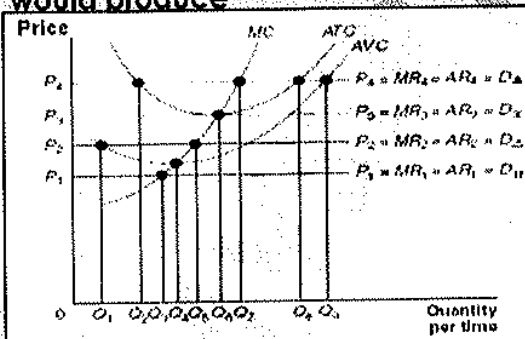
25

Under perfect competition a firm is the \_\_\_:

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

ICAI SM

At price  $P_1$ , the firm in the figure would produce



26

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

MTP May 20, ICAI SM

27

If the average cost is higher than the average revenue then the firm incurs \_\_\_\_\_

- a) Normal profit
- b) Abnormal profit
- c) Loss
- d) No profit, no loss

MTP Apr 21, ICAI SM

28

Which of the following statements is correct?

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

ICAI SM, MTP Oct 21, Mar 21	
29	Which of the following statements is incorrect?
a) Under monopoly there is no difference between a firm and an industry. b) A monopolist may restrict the output and raise the price. c) Commodities offered for sale under a perfect competition will be heterogeneous. d) Product differentiation is peculiar to monopolistic competition	

ICAI SM	
30	Conditions for equilibrium of a firm are:
a) $MR = MC$ b) $MC$ should cut $MR$ from below. c) $MR = AR$ and $MC$ should cut $MR$ from below. d) $MR = MC$ and $MC$ should have a positive slope	

SEQ	
31	Under _____ market condition, firms make normal profits in the long run.
a) Perfect Competition b) Monopoly c) Oligopoly d) None of the above	

Extra MCQ	
32	_____ type of market is regarded as a myth by many.
a) Perfect Competition b) Monopoly c) Oligopoly d) Monopolistic	

MTP Mar 18, Oct 18, SEQ	
33	When the perfectly competitive firm and industry are in long run equilibrium then:
a) $P = MR = SAC = LAC$ b) $D = MR = SMC = LMC$ c) $P = MR =$ Lowest point on the $LAC$ curve d) All of the above	

MTP Apr 19, SEQ	
34	In perfect competition the firm's _____ above $AVC$ has the identical shape of the firm's supply curve
a) Marginal revenue curve b) Marginal cost curve c) Average cost curve d) None of the above	

MTP Mar 21	
35	Under perfect competition the supply curve is derived from :
a) $MC$ curve b) $AC$ curve c) $TC$ Curve d) none of these.	

SEQ	
36	Under the perfect competition a firm will be in Equilibrium when :
a) $MC = MR$ b) $MC$ cuts the $MR$ from below c) $MC$ is rising when it cuts the $MR$ d) All of the above	

SEQ	
37	A perfectly competitive firm has control over
a) price b) production as well as price c) production, price and consumers d) none of the above	

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MTP Oct 21, MTP Mar 22, SEQ

38 Full capacity is utilized only when there is

- a) Monopoly
- b) Perfect competition
- c) Price discrimination
- d) Oligopoly

ICAI SM

39 Under perfect competition, in the long run, there will be no \_\_\_\_\_.

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

MTP Aug 18, SEQ

40 If a competitive firm doubles its output, its total revenue:

- a) doubles.
- b) more than doubles.
- c) less than doubles.
- d) cannot be determined because the price of the good may rise or fall

MTP Oct 18, SEQ

41 In the short run if a perfectly competitive firm finds itself operating at a loss, it will:

- a) Reduce the size of its plant to lower fixed costs.
- b) Raise the price of its product.
- c) Shutdown.
- d) Continue to operate as long as it covers its variable cost

A.Q.

42 For a competitive firm, long period normal price will

- a) Equal AC and MC of production
- b) Equal MC of production only
- c) Equal TC of production only
- d) None of these

A competitive firm sells as much as of its product if chooses at a market price of Rs. 100 per unit. Its fixed cost is Rs. 300 and its variable costs (in rupees) for different levels of production are shown in the following table. Use Table to answer questions 43-46

Qty	Variable Cost	Fixed Cost	Total Cost	Average Variable Cost	Average Total Cost	Marginal Cost
0	0	-	-	-	-	-
5	270					
10	490					
15	720					
20	1000					
25	1370					
30	1870					
35	2540					
40	3420					
45	4550					
50	5970					

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43 When production is 35 units, the average variable cost is: \_\_\_\_\_

a) Rs. 7.25  
b) Rs. 72.25  
c) Rs. 72.57  
d) Rs. 85.50

44 In the table marginal cost per unit that corresponds to 25 units of production is

a) Rs. 3.50  
b) Rs. 74  
c) Rs. 450  
d) Rs. 370

MTP Oct 21, MTP Mar 22, SEQ

45 To maximize output, the firm should produce

a) 30  
b) 35  
c) 45  
d) 50

46 If the market price drops from Rs. 100 to Rs. 74, the firm short run response should be: \_\_\_\_\_

- a) Continue to produce the same number of units as before the drop in price  
b) Produce 10 units  
c) Produce 20 units  
d) Produce 25 units

MTP Nov 22, A.Q.

47 An industry comprised of a very large number of sellers producing a standardized product is known as

- a) Monopolistic competition  
b) Oligopoly  
c) Pure monopoly  
d) Pure competition

Use following table to answer questions 48-51

A firm operating in perfect competition sells as much as of its products as it chooses at a market price of Rs. 100 per unit. Its Fixed cost is Rs. 300 and its Variable cost for different levels of production are shown in the above table.

Quantity	Variable Cost	Fixed Cost	Total Cost	AVC	ATC	MC
0	0					
5	25					
10	470					
15	700					
20	980					
25	1350					
30	1850					
35	2520					
40	3400					
45	4530					
50	5950					

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MTP Aug 18, Apr 19

48 When production is 40 units, the average cost is:

- a) Rs. 4.40
- b) Rs. 7.50
- c) Rs. 85
- d) Rs. 92.50

MTP Aug 18, Apr 19

49 In the table, marginal cost per unit that corresponds to 40 units of production is:

- a) Rs. 22
- b) Rs. 85
- c) Rs. 176
- d) Rs. 880

MTP Aug 18, Apr 19

50 To maximize profit the firm should produce:

- a) 15 units
- b) 30 units
- c) 35 units
- d) 50 units

MTP Aug, 18 Apr 19

51 If the market price drops from Rs. 100 to Rs. 56 per unit, the firm's short run response should be

- a) Shut down
- b) Produce 5 units
- c) Produce 20 units
- d) Continue to produce the same number of units as before the drop in price

A.Q.

52 For a purely competitive firm total revenue

- a) is price times quantity sold.
- b) increases by a constant absolute amount as output expands.
- c) graphs as a straight upsloping line from the origin.
- d) has all of the above characteristics.

MTP Dec 22, A.Q.

53 A purely competitive seller's average revenue curve coincides with

- a) its marginal revenue curve only
- b) its demand curve only
- c) both its demand & marginal revenue curves
- d) Neither demand nor marginal revenue curve

A.Q.

54 A firm reaches a break-even point (normal profit position) where,

- a) Marginal revenue curve cuts the horizontal axis.
- b) Marginal cost curve intersects the average variable cost curve.
- c) Total revenue equals total variable cost.
- d) Total revenue and total cost are equal.

MTP Apr 21

55 Raw materials and other factors of production is not monopolised, and labour is not unionised in which form of market structure:

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

MTP Apr 21

56 Wild Animals had destroyed the entire crops of a farmer what effect it will have on the price in perfect competition:

- a) Price will remain constant
- b) Price will decrease
- c) Price will increase
- d) None of these

MTP Mar 21

57

The condition for pure competition to be fulfilled are -

- a) large numbers of buyers and sellers
- b) products are homogeneous
- c) firms are free from entry and exit from the market
- d) all the above

MTP May 20, ICAI SM

58

The condition for pure competition is

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

MTP Oct 21, Mar 21

59

In which type of market buyers have no preference between different sellers and between different units of commodity offered for sale ?

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

MTP Mar 21

60

Foreign Exchange market is an example of -

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

MTP Mar 21

61

Break even point indicate which of the following ?

- a)  $TR = TC$
- b)  $TR > TC$
- c)  $TR = TVC$
- d) none of these

MTP Aug 18

62

Which of the following market situations explains marginal cost equal to price for attaining equilibrium?

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

MTP Oct 18, Oct 21

63

Price taker firms :

- a) Advertise to increase the demand for their products.
- b) Do not advertise because most advertising is harmful for the society.
- c) Do not advertise because they can sell as much as they want at the current price.
- d) Who advertise will get more profits than those who do not

MTP Nov 22, MTP Oct 18 May 20

64

Excess capacity is not found under \_\_\_\_\_

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

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<b>MTP Mar 19</b>	
<b>65</b>	<b>In perfect competition utilization of resources is</b>
a) Partial b) Moderate c) Full d) Over	

<b>MTP Mar 18, MTP Mar 19</b>	
<b>66</b>	<b>In the long run, normal profits are included in the ___ curve.</b>
a) LAC b) LMC c) AFC d) SAC	

<b>MTP Aug 18, Mar 19, MTP Oct 18</b>	
<b>67</b>	<b>Which of the following statements is correct?</b>
a) Monopolist can earn only profits b) Firms in a perfectly competitive market are price maker c) Industry in a perfectly competitive market is a price taker d) AR curve and demand curve are same	

<b>MTP Apr 19</b>	
<b>68</b>	<b>Under which market structure, the control of firm over price is nil?</b>
a) Perfect competition b) Monopoly c) Oligopoly d) Monopolistic Competition	

<b>MTP Mar 19</b>	
<b>69</b>	<b>A condition needed for a perfectly competitive industry to exist is that:</b>
a) Buyers are able to influence the price of the commodity b) Any units of commodity are considered by buyers to be different c) Buyer discriminates in their purchases based on non-price factors. d) There are no obstacles to the free mobility of resources	

<b>MTP Mar 18</b>	
<b>70</b>	<b>Shares traded in the stock market depict characteristics close to</b>
a) Perfect competition b) Oligopoly c) Monopolistic Competition d) Monopoly	

<b>MTP Oct 18</b>	
<b>71</b>	<b>A competitive firm maximizes profit at the output level where:</b>
a) Price equals marginal cost. b) The slope of the firm's profit function is equal to zero. c) Marginal revenue equals marginal cost. d) All of the above.	

<b>MTP Oct 18</b>	
<b>72</b>	<b>Which of the following is correct?</b>
a) If marginal revenue is positive and falling, total revenue will rise at a decreasing rate. b) Total revenue is equal to price times the quantity sold. c) Under perfect competition, total revenue is equal to marginal revenue times the quantity sold. d) All of the above	

<b>A.Q.</b>	
<b>73</b>	<b>When a firm is maximizing profit it will necessarily be</b>
a) Maximizing profit per unit of output. b) Maximizing the difference between total revenue and total cost. c) Minimizing total cost d) Maximizing total revenue	

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MTP Apr 19	
74	A firm under perfect competition will be making minimum losses (in the short run) at a point where:
a) $MC > MR$ b) $MR > MC$ c) $MC = MR$ d) $AC = AR$	
Extra MCQ	
75	Precious metals (gold, silver, platinum) approach the condition of _____
a) Perfect competition b) Oligopoly c) Monopolistic Competition d) Monopoly	
MTP Mar 21	
76	When average cost is equal to average revenue of a firm, it gets _____
a) sub normal profit b) normal profit c) abnormal profit d) super profit	
Extra MCQ	
77	Demand curve of perfect competition market as a whole is _____
a) Downward sloping b) Upward sloping c) Horizontal d) Vertical	
MTP Jun 22	
78	Marginal revenue is equal to the price under _____
a) Monopoly market structure b) Oligopoly form of market c) Monopolistically competitive market d) Perfect competition	

MTP Jun 22	
79	Short run supply curve of a perfectly competitive firm is _____
a) That portion of the short run marginal cost curve that is above the average variable cost curve b) That portion of the short run marginal cost curve that is above the average total cost curve c) That portion of short run average total cost curve that is above the average variable cost curve d) None of the above is correct.	
MTP Mar 22	
80	In the Short run level of output the firm at the optimum will be:
a) Minimizing total losses b) Maximizing total profit c) Either maximizing total profit or minimizing total losses d) None of these	
MTP Mar 22	
81	Supply Schedule in a purely competitive firm in the short run is determined by:
a) Marginal revenue b) Average revenue c) Marginal cost curve d) None of these	
MTP Mar 21	
82	In the short run, a perfect competitive firm can-
a) Earn normal profit b) Earn super-normal profit c) Incur Losses d) Any of the above	

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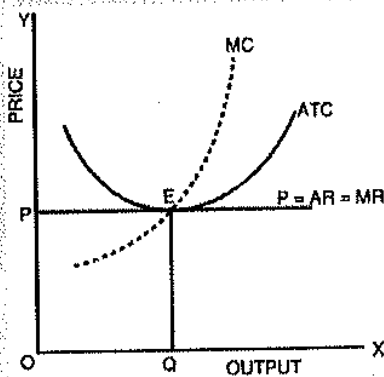
MTP Mar 21

83 When firm is in long run equilibrium in perfect competition, which of following is not true -

- a)  $AC = MR$
- b)  $TR = TC$
- c) firm will earn supernormal profit
- d) None of these

Extra MCQ

Here, PC firm is \_\_\_\_\_



84

- a) Incurring Losses
- b) Earning super-normal profit
- c) Earning normal profit
- d) Any of the above

MTP Dec 22

85 At the best, or optimum, short-run level of output, the firm will be

- a) maximizing total profits
- b) minimizing total losses
- c) either maximizing total profits or minimizing total losses
- d) maximizing profits per unit.

PYQ Jun 22

86 Which of the following product market is close to perfect competition?

- a) Mobile phones
- b) Car
- c) Utensils
- d) Agricultural product

**Monopolistic Competition**

ICAI SM, MTP Apr 23

87 Which of the following is not a characteristic of monopolistic competition?

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

Extra MCQ

88 In case of Monopolistic Competition, the less differentiated the product is from its competitors, the \_\_\_\_\_ demand curve will be

- a) Less elastic
- b) More elastic
- c) More steeper
- d) None of the above

ICAI SM, SEQ

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

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

ICAI SM	
90	Monopolistic competition differs from perfect competition primarily because
a) in monopolistic competition, firms can differentiate their products. b) in perfect competition, firms can differentiate their products. c) in monopolistic competition, entry into the industry is blocked. d) in monopolistic competition, there are relatively few barriers to entry.	

ICAI SM	
91	The long-run equilibrium outcomes in monopolistic competition and perfect competition are similar, because in both market structures
a) the efficient output level will be produced in the long run. b) firms will be producing at minimum average cost. c) firms will only earn a normal profit. d) firms realise all economies of scale	

ICAI SM	
92	Suppose that the demand curve for the XYZ Co. slopes downward and to the right. We can conclude that
a) the firm operates in a perfectly competitive market. b) the firm can sell all that it wants to at the established market price. c) the XYZ Co. is not a price-taker in the market because it must lower price to sell additional units of output. d) the XYZ Co. will not be able to maximise profits because price and revenue are subject to change.	

A.Q.	
93	Monopolistic competition has features of
a) Monopoly but not competition b) Monopoly and competition with features of competition predominating c) Monopoly and competition with features of monopoly predominating d) None of the above	

MTP Nov 22, A.Q.	
94	The monopolistically competitive seller's demand curve will become more elastic, the
a) more significant the barriers to entering the industry. b) greater the degree of product differentiation. c) larger the number of competitors. d) smaller the number of competitors	

MTP Apr 21	
95	Shampoo manufactures is an example of:
a) Perfect Competition b) Monopolistic Competition c) Monopoly d) None of these	

MTP Apr 21	
96	The dilemma faced by a Monopolistic is setting _____.
a) Price b) Output c) Both a and b d) Either a or b	

MTP Apr 21	
97	Monopolistic Competition theory architect was:
a) Roden b) Marx c) J R Hicks d) Chamberlin	

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MTP Apr 21

98 Which markets form has features of selling cost :

- a) Oligopoly
- b) Monopolistic Competition
- c) Monopoly
- d) None of these

MTP Mar 21

99 Which is not the characteristics of monopolistic competition:

- a) Large number of sellers
- b) homogeneous Product
- c) freedom of entry and exit
- d) non price discrimination

MTP Mar 21

100 The Price elasticity for Monopolistic Firm is :

- a)  $e > 1$
- b)  $e < 1$
- c)  $e = 1$
- d) none of these

MTP Mar 21

101 Average revenue curve is more elastic under monopolistic competition than monopoly due to

- a) low degree of governmental control
- b) lack of close substitute
- c) availability of close substitute
- d) none of these

MTP Oct 21

102 A Monopolistic Competitive firm advertises :

- a) Because it has no control over price of its product.
- b) To lower its cost of production
- c) To increase its sales and profits
- d) Because it cannot raise price of its product

PYQ Jun 22, Jun 23, MTP Apr 19

103 Product differentiation is the most important feature of:

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

MTP Mar 19

104 Soap industry is an example of:

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

MTP Mar 19

105 Excess Capacity is the essential characteristic of the firm in the market form of:

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

MTP Oct 18

106 Under which market condition, though the firms earn normal profits in the long run, there is always excess capacity with them

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

MTP Aug 18

107 The sale of branded articles is common in a situation of \_\_\_\_\_

- a) Excess capacity
- b) Monopolistic competition
- c) Monopoly
- d) Pure competition

MTP Oct 19, ICAI SM	
108	A market structure in which many firms sell products that are similar but not identical is known as
a) monopolistic competition b) monopoly c) perfect competition d) oligopoly	
ICAI SM	
109	Which of the following is not a characteristic of a monopolistically competitive market?
a) Free entry and exit b) Abnormal profits in the long run c) Many sellers d) Differentiated products	
SEQ	
110	In short run, a firm in monopolistic competition
a) always earns profits b) incurs losses c) earns normal profit only d) may earn normal profit, supernormal profit or incur losses	
MTP Mar 21	
111	Demand Curve in the monopolistic competition is -
a) infinitely elastic b) downward sloping and highly inelastic c) downward sloping and more elastic demand curve. d) none of these.	
MTP Nov 22, MTP Jun 22	
112	Which of the following is a differentiated product?
a) A hamburger b) A shirt c) An automobile d) All of the above	

MTP Mar 22	
113	In a monopolistically competitive market:
a) Firm face a perfectly elastic demand for its product b) Does not face a perfectly elastic demand for its product c) Cannot be determined d) None of these	
MTP Dec 22	
114	When the industry is in long-run equilibrium, the monopolistic competitor will produce at the lowest point on its LAC curve.
a) always b) never c) sometimes d) cannot say.	
MTP Dec 22	
115	Which of the following is true at equilibrium in monopolistic competition?
a) Price is greater than marginal cost b) Price is greater than marginal revenue c) Both (A) and (B) d) Price is equal to marginal revenue	
PYQ Jun 22	
116	Non-price competition is observed in which type of following market?
a) Monopoly b) Monopolistic competition c) Duopoly d) Oligopoly	

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**Monopoly**

MTP Mar 18, Apr 19, ICAI SM

117

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

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

ICAI SM, MTP Apr 23

118

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

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

ICAI SM

119

Under monopoly, the degree of control over price is

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

MTP May 20, ICAI SM

120

The firm and the industry are one and the same in \_\_\_\_\_

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

ICAI SM

121

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

ICAI SM

122

The demand curve of a monopoly firm will be \_\_\_\_\_

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

ICAI SM

123

Natural Monopoly arises when

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

MTP Oct 18, SEQ

124

In monopoly, the relationship between average and marginal revenue curves is as follows:

- a) AR curve lies above the MR curve
- b) AR curve coincides with the MR curve
- c) AR curve lies below the MR curve
- d) AR curve is parallel to the MR curve

MTP Oct 21, MTP Apr 21, SEQ	
125	New firms are barred from entering the market in
a) Perfect competition b) Oligopoly c) Monopolistic competition d) Monopoly	
MTP Aug 18, SEQ	
126	Which of the following statements about price and marginal cost in competitive and monopolized markets is true?
a) In competitive markets, price equals marginal cost; in monopolized markets, price equals marginal cost. b) In competitive markets, price exceeds marginal cost; in monopolized markets, price exceeds marginal cost. c) In competitive markets, price equals marginal cost; in monopolized markets, price exceeds marginal cost. d) In competitive markets, price exceeds marginal cost; in monopolized markets, price equals marginal cost.	
MTP Dec 22, Apr 23, SEQ	
127	In long run equilibrium the pure monopolist can make pure profits because of
a) Blocked entry b) The high price he charges c) The low LAC costs d) Advertising	
SEQ	
128	In the case of monopoly:
a) MR curve cannot be defined b) AR curve cannot be defined c) the short run supply curve cannot be defined d) none of the above	

A.Q.	
129	With respect to the pure monopolist's demand curve it can be said that
a) The stronger the barrier to entry, the more elastic is the monopolist's demand curve. b) Price exceeds marginal revenue at all outputs greater than 1. c) Demand is perfectly inelastic. d) Marginal revenue equals price at all outputs	
A.Q.	
130	If a monopolist could perfectly discriminate the which of the following statements would be true?
a) Every increment of the goods would be priced separately so as to capture the entire consumer surplus. b) Every increment of the goods would be priced evenly. c) Every increment of goods would be priced higher than the previous one. d) Every increment of goods would be priced lower than the previous one.	

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A.Q.

131

Which of the following is not correct?

- 1) Monopoly form of market organization may be the result of increasing returns to scale
- 2) Monopoly form of market organization may be the result of patent or govt. decision
- 3) Monopoly form of market organization may be the result of control over the supply of raw materials
- 4) Monopoly form of market organization may be the result of control over the demand of raw materials

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

MTP Apr 21, Apr 23

132 AR is different from MR under

- a) Monopoly
- b) Monopolistic competition
- c) Perfect Competition
- d) Both a and b

A.Q.

133

Because the monopolist's demand curve is down sloping

- a) Marginal revenue equals price.
- b) Price must be lowered to sell more output.
- c) The elasticity coefficient will increase as price lowered.
- d) Its supply curve will also be downsloping.

MTP Apr 21, Apr 23

134

Unique supply curve in monopoly is not due to \_\_\_\_\_

- a)  $P > MC$
- b)  $P < MC$
- c)  $P = MC$
- d) None of these

MTP Apr 21, Apr 23

135

Cross elasticity of Product in Monopoly is:

- a) Zero
- b) High
- c) Infinity
- d) None of these

MTP Mar 22

136

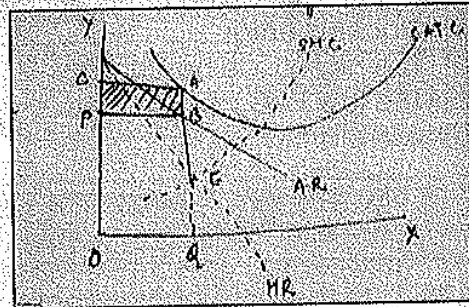
Gross elasticity of demand for the monopolist's product or any other product is \_\_\_\_\_

- a) Zero
- b) Very small
- c) High
- d) Either (a) or (b)

MTP Apr 21

137

In the following diagram the Monopolist is incurring \_\_\_\_\_



- a) Losses
- b) Profit
- c) Super normal profit
- d) None of these



MTP Apr 21	
138	<b>In the absence of competition the monopolist:</b>
<p>a) The monopolist need not produce at the optimal level                  b) Produce at the optimal level                  c) Either a or b                  d) None of these</p>	

MTP Mar 21	
139	<b>Dynamic fare charged by Indian railways is an example of :</b>
<p>a) pure monopoly                  b) discriminating monopoly                  c) perfect competition                  d) none of these</p>	

MTP Mar 21	
140	<b>The firm and industry are same in :</b>
<p>a) duopoly                  b) monopoly                  c) perfect competition                  d) none of these</p>	

MTP Mar 21	
141	<b>The shape of TR curve of the monopolist is :</b>
<p>a) u shaped                  b) inverted u shaped                  c) downward sloping                  d) none of these</p>	

MTP Apr 19	
142	<b>In the long run under which market a firm may earn super normal profits?</b>
<p>a) Monopolistic competition                  b) Perfect competition                  c) Oligopoly                  d) Monopoly</p>	

MTP Mar 18, Apr 19	
143	<b>A monopolist is able to maximize his profits when:</b>
<p>a) His output is maximum                  b) He charges high price                  c) His average cost is minimum                  d) His marginal cost is equal to marginal revenue</p>	

MTP Mar 19	
144	<b>MR curve under Monopoly lies between AR and Y – axis because, the rate of decline of the MR is</b>
<p>a) Just half of the rate of decline of AR                  b) Just equal to the rate of decline of AR                  c) Just triple the rate of decline of the average revenue                  d) Just double the rate of decline of the average revenue</p>	

MTP Aug 18	
145	<b>A monopolist who is selling in two markets in which demand is not identical will be unable to maximize his profits unless he</b>
<p>a) Sells below costs of production in both markets                  b) Practices price discrimination.                  c) Equates the volume of sales in both markets.                  d) Equates marginal costs with marginal revenue in one market only</p>	

MTP Nov 22, MTP Oct 18	
146	<b>Monopolies are allocatively inefficient because:</b>
<p>a) They restrict the output to keep the price higher than under perfect competition.                  b) They charge a price higher than the marginal cost.                  c) Both (a) and (b) are correct.                  d) Both (a) and (b) are incorrect</p>	

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<b>MTP May 20, Nov 22, May 23, ICAI SM</b>	
<b>147</b>	<b>Price discrimination will be profitable only if the elasticity of demand in different sub-markets is:</b>
<ul style="list-style-type: none"> <li>a) Uniform</li> <li>b) different</li> <li>c) Less</li> <li>d) zero</li> </ul>	

<b>ICAI SM</b>	
<b>148</b>	<b>Price discrimination is one of the features of _____</b>
<ul style="list-style-type: none"> <li>a) monopolistic competition</li> <li>b) monopoly</li> <li>c) perfect competition</li> <li>d) oligopoly</li> </ul>	

<b>MTP May 20, ICAI SM</b>	
<b>149</b>	<b>When the monopolist divides the consumers into separate sub markets and charges different prices in different sub-markets it is known as</b>
<ul style="list-style-type: none"> <li>a) first degree of price discrimination</li> <li>b) second degree of price discrimination</li> <li>c) third degree of price discrimination</li> <li>d) none of the above</li> </ul>	

<b>MTP May 20, ICAI SM</b>	
<b>150</b>	<b>Under _____ the monopolist will fix a price which will take away the entire consumers' surplus</b>
<ul style="list-style-type: none"> <li>a) first degree of price discrimination</li> <li>b) second degree of price discrimination</li> <li>c) third degree of price discrimination</li> <li>d) none of the above</li> </ul>	

<b>ICAI SM</b>	
<b>151</b>	<b>Price discrimination is related to</b>
<ul style="list-style-type: none"> <li>a) time</li> <li>b) size of the purchase</li> <li>c) Income</li> <li>d) any of the above</li> </ul>	

<b>ICAI SM, MTP Mar 21, Mar 18, Apr 23, SEQ</b>	
<b>152</b>	<b>Price Discrimination cannot persist under the following market form:</b>
<ul style="list-style-type: none"> <li>a) Perfect Competition</li> <li>b) Monopoly</li> <li>c) Monopolistic</li> <li>d) Oligopoly</li> </ul>	

<b>ICAI SM</b>	
<b>153</b>	<b>Price varies by attributes such as location or by Customer Segment is _____ degree of Price Discrimination.</b>
<ul style="list-style-type: none"> <li>a) First</li> <li>b) Second</li> <li>c) Third</li> <li>d) Fourth</li> </ul>	

<b>SEQ</b>	
<b>154</b>	<b>Price discrimination is a situation when a producer</b>
<ul style="list-style-type: none"> <li>a) Charges different prices in different markets</li> <li>b) Charges same price</li> <li>c) Charges many prices</li> <li>d) All of the above</li> </ul>	

<b>Extra MCQ</b>	
<b>155</b>	<b>Family pack of soaps or biscuits tends to cost less per kg than smaller packs. It is case of _____</b>
<ul style="list-style-type: none"> <li>a) First degree of price discrimination</li> <li>b) Second degree of price discrimination</li> <li>c) Third degree of price discrimination</li> <li>d) Fourth degree of price discrimination</li> </ul>	

<b>SEQ</b>	
<b>156</b>	<b>The demand curve facing an industrial firm under monopoly is</b>
<ul style="list-style-type: none"> <li>a) horizontal straight line</li> <li>b) indeterminate</li> <li>c) downward sloping</li> <li>d) upward sloping</li> </ul>	

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A.Q.	
157	<p>Which of the following is an essential condition for price discrimination? Choose the correct answer using the codes given below:</p> <ol style="list-style-type: none"> <li>1. Existence of two or more than two markets</li> <li>2. Full control over the supply</li> <li>3. Communication between buyers in different sectors of the monopolist's market</li> <li>4. Existence of different elasticity of demand in different markets.</li> <li>5. No possibility of reselling a commodity at a higher price in another market.</li> </ol>
<p>a) 1, 2, 3 &amp; 4 b) 2, 3, 4 &amp; 5 c) 3, 4 &amp; 5 d) 1, 2, 4 &amp; 5</p>	

MTP Mar 19	
158	<p>Price discrimination occurs when:</p>
<p>a) Producer sells a specific commodity or service to different buyers for the same price b) Producer sells specific commodity or service to different buyers at two or more different prices due to difference in cost c) Producer sells a specific commodity or service to different buyers at two or more different prices for reasons not associate with difference in cost d) Producer under perfect competition sells different goods to consumers at different prices</p>	

Extra MCQ	
159	<p>_____ classified three degrees of price discrimination</p>
<p>a) Alfred Marshall b) Prof. Pigou c) Hicks &amp; Allen d) Adam Smith</p>	

MTP Mar 21	
160	<p>Price discrimination is possible when</p>
<p>a) seller should have some control over the supply of the Product b) price elasticity of the product should be different in different submarket c) seller should be able to divide his market into two or more submarket d) All of these</p>	

MTP Jun 22	
161	<p>Consider the following statements and select the correct answer from the given options. Assertion (A): Although a monopolist can charge any price he likes, but does not charge a higher price than his equilibrium price. Reason (R): Higher price means fall in total revenue.</p>
<p>a) Both (A) and (R) are true and (R) is the correct explanation of (A) b) Both (A) and (R) are true and (R) is not the correct explanation of (A) c) (A) is true but (R) is false d) (A) is false but (R) is true</p>	

MTP Jun 22	
162	<p>Marginal Revenue of a monopoly firm is less than the price because</p>
<p>a) Demand curve has a positive slope. b) Demand curve has a negative slope. c) Monopolist incurs losses. d) Monopolist is in equilibrium.</p>	

MTP Mar 22, Apr 23	
163	<p>If the monopolist incur losses in the short run then in the long run:</p>
<p>a) It will stay in the business b) Go out of business c) Will break even d) Any of the above is possible</p>	

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MTP Mar 22

164 A cartel which is market sharing will reach the monopoly situation:

- a) Always when the product is homogenous
- b) Always when the product is differentiated
- c) Sometime
- d) None of these

MTP Oct 19

165 A monopolist is a-

- a) Price maker
- b) Price-taker
- c) Price adjuster
- d) None of the above

MTP Mar 22

166 The price elasticity for demand for monopolist's product is :

- a)  $< 1$
- b)  $> 1$
- c)  $= 0$
- d) None of these

MTP Dec 22

167 In the short run, the monopolist

- a) breaks even,
- b) incurs a loss,
- c) makes a profit
- d) any of the above.

MTP Nov 22

168 A monopolized market is in long run equilibrium when

- a) Zero economic profit is earned by the monopolist
- b) Production takes place where price is equal to long run MC and AC
- c) Production takes place where long run MC is equal to MR and price is not below the long run average cost.
- d) All of the above are correct

MTP Nov 22

169 All the following are the features of monopoly except

- a) There is a single seller
- b) The firm is a price taker
- c) The firm produces a unique product
- d) The existence of some advertising

Extra MCQ

170 Price under monopoly is higher than price under \_\_\_\_\_

- a) Perfect competition
- b) Monopolistic competition
- c) Oligopoly
- d) All of the above

PYQ Jun 22

171 Under monopoly market conditions, MR is \_\_\_\_\_ than the AR.

- a) Less
- b) Greater
- c) Equal
- d) Variable

### Oligopoly

ICAI SM

172 Which of the following is the distinguishing characteristic of oligopolies?

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

MTP Oct 19, Oct 21, SEQ, ICAI SM

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

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

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**ICAI SM**

**174** 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.

**SEQ, ICAI SM**

**175** The kinked demand curve model of oligopoly assumes that

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

**SEQ, ICAI SM**

**176** One characteristic not typical of oligopolistic industry is

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

**SEQ, MTP Oct 18, ICAI SM**

**177** The structure of the cold drink industry in India is best described as

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

**ICAI SM**

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

a) Monopolistically competitive  
b) a monopoly  
c) an oligopoly  
d) perfectly competitive

**MTP Oct 21, ICAI SM**

**179** Pure oligopoly is based on the product

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

**ICAI SM**

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

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

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MTP Oct 21, ICAI SM

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

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

SEQ

182 If oligopolists engage in collusion and successfully form a cartel, the market outcome is

- a) The same as if it were served by a monopoly
- b) The same as if it were served by competitive firms
- c) Efficient because cooperation improves efficiency
- d) Known as Nash equilibrium

MTP Apr 21

183 Reliance Jio can be described as part of which form to market structure :

- a) Oligopoly
- b) Monopoly
- c) Duopoly
- d) Perfect Competition

MTP Apr 21, Apr 23

184 Cartels can be formed in which form of market:

- a) Perfect competition
- b) Monopoly
- c) Oligopoly
- d) None of these

ICAI SM, MTP Mar 21, May 23, Apr 23

185 The concept of price rigidity in Sweezy's model is related to which market form:

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

MTP Mar 21

186 The price in collusive oligopoly is decided by:

- a) firm
- b) price leader
- c) industry
- d) none of these

MTP Oct 19

187 Homogeneous product are sold under-

- a) Collusive oligopoly
- b) Non-collusive oligopoly
- c) Perfect oligopoly
- d) Imperfect oligopoly

MTP Oct 18

188 Which one of the following is the best example of agreement between oligopolists?

- a) GATT
- b) OPEC
- c) WTO
- d) UNIDO

MTP Aug 18

189 In which of the following market system, there, are few sellers in the market in the market selling similar or differentiated product?

- a) Perfect Competition
- b) Monopoly
- c) Oligopoly
- d) Monopsony

ICAI SM

190 Oligopolistic industries are characterized by:

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

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<b>MTP Mar 18</b>	
<b>191</b>	<b>Kinked demand curve in oligopoly market explains:</b>
a) Price and output determination b) Existence of very few firms in the market c) Price rigidity d) Price leadership	

<b>MTP Jun 22</b>	
<b>192</b>	<b>Oligopolistic industries</b>
a) are characterized by a relatively large number of small firms. b) may produce either standardized or differentiated products. c) always produce differentiated products. d) always produce stan products.	

<b>MTP Mar 22</b>	
<b>193</b>	<b>The concept of price rigidity in market is explained in which form of market:</b>
a) Monopolistic Market b) Perfect Competition c) Oligopoly d) Monopoly	

<b>MTP Dec 22</b>	
<b>194</b>	<b>In the kinked demand curve models, the oligopolists</b>
a) Recognize their interdependence b) Do not collude c) Tend to keep prices constant d) All of the above	

<b>MTP Dec 22</b>	
<b>195</b>	<b>Telecom Industry is an example of</b>
a) Monopoly b) Perfect Competition c) Oligopoly d) Monopolistic competition	

<b>MTP Nov 22</b>	
<b>196</b>	<b>A point of 'Kink' in the kinked demand curve indicates</b>
I. Price rigidity II. Quantity rigidity III. Price flexibility IV. Quantity flexibility	
a) I & II are correct b) II & III are correct c) III & IV are correct d) I & IV are correct	

<b>MTP Nov 22</b>	
<b>197</b>	<b>If a firm sells its output on a market that is characterized by few sellers and many buyers and limited long run resource mobility, then the firm is</b>
a) A monopolist b) An oligopolist c) A perfect competitor d) A monopolistic competitor	

<b>PYQ Jun 22</b>	
<b>198</b>	<b>Price rigidity concept is related to</b>
a) Duopoly b) Monopoly c) Oligopoly d) Monopolistic competition	

<b>PYQ Jun 22</b>	
<b>199</b>	<b>Pure oligopoly occurs when</b>
a) The product is homogeneous b) The product is differentiated c) The industry is dominated by one large firm d) The absence of price leadership	

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PYQ Jun 22

200 The elasticity of demand on the upper segment of a kinked demand curve will be \_\_\_\_\_.

- a) Infinite
- b) Equal to one
- c) Greater than one
- d) Less than one

**Other forms of Market**

MTP Oct 19, Apr 21, Apr 23, ICAI SM

201 Combination of Monopoly Market and Monopsony Market is called as:

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

**Additional Practice Questions**

A.Q.

202 Imperfect competition arises when

- a) There is imperfect rivalry among competitors
- b) There are unexplainable imperfections in the market
- c) Competition does not exist
- d) Product variation, ignorance of consumers and distance & transportation costs lead to imperfection in the competitive market which operates on certain assumptions.

A.Q.

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

**LIST I**

A	Perfect competition
B	Imperfect competition
C	Oligopoly
D	Monopoly

**LIST 2**

I.	Differentiated product
II.	Homogeneous or differentiated products
III.	Homogenous product
IV.	Sharply differentiated products

203

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

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MTP Apr 21

206 Which of the following statement is correct?

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

MTP Apr 21

207 Cinema Halls, Telephone bills etc. are following

- a) Differential Pricing
- b) Full cost pricing
- c) Marginal Cost Pricing
- d) None of these

MTP Mar 21

208 The Government offer minimum assured price to the farmers to purchase their output is called.

- a) market Price
- b) support Price
- c) equilibrium Price
- d) ceiling Price

MTP Apr 19

209 In Imperfect competition:

- a) Excess capacity always exists
- b) Excess capacity never exists
- c) Excess capacity may or may not exist
- d) None of the above

A.Q.

204

Marginal cost is equal to marginal revenue, average cost is equal to average revenue, average revenue is equal to marginal revenue and average cost is equal to marginal cost.

This is the condition of-

1. Long period equilibrium for a firm under oligopoly
2. Short period equilibrium for a firm under oligopoly
3. Long period equilibrium
4. Long period equilibrium for a firm under perfect competition
5. Short period equilibrium for a firm under perfect competition

- a) 1 & 5 only
- b) 3 & 4 only
- c) 3 & 1 only
- d) 2 only

A.Q.

205

Price is

LIST 1	
a	Highest
b	Second highest
c	Third highest
d	Fourth highest
LIST 2	
i.	Monopoly
ii.	Oligopoly
iii.	Monopolistic Competition
iv.	Perfect Competition

- a) i-d, ii-c, iii-b, iv-a
- b) i-a, ii-b, iii-c, iv-d
- c) i-d, ii-a, iii-c, iv-b
- d) i-a, ii-c, iii-b, iv-d

MTP Jun 22

A.Q.

210

If the market demand curve for a commodity has a negative slope then the market structure must be:

- a) Perfect competition
- b) Monopoly
- c) Imperfect competition
- d) The market structure cannot be determined as the information is insufficient

211

Demand curve is

LIST 1

- |      |                  |
|------|------------------|
| i.   | Horizontal       |
| ii.  | Kinked           |
| iii. | Downward sloping |

LIST 2

- |   |                     |
|---|---------------------|
| a | Monopoly            |
| b | Oligopoly           |
| c | Perfect Competition |

- a) i-c, ii-a, iii-b
- b) i-c, ii-b, iii-a
- c) i-a, ii-b, iii-c
- d) i-b, ii-a, iii-c

The following Table provides cost and price information for a firm called Comfy Cushions (CC). The firm produces and sells cushions using a fixed amount of capital equipment but can change the level of inputs such a labour and materials. Read the Table and answer questions 212-218

Production (Q)	Price per unit (P)	Total Cost (TC)	Average Total Cost (ATC)	Marginal Cost (MC)	Total Revenue (TR)	Marginal Revenue (per unit) (MR)
0	250	500				
1	240	730				
2	230	870				
3	220	950				
4	210	1010				
5	200	1090				
6	190	1230				
7	180	1470				
8	170	1850				
9	160	2410				

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MTP Mar 18	
212	What is the value of fixed cost incurred by CC?
a) Rs. 252 b) Rs. 730 c) Rs. 500 d) cannot be determined	
MTP Mar 18	
213	What is the average total cost when 5 units are produced?
a) Rs. 218 b) Rs. 1090 c) Rs. 730 d) Rs. 210	
MTP Mar 18	
214	What is the marginal revenue (per unit) when production increase from 7 units to 8 units?
a) 160 b) 140 c) 120 d) 100	
MTP Mar 18	
215	What is the marginal cost when production increase from 3 to 4 units?
a) 140 b) 80 c) 60 d) 240	
MTP Mar 18	
216	To maximize its profit or minimize its loss, what level of production should CC choose?
a) 7 units b) 6 units c) 4 units d) 8 units	

MTP Mar 18	
217	At the profit maximizing level, what price should be charged?
a) Rs. 190 b) Rs. 200 c) Rs. 210 d) Rs. 220	
MTP Mar 18	
218	Calculate CC's maximum profit or minimum loss.
a) Loss of Rs. 100 b) Loss of Rs. 60 c) Profit of Rs. 90 d) Loss of Rs. 90	
Extra MCQ	
219	This type of oligopoly tends to process raw process raw materials or produce intermediate goods that are used as inputs by other industries
a) Open Oligopoly b) Collusive Oligopoly c) Pure Oligopoly d) Full Oligopoly	
Extra MCQ	
220	In _____ the market will be conspicuous by the absence of price leadership
a) Close Oligopoly b) Collusive Oligopoly c) Partial Oligopoly d) Full Oligopoly	
MTP Nov 22	
221	The buyers in the market include
a) Consumers b) Businesses c) Government d) All of the above	

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PYQ Jun 22

222 Which of the following is a correct statement?

- a) Firms have to incur a good deal of costs on advertising and other sales promotion measures in oligopoly market
- b) A monopolist always earns supernormal profit
- c) Identical products are not found in a competitive market
- d) Close substitutes are available under monopoly

223 Total profits are maximized when

- a) TR equals TC
- b) The TR curve and the TC curve are parallel
- c) TC exceeds TR
- d) TR exceeds TC

MTP May 23

224 Two Suppliers and many buyers are in \_\_\_\_\_ market.

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

MTP May 23

225 Under which market form, the demand curve is steeper as compared to monopolistic competition?

- (a) Monopoly
- (b) Oligopoly
- (c) Perfect Competition
- (d) None of these

MTP May 23

226 Consumers get maximum variety of goods under:

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

MTP May 23

227 A few big sellers is a characteristics of:

- (a) Perfect Competition
- (b) Monopolistic Competition
- (c) Oligopoly
- (d) None of the above

Extra MCQ

228 In which type of the following market product is homogeneous in nature

- a) Pure oligopoly
- b) Pure monopoly
- c) Pure competition
- d) Both a & c

MTP May 23

229 Demand curve of perfectly competitive market form is a horizontal straight line parallel to X-axis. It happens because:

- (a) Selling costs are zero
- (b) There is freedom of entry and exit
- (c) Firm is a price-taker
- (d) None of these

MTP Apr 23

230 The market price cannot be influenced by a seller under:

- (a) Monopolistic Competition
- (b) Monopoly
- (c) Perfect Competition
- (d) All the above

MTP May 23

231 Firms cooperate with each other in determining price or output or both. It is a feature of:

- (a) Pure Oligopoly
- (b) Non-Collusive Oligopoly
- (c) Imperfect Oligopoly
- (d) Collusive Oligopoly

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<b>MTP Apr 23</b>	
<b>232</b>	<b>At the stage when Negative Return sets in :</b>
(a) MP is negative (b) MP is diminishing (c) Either a or b (d) none of these	

<b>PYQ Jun 23</b>	
<b>233</b>	<b>_____ is not an objective of price discrimination</b>
a) To enjoy economics of scale b) To dispose of surplus stock c) To escape foreign market d) To secure equity through pricing	

<b>MTP May 23</b>	
<b>234</b>	<b>Which of the following is correct about Cartel?</b>
(a) There are few firms (b) All of which are similar in size (c) Most Cartels have only a Subset of producers (d) All of the above	

<b>PYQ Jun 23</b>	
<b>235</b>	<b>Under which of the following market condition both average and marginal revenue are same</b>
a) Perfect competition b) Monopoly c) Monopolistic competition d) Oligopoly	

<b>MTP Apr 23</b>	
<b>236</b>	<b>Pears, Liril &amp; Dove are example of</b>
(a) Perfect Competition (b) Monopoly (c) Monopolistic Competition (d) None of these	

<b>MTP May 23</b>	
<b>237</b>	<b>The Product under Pure Monopoly is:</b>
(a) Homogenous (b) Differentiated (c) Unrelated (d) None of these	

<b>MTP Apr 23</b>	
<b>238</b>	<b>How do monopoly arises:</b>
a) Strategic Control over scarce resources b) Governments granting exclusive rights to produce and sell a good or a service c) Stringent legal and regulatory requirements effectively discourages entry of new firms without being specifically prohibited d) All of the above	

<b>MTP Apr 23</b>	
<b>239</b>	<b>Which is the feature of monopolistic Competition:</b>
(a) Large number of sellers (b) Product differentiation (c) Freedom of entry and exit (d) All of the above	

<b>PYQ Jun 23</b>	
<b>240</b>	<b>Which of the following is the characteristic of monopoly</b>
a) Industry is dominating by large number of firms b) Freedom to entry and exit c) No close substitutes d) Only two firms is the market	

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Answer Key – Economics Chapter 4 – Unit 3

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

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Answer Key – Economics Chapter 4 – Unit 3

121	D	141	B	161	A	181	D	201	C	221	D
122	B	142	D	162	B	182	A	202	D	222	A
123	C	143	D	163	D	183	A	203	B	223	B
124	A	144	D	164	C	184	C	204	B	224	A
125	D	145	B	165	A	185	A	205	D	225	A
126	C	146	C	166	A	186	B	206	A	226	B
127	A	147	B	167	D	187	C	207	A	227	C
128	C	148	B	168	C	188	B	208	B	228	D
129	B	149	C	169	B	189	C	209	A	229	C
130	A	150	A	170	D	190	A	210	D	230	C
131	D	151	D	171	A	191	C	211	B	231	D
132	D	152	A	172	C	192	B	212	C	232	A
133	B	153	C	173	B	193	C	213	A	233	C
134	A	154	A	174	C	194	D	214	D	234	D
135	A	155	B	175	B	195	C	215	C	235	A
136	D	156	C	176	A	196	A	216	B	236	C
137	A	157	D	177	D	197	B	217	A	237	C
138	A	158	C	178	C	198	C	218	D	238	D
139	B	159	B	179	B	199	A	219	C	239	D
140	B	160	D	180	C	200	C	220	D	240	C

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CA Foundation – December 2023  
Business Economics

**Chapter 5**  
**Business Cycles**

MCQ Compiler by MVSIR



Basics	
MTP Oct 19, Oct 20, ICAI SM	
1	The term business cycle refers to
a) the ups and downs in production of commodities b) the fluctuating levels of economic activity over a period of time c) decline in economic activities over prolonged period of time d) increasing unemployment rate and diminishing rate of savings	
MTP Oct 20, Mar 21, ICAI SM	
2	Which of the following best describes a typical business cycle?
a) Economic expansions are followed by economic contractions. b) Inflation is followed by rising income and unemployment. c) Economic expansions are followed by economic growth and development. d) Stagflation is followed by inflationary economic growth.	
Phases of Business Cycles	
MTP Apr 19, Apr 21, Nov 22, ICAI SM	
3	Four phases of business cycle are
a) expansion, peak, contraction and trough b) contraction, expansion, trough and boom c) Expansion, contraction, peak, and trough d) peak, depression, bust, and boom	
ICAI SM	
4	The different phases of a business cycle
a) do not have the same length and severity b) expansion phase always last more than ten years c) last many years and are difficult to get over in short periods d) none of the above	

MTP May 20, ICAI SM	
5	The lowest point in the business cycle is referred to as the
a) Expansion. b) Boom. c) Peak. d) Trough	
PYQ Jun 23	
6	_____ is not a phase of business cycle
a) Peak b) Trough c) Expansion d) reconstruction	
MTP Mar 18	
7	During 1920s, UK saw rapid growth in GDP, production levels and living standards. The economic growth also caused an unprecedented rise in stock market values. This is an example of:
a) Boom b) Recession c) Contraction d) Trough	
A.Q., MTP Apr 23	
8	Cost of living increases when business cycle is _____
a) at peak b) contracting c) expanding d) at lowest point	
MTP Oct 20, Apr 21, ICAI SM	
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.	

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MTP Aug 18, Mar 19, SEQ	
10	When aggregate economic activity is increasing, economy is said to be in
a) an expansion. b) a contraction. c) a peak. d) a turning point	

PYQ Jun 23	
11	Increase in national output and other economic variable is a characteristic of In Business cycles
a) Trough b) Depression c) Contraction d) Expansion	

A.Q.	
12	During an upturn in business cycle, negative output gap does not become much more negative than it was. This is because of the fact
a) Capacity increases because of the rise in investment. b) Expenditure decreases because of the rise in the interest rate. c) The government lowers the taxes during an upturn. d) Labour productivity decreases during upturn.	

A.Q.	
13	During business cycles the opposite of a trough is
a) an inflation b) a hyperinflation c) a trend d) a peak	

MTP Mar 18 May 20, ICAI SM	
14	A significant decline in general economic activity extending over a period of time is
a) business cycle b) contraction phase c) Recession d) recovery	

ICAI SM	
15	During recession, the unemployment rate and output
a) Rises; falls b) Rises; rises c) Falls; rises d) Falls; falls.	

MTP May 20, ICAI SM	
16	When aggregate economic activity is declining, the economy is said to be in
a) Contraction b) an expansion. c) a trough d) a turning point	

MTP May 20, Mar 18, ICAI SM	
17	Economic recession shares all of these characteristics except.
a) Fall in the levels of investment, employment b) Incomes of wage and interest earners gradually decline resulting in decreased demand for goods and services c) Investor confidence is adversely affected and new investments may not be forthcoming d) Increase in the price of inputs due to increased demand for inputs	

MTP Apr 21	
18	A rise in sale of which type of good is expected in the case of recession:
a) Luxury b) Necessity c) Inferior d) Normal	

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ICAI SM	
19	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	

MTP Apr 19, Oct 20, May 23, ICAI SM	
20	Peaks and troughs of the business cycle are known collectively as _____
a) Volatility. b) Turning points. c) Equilibrium points. d) Real business cycle events	

MTP Jun 22, May 23	
21	Peak is the _____ stage of expansion.
a) Later b) Earlier c) Either (A) or (B) d) None of the above	

MTP Jun 22	
22	During business cycles the opposite of a peak is _____.
a) an inflation b) a hyperinflation c) a trend d) a trough	

MTP Nov 22, MTP Jun 22	
23	Decrease in input demand _____.
a) Doesn't affect inputs prices b) Pushes inputs prices up c) Pulls inputs prices down d) Either (B) or (C)	

PYQ Jun 22	
24	Expansion phase of business cycle depicts characteristics except _____
a) Consumer spending on goods and services tend to rise b) Business confidence tends to rise c) Interest rates and profits tend to rise d) Unemployment tends to rise	

PYQ Jun 22	
25	A typical feature of depression is _____ in the interest rate.
a) Rise b) Constant c) Fall d) Infinity	

PYQ Jun 22	
26	Which of the following statement is correct for a business cycle?
a) A typical feature of depression is the rise in the interest rate. b) A typical feature of depression is the constant interest rate c) Recession is the severe form of depression d) Depression is the severe form of recession	

PYQ Jun 22	
27	Actual demand stagnates in which of the following stage of a business cycle?
a) Expansion b) Peak c) Contraction d) Recovery	

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PYQ Jun 22	
28	In which stage of the business cycle involuntary unemployment is almost zero?
a) Expansion b) Peak c) Contraction d) Recovery	

MTP Apr 19, Oct 20, ICAI SM	
29	The _____ causes recovery of economy & acts as a turning point from depression to expansion
a) Volatility. b) Turning points. c) Equilibrium points. d) Real business cycle events	

**Characteristics of Business Cycles**

MTP May 20, ICAI SM	
30	Industries that are extremely sensitive to the business cycle are the
a) Durable goods and service sectors. b) Non-durable goods and service sectors. c) Capital goods and non-durable goods sectors. d) Capital goods and durable goods sectors.	

ICAI SM	
31	Which of the following is not a characteristic of business cycles?
a) Doesn't affect inputs prices b) Pushes inputs prices up c) Pulls inputs prices down d) Either (B) or (C)	

ICAI SM	
32	Business cycle generally originate in free market economies, what is a free market economy?
a) The economy where government is in possession of major assets b) The economy where private firms control major assets c) The economy where decisions of productions are taken by public sector undertakings d) The economy where price is controlled by government.	

ICAI SM	
33	Which of the following statements is correct?
a) The business cycle largely affects the agricultural sector b) The business cycle largely affects small employees c) The business cycle generally affects all sectors of economy but business sector in particular. d) The business cycle affects low wages workers	

A.Q.	
34	Which of the following statements is correct regarding business cycles?
a) Business cycles always affect all sectors uniformly. b) Business cycles may affect all sectors uniformly. c) Business cycles do not affect all sectors uniformly. d) None of these	

A.Q.	
35	_____ sector is more prone to the adverse effects of the business cycle
a) Agriculture b) Service c) Industrial d) Can't say	

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<b>MTP Oct 20</b>	
<b>36</b>	<b>Which of the following statements is correct?</b>
<p>a) Business cycles occur periodically although they do not exhibit the same regularity.</p> <p>b) Business cycles have distinct phases of expansion, peak, contraction and trough.</p> <p>c) Business cycles generally originate in free market economies</p> <p>d) All of the above</p>	

<b>MTP Mar 18</b>	
<b>37</b>	<b>Which of the following statements is false with respect to Business Cycles:</b>
<p>a) They occur periodically.</p> <p>b) They generally originate in free market economies.</p> <p>c) They are international in character.</p> <p>d) They do not affect capitalist economies.</p>	

<b>MTP Nov 22, MTP Jun 22</b>	
<b>38</b>	<b>Different business cycles in duration and intensity.</b>
<p>a) differ</p> <p>b) similar</p> <p>c) consistent</p> <p>d) Can't say</p>	

<b>MTP Jun 22</b>	
<b>39</b>	<b>Repercussions of business cycles get _____ felt on nearly all economic variables.</b>
<p>a) alternatively</p> <p>b) simultaneously</p> <p>c) one by one</p> <p>d) All of the above</p>	

<b>MTP Jun 22</b>	
<b>40</b>	<b>Which of the following statements is correct regarding business cycles?</b>
<p>a) Business cycles are contagious and international in character.</p> <p>b) Business cycles begin in one country and spread to other countries through trade relations.</p> <p>c) Business cycles have serious consequences on well being of the societies.</p> <p>d) All of the above</p>	

<b>PYQ Jun 22</b>	
<b>41</b>	<b>Which of the following is not correct about the business cycles ?</b>
<p>a) Business cycles have distinct phase of expansion, peak, contraction and trough</p> <p>b) Business cycles generally originate in capitalist economies</p> <p>c) Business cycles are contagious and are internal in character</p> <p>d) All sectors of the economy are adversely affected in equal proportion</p>	

<b>PYQ Jun 23</b>	
<b>42</b>	<b>Which is a feature of business cycles</b>
<p>a) Pervasive in nature</p> <p>b) Occurs in restrictive market economy</p> <p>c) Periodical regularity</p> <p>d) It has same reasons always</p>	

<b>PYQ Jun 22</b>	
<b>43</b>	<b>Which of the following statement is correct ?</b>
<p>a) No economy follows a perfectly timed cycle</p> <p>b) Economy follows a perfectly timed cycle</p> <p>c) Most of the economy follows a perfectly timed cycle</p> <p>d) Capitalist economy follow a perfectly timed cycle</p>	

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Indicators of Business Cycles	
<b>MTP May 20</b>	
<b>44</b>	<b>Economists use changes in variety of activities to measure business cycle &amp; to predict where economy is headed towards is called-</b>
a) Leading indicators b) Indicators c) Lagging Indicators d) None of these	
<b>MTP May 20, ICAI SM</b>	
<b>45</b>	<b>Economic indicators are -</b>
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	
<b>MTP Dec 22, Mar 22, Apr 21, ICAI SM</b>	
<b>46</b>	<b>The Turning point of business cycle is predicted by:</b>
a) Lagging Indicator b) Leading Indicator c) Coincident d) All of the above	
<b>MTP Apr 23</b>	
<b>47</b>	<b>Economic indicator required to predict the turning point of business cycle is:</b>
(a) Leading indicator (b) Lagging indicator (c) Coincident (d) All of the above	
<b>MTP Mar 22, PYQ Jun 23</b>	
<b>48</b>	<b>Variable that change after real output change are:</b>
a) Leading Indicator b) Lagging Indicator c) Concurrent Indicator d) None of these	

ICAI SM	
<b>49</b>	<b>A leading indicator is</b>
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	
<b>MTP May 20, ICAI SM</b>	
<b>50</b>	<b>A variable that tends to move later than aggregate economic activity is called</b>
a) a leading variable b) a coincident variable. c) a lagging variable. d) a cyclical variable	
<b>MTP Apr 19, ICAI SM</b>	
<b>51</b>	<b>Leading economic indicators</b>
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	
<b>MTP Aug 18, Oct 20, ICAI SM</b>	
<b>52</b>	<b>Which of the following is not an example of coincident indicator?</b>
a) Industrial production b) inflation c) Retail sales d) New orders for plant and equipment	
<b>PYQ Jun 23</b>	
<b>53</b>	<b>Which of the following is not an example of lagging indicator</b>
a) Consumer price index b) Labour cost price per unit c) Commercial lending d) Personal income	

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MTP Apr 23, PYQ Jun 23

54

Variables that change before the real output changes are called:

- a) Lagging indicator
- b) Leading Indicator
- c) Concurrent Indicator
- d) None of these

MTP Mar 19, SEQ

55

Which of the following is not a variable in the index of leading indicators?

- a) New consumer goods orders
- b) Delayed deliveries
- c) New building permits
- d) Prime rate

A.Q.

56

An important indicator of a nation's well being is \_\_\_\_\_

- a) Gross Domestic Product (GDP)
- b) Gross National Product (GNP)
- c) Gross National Income (GNI)
- d) Growth rate of GDP or GNP

A.Q.

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

LIST I

- |    |                      |
|----|----------------------|
| a. | Leading indicator    |
| b. | Lagging indicator    |
| c. | Coincident indicator |

LIST 2

- |      |                        |
|------|------------------------|
| I.   | Industrial production  |
| II.  | Changes in stock price |
| III. | Corporate profit       |

57

Codes:

a

b

c

(A)

I

II

III

(B)

II

III

I

(C)

III

II

I

(D)

I

III

II

A.Q.

58

The government and industry try to predict the business cycle by using indicators. These are:

- a) variable that can explain the growth of production capacity.
- b) Variables that precede the actual movements in expenditure and production.
- c) The expenditure categories of consumption, investment and exports.
- d) Domestic and foreign indications relating to the business cycle and the tendency

MTP Apr 23

59

Economy's historical performance was reflected by:

- (a) Lagging indicating
- (b) Leading indicating
- (c) Either (a) or (b)
- (d) None of these

MTP May 20

60 A indicator which occur simultaneously with the business cycle movements is-

- a) Lagging indicator
- b) Coincident indicator
- c) Leading indicator
- d) None of these

PYQ Jun 22

61 Which of the following is an example of a leading indicator?

- a) Changes in stock prices
- b) Changes in unemployment rate
- c) Changes in GDP
- d) Change in commercial lending activity

PYQ Jun 22, Jun 23, MTP May 23

62 Coincident economic indicators are also called as which of the following?

- a) Concurrent indicators
- b) Compound indicators
- c) Coexist indicators
- d) Random indicators

PYQ Jun 22

63 Those variables that change after the real output changes are called as \_\_\_\_\_

- a) Lagging indicators
- b) Leading indicators
- c) Concurrent indicators
- d) Coincident indicators

**Causes of Business Cycles**

MTP Oct 20, ICAI SM

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

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

MTP Apr 21, Apr 23

65 Innovation theory is propounded by

- a) Schumpeter
- b) Nicholas Kaldor
- c) Keynes
- d) None of these

MTP May 20, Apr 21, ICAI SM

66 According to \_\_\_\_\_ trade cycles occur due to onset of innovations.

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

MTP Mar 21

67 What are internal causes of business cycle?

- a) fluctuations in effective demand.
- b) macroeconomic policies
- c) money supply
- d) All the above

PYQ Jun 23

68 Which of the following is not an internal cause of business cycles

- a) Fluctuations in effective demand
- b) Fluctuations in investment
- c) Macro-economic policies
- d) Post war reconstruction

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A.Q.

MTP Dec 22, MTP Apr 21, ICAI SM

69 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

MTP Apr 21, Oct 20, Oct 18, ICAI SM

70 Which of the following is the cause of business cycles?

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

MTP Dec 22, A.Q.

71 According to British economist J. M. Keynes \_\_ was the main cause of massive decline in income and employment during Great Depression of 1930.

- a) Lower aggregate expenditure in the economy.
- b) Banking crises and low money supply.
- c) Overdebtiness.
- d) Lower profits & pessimism

MTP Oct 20, May 20, Mar 21

72 According to Hawtrey trade cycle is

- a) monetary Phenomenon
- b) unplanned Phenomenon
- c) fiscal Phenomenon
- d) all the above

MTP May 23

73 Fluctuation in economic activities according to Keynes are due to :

- (a) Innovations
- (b) changes in money supply
- (c) Fluctuation in aggregate effective demand
- (d) Fluctuation in government spending

Trade/Business cycles occur due to

LIST I

- |      |  |
|------|--|
| i.   | Changes in money supply                    |
| ii.  | Innovations take place in the system       |
| iii. | Waves of optimism or pessimism             |
| iv.  | Fluctuations in aggregate effective demand |

LIST 2

- |   |            |
|---|------------|
| a | Schumpeter |
| b | Keynes     |
| c | Hawtrey    |
| d | AC Pigou   |

74

- a) i-d, ii-c, iii-b, iv-a
- b) i-a, ii-b, iii-c, iv-d
- c) i-d, ii-a, iii-c, iv-b
- d) i-c, ii-a, iii-d, iv-b

MTP Dec 22, A.Q.

75 Post war reconstruction

- a) will push the economy to slow down because of excess external debts.
- b) will cause pickup in economic activities as the reconstruction pushes up effective demand & in turn employment and income.
- c) can cause boom or recession depending upon the policies for reconstruction adopted by govt.
- d) None of these

MTP Mar 22

76 Fluctuation in Economic activities are due to :

- a) Change in money supply
- b) Profitability
- c) Fluctuation in aggregate demand
- d) None of these

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MTP Nov 22, A.Q.

77

In order to influence spending on the goods and services in the short run, monetary policy is directed at directly influencing \_\_\_\_\_

- a) Unemployment rate
- b) Inflation rate
- c) Interest rate
- d) Economic growth rate

MTP Apr 21, MTP Mar 22

78

Modern business activities are based on the anticipations of business community and are affected by waves of optimism or pessimism:

- a) Pigou
- b) Schumpeter
- c) Hawtrey
- d) Keynes

MTP Oct 18, Oct 20

79

Which of the following is the external cause of Business Cycles?

- a) Fluctuations in Effective Demand
- b) Fluctuations in Investment
- c) Variations in government spending
- d) War

MTP Mar 18

80

Who expressed the view that fluctuations in investments are the prime cause of business cycles?

- a) Hawtrey
- b) Pigou
- c) Schumpeter
- d) Keynes

MTP Jun 22

81

Which one of the following is not an internal cause of business cycles?

- a) Money supply
- b) Technology shocks
- c) Psychological factors
- d) Fluctuations in investment

ICAI SM

82

A decrease in government spending would cause

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

A.Q.

83

Suppose in an economy the population growth rate remained 6% during last 5 years while the economic growth rate during the same period was just 3%. What will be the consequences of it? Select the right option from the options given below.

- a) Lesser savings → Lower investment → Low income & employment → Low effective demand → Overall slowdown in economic activities
- b) More consumption expenditure → more demand → more production → more employment & income → Overall boom in economic activities
- c) Increase in labour supply → Lower wage rate → Low income → Low savings & investments → Low production → Overall slowdown in economic activities
- d) None of the above

MTP Jun 22

84

Nicholas Kaldor propounded

- a) Nacholas theory
- b) Kaldor Theory
- c) Cobweb theory
- d) Cobb-douglas theory

**Additional Practice Questions**

**MTP Oct 18**

**85 Which of the following is not an example of business cycle?**

- a) During 1920s, UK saw rapid growth in gross domestic Product, production levels and living standards.
- b) Due to bursting of Information Technology bubble stock markets crashed and countries began feeling of down turn in their economies.
- c) The Sub-prime crisis led to chain effect and it had worldwide impact.
- d) The cycle business has seen a slowdown in growth over a period of time

**A.Q.**

**86 Cyclical business refers to**

- a) The business where demand fluctuates seasonally.
- b) The business which keep on changing their product.
- c) The business whose fortunes are closely related to the rate of economic growth.
- d) All of the above

**MTP May 20**

**87 If demand for goods and services is more than their supply, the resultant inflation is :**

- a) Cost push inflation.
- b) stagflation
- c) deflation.
- d) demand pull inflation.

**MTP Mar 22**

**88 Businesses whose fortunes are closely linked to the rate of economic growth is referred to as :**

- a) Cyclical
- b) Counter Cyclical
- c) Fiscal Policy
- d) None of these

**89 Net domestic expenditure is consumption expenditure plus**

- a) Net foreign investment
- b) Net foreign investment plus net domestic investment
- c) Net domestic investment
- d) Replacement expenditure

**A.Q.**

**90 Business cycle emerge in \_\_\_\_\_**

- a) Socialist economy
- b) Free market economy
- c) Mixed economic system
- d) None of the above

**PYQ Jun 22**

**91 \_\_\_\_\_ sector cannot be included as 'cyclical' businesses.**

- a) electric goods
- b) House builders
- c) Agriculture
- d) Restaurants

**92 Which of the following characteristics does not belong to expansion path of businessmen cycles**

- a) Consumer spending on goods and services tend to rise
- b) Business confidence tends to rise
- c) Interest rates and profits tend to rise
- d) Unemployment tends to rise

**93 The rhythmic fluctuations in aggregate economic activity that an experiences over a period of time are called**

- a) Inflation
- b) Unemployment
- c) Business cycles
- d) Growth rate

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<b>94</b>	<b>Which of the following is not an example of cyclical business ?</b>
a) Fashion retailers b) House Builders c) Restaurants d) Washing powder	

<b>95</b>	<b>Recent example of the Business cycle is 'the housing bubble' of the US economy. This bubble got bust in</b>
a) 1930 b) 1998 c) 2000 d) 2008	

<b>96</b>	<b>The phase of business cycle in which growth rate becomes negative and the level of national income and expenditure declines rapidly resulting in widespread unemployment</b>
a) Contraction b) Recession c) Depression d) Recovery	

<b>97</b>	<b>Which one of the following factors is an external cause or exogenous factor which may lead to boom or bust ?</b>
a) Economical factor b) Social factor c) Natural factor d) Industrial factor	

<b>98</b>	<b>Trade cycles occur as a result of mismatch between aggregate demand function and aggregate supply functions. Who said this ?</b>
a) Pigou b) Schumpeter c) Hawtrey d) Keynes	

<b>MTP Apr 23</b>	
<b>99</b>	<b>Information Technology bubble burst of 2000 is an example of :</b>
(a) Business Cycle (b) Consumer Sovereignty (c) Freedom of choice (d) None of these	

<b>MTP Apr 23</b>	
<b>100</b>	<b>Which is not the External Causes of business cycle:</b>
(a) Technology shock (b) Population Growth (c) Money Supply (d) Natural Factors	

<b>MTP May 23</b>	
<b>101</b>	<b>Assertion (A): Investment has also a supply effect. Reason (R): Because it raises capacity to produce.</b>
a) (A) is true and (R) is false b) Both (A) and (R) are true & (R) is the correct explanation of (A) c) Both (A) and (R) are true & (R) is not the correct explanation of (A) d) (A) is false and (R) is true	

<b>MTP Apr 23</b>	
<b>102</b>	<b>Minimum assured price to the farmers to purchase their output by the government is called:</b>
(a) Market Price (b) Equilibrium Price (c) Support Price (d) Ceiling Price	

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Answer Key – Economics Chapter 5

1	B	16	A	31	C	46	D	61	A	76	C	91	C
2	A	17	D	32	B	47	D	62	A	77	C	92	D
3	A	18	C	33	C	48	B	63	A	78	A	93	C
4	A	19	C	34	C	49	B	64	C	79	D	94	D
5	D	20	B	35	C	50	C	65	A	80	D	95	D
6	D	21	A	36	D	51	B	66	D	81	B	96	C
7	A	22	D	37	D	52	D	67	D	82	B	97	C
8	C	23	C	38	A	53	D	68	D	83	A	98	D
9	D	24	D	39	B	54	B	69	A	84	C	99	A
10	A	25	C	40	D	55	D	70	D	85	D	100	C
11	D	26	D	41	D	56	A	71	A	86	C	101	B
12	A	27	B	42	D	57	B	72	A	87	D	102	C
13	D	28	A	43	A	58	D	73	C	88	A		
14	C	29	C	44	B	59	A	74	D	89	C		
15	A	30	D	45	C	60	B	75	B	90	B		

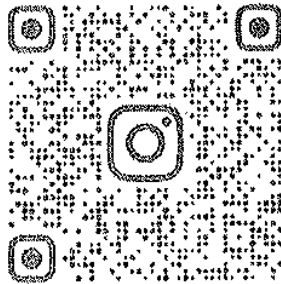
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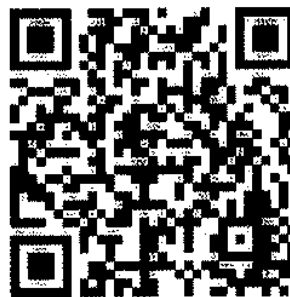
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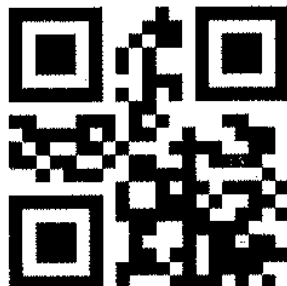
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