

Most Important MCQs



MICRO

2,3&4

30-35 → 150 MCQs

+ Concepts

3 hours

Ch-4 [15 Marks]

Chapter 2 ⁻¹⁰

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

- a. Decrease
- b. Increase
- c. Remain same
- d. Can't say

$P \uparrow$ $E_d \uparrow$ \rightarrow Inelastic

Price \uparrow $Q \downarrow$ $Exp \uparrow$ \rightarrow Elasticity Inelastic

Price & Exp \rightarrow Direct Inelastic

Price & Exp \rightarrow Inverse Elastic

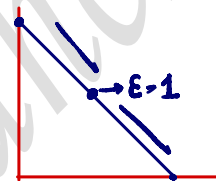
2) Contraction of demand is the result of:

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

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

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

Geometric



Lower Seg
Upper Seg

4) 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

Necessity

5) 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

6) Let slope of demand curve is $(-) 0.6$, calculate elasticity of demand when initial price is Rs. 30 per unit and initial quantity is 100 units of the commodity

- a. 0.5
- b. 5.55
- c. -0.5
- d. -0.18

$Q = 100$

$$E_p = \frac{\Delta Q}{\Delta P} \times \frac{P}{Q} = \text{slope} \times \frac{P}{Q}$$

$$= -\frac{1}{0.6} \times \frac{30}{100}$$

$P = 30$

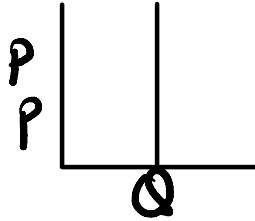
7) In the case of an inferior good, the income elasticity of demand is:

- a. Positive
- b. Zero
- c. Negative
- d. Infinite

→ Engel curve 980 - Downward

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

- a. Horizontal
- b. Vertical
- c. positively sloped.
- d. negatively sloped.



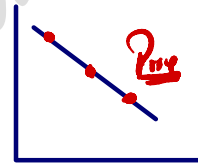
9) Suppose the price of Pepsi increases, we will expect the demand curve of Coca Cola to:

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

Dem - Rightward

10) 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.



11) 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

12) If the quantity demanded of iPhone increases by 5% when the price of Samsung increases by 20%, the cross price elasticity of demand between iPhone and Samsung is

- a. -0.25
- b. 0.25
- c. -4
- d. 4

$$\rightarrow \frac{\uparrow 5}{\uparrow 20} = 0.25$$

Sign = +ive

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

- Demand is unitary elastic and price falls.
- Demand is elastic and price rises.
- Demand is inelastic and price falls.
- Demand is inelastic and prices rises

14) Which of the following is an incorrect statement?

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

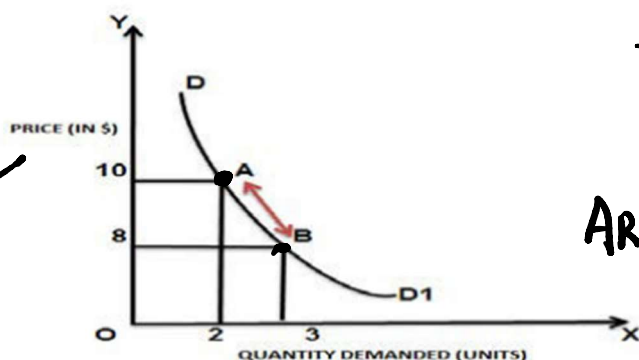
15) Suppose the price of movies seen at a theatre rises from Rs 120 per person to Rs 200 per person. The theatre manager observes that the rise in price causes attendance at a given movie to fall from 300 persons to 200 persons. What is the price elasticity of demand for movies? (Use Arc Elasticity Method)

- 0.5
- 0.8
- 1.0
- 1.2

$$\frac{\Delta Q}{\Delta P} \times \frac{P_1 + P_2}{Q_1 + Q_2}$$

$$\frac{100}{80} \times \frac{320}{500}$$

Arc elasticity -



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

- same in both cases by point method of price elasticity of demand
- different in both cases by Arc method of price elasticity of demand
- same in both cases by Arc method & different by point method of price elasticity of demand
- None of these

$$\frac{\Delta Q}{\Delta P} \times \frac{P_0}{Q_0} = \frac{dQ}{dP} \times \frac{P_0}{Q_0}$$

$$\frac{dq}{dp} \times \frac{p}{q}$$

17) 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.

18) 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
- d. 0.15

100 15%
200 15%

19) 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.

20) 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

21) 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

P ↑ Q ↓
upward

22) Conspicuous goods are also known as

- a. Prestige goods
- b. Snob goods
- c. Veblen goods
- d. All of the above

23) The elasticity of substitution between two perfect substitutes is:

- a. Zero
- b. greater than zero
- c. less than infinity
- d. infinite

Close → Elastic

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

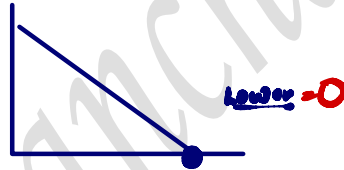
- a. income elasticity of demand is zero
- b. income elasticity of demand is one
- c. income elasticity of demand is greater than one
- d. income elasticity of demand is less than one

25) 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.

26) 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



27) An increase in the demand for computers, other things remaining same, will:

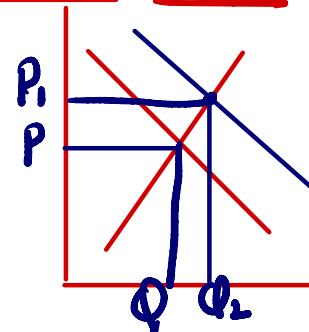
- a. Increase the number of computers bought.
- b. Decrease the price but increase the number of computers bought.
- c. Increase the price of computers.
- d. Increase the price and number of computers bought.

Supply

28) 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

Income eff
Sub eff



29) 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

Purch power

30) 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

*

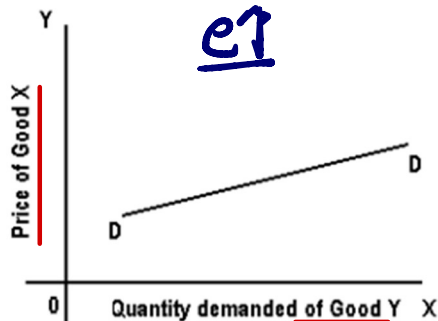
31) The price of a commodity decreases from Rs 6 to Rs 4 and the quantity demanded of the good increases from 10 units to 15 units, find the coefficient of price elasticity.

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

$$\frac{\Delta Q}{\Delta P} \times \frac{P}{Q} = \frac{5}{2} \times \frac{6}{10} = \frac{30}{20} = 1.5$$

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

Sub



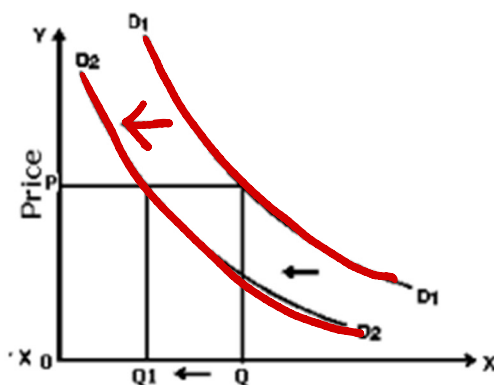
e1

Flatter
Slope ↓
Elasticity ↑

- 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

flatter demand curve
e>1

33) The diagram given below shows



Inferior Goods
Income ↑
Demand ↓ - leftward

- 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

34) 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

35) For Giffen goods, the Engel curve is:

- a. Positive sloped
- b. Vertical
- c. Horizontal
- d. Negative sloped

Income & Demand

$e = 1$

36) 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

$e = 1$

Exp Same

37) 'No matter what the price of coffee is, Ram always spend a total of exactly 100 per week on coffee.' The statement implies that;

- a. Ram is very fond coffee and therefore he has an inelastic demand for coffee
- b. Ram has elastic demand for coffee
- c. Ram's demand for coffee is relatively less elastic
- d. Ram's demand for coffee is unit elastic

38) "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

Copy consumption behavior

39) 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

$$Q = 100 - 50P$$

* 40) The demand function is given as $Q = 100 - 10P$. Find the elasticity using point method when price is

Rs. 5

- a. 2
- b. -2
- c. 1
- d. -1

Slope $\frac{dQ}{dP} \times \frac{P}{Q} \Rightarrow -10 \times \frac{5}{50} = -1$

41) The tendency of people to imitate the consumption pattern of other people is known as

- a. Demonstration
- b. Bandwagon
- c. Prestige
- d. Veblen

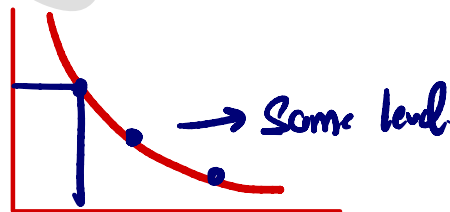
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42) If the Consumers expect an Increase in Income in the future, its current demand will be ____

- a. Decrease
- b. Increase
- c. No change
- d. Nothing can be said

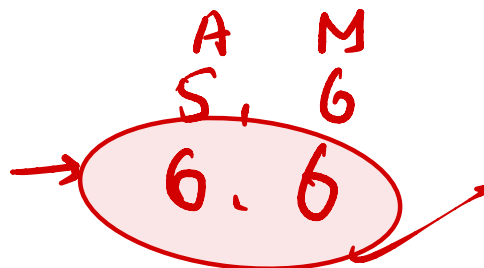
43) An indifference curve slopes down towards right since more of one commodity and less of another result in

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



44) 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



$Q \uparrow$ Sat \uparrow

45) The successive units of stamps collected by a little boy give him greater and greater satisfaction.

This is a clear case of

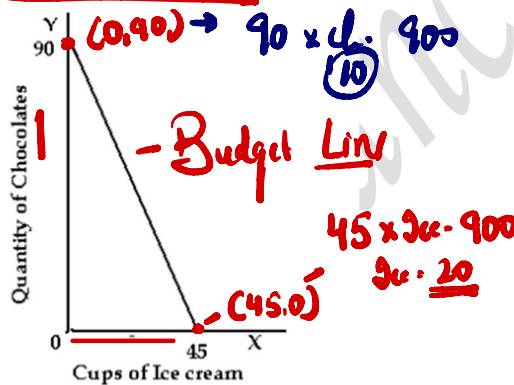
- a. Operation of the law of demand.
- b. Consumer surplus enjoyed in hobbies and rare collections
- c. Exception to the law of diminishing utility.
- d. None of the above

$MU_x - P_x$

46) 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

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



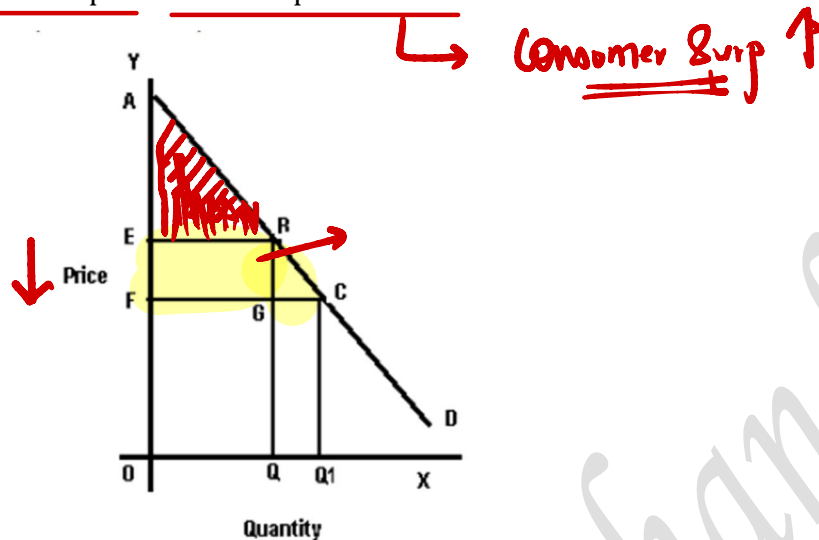
The prices of these two commodities respectively are:

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

48) 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 ✓

49) The effect on consumer surplus of a fall in price from E to F is



- A decrease in consumer surplus by EFGR
- A decrease in consumer surplus by AER
- A decrease in consumer surplus by EFCR
- None of the above

50) 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:

- P_p / P_n
- P_n / P_p
- M / P_n
- M / P_p

Price line \downarrow
 $\frac{P_x}{P_y} =$

Where, P_p - Price of Pepsi, P_n - Price of Nachos & M - Money income of consumer

51) Match the following

	List - I		List - II
A.	Cardinal Approach	1.	Marginal Utility ✓
B.	Ordinal Approach	2.	Alfred Marshall
C.	Hicks & Allen Approach	3.	J.R. Hicks ✓
D.	Consumers' surplus	4.	Indifference curve

Codes	A	B	C	D
a.	1	2	3	3
b.	1	3	2	4
c.	1	3	4	2
d.	1	4	2	3

52) Condition of equilibrium using utility analysis can be expressed as

- a. $MUX/PX = QX$
- b. $PX/QX = MUM$
- c. $MUX/PX = MUY/PY = MUM$
- d. $MUX = MUM$

2 comm $\rightarrow \frac{MU_x \cdot P_x}{P_x} = \frac{MU_y \cdot P_y}{P_y}$

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

53) According to principle of diminishing marginal rate of substitution

- i. One commodity must be decreased while other is increased
- ii. Commodity which is increased has higher marginal significance
- iii. Commodity which is decreased has higher marginal significance
- iv. Neither qualitative nor quantitative concept

Of these concepts:

- a. Only i. is correct
- b. Both i. & ii. are correct
- c. Both i. & iii. are correct
- d. All are correct

54) MU curve will be below X-axis when

- a. MU is zero
- b. TU is falling
- c. MU is negative
- d. Both (B) and (C)

55) The Slope of Indifference Curve indicate

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

56) The indifference curve of two substitute will be:

- a. Straight line
- b. U- Shaped
- c. C Shaped
- d. L shaped

57) 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)



58) Match the following

	List - I		List - II
A.	Two perfect substitute goods	1.	Linear Indifference Curve
B.	Two perfect complementary goods	2.	Monotonic Preference
C.	Indifference curve is always	3.	L-Shape Indifference Curve
D.	Higher IC gives higher level of satisfaction	4.	Convex to the origin

Codes	A	B	C	D
a.	1	2	3	3
b.	3	1	4	2
c.	1	3	4	2
d.	1	3	2	4

59) The other name of the Budget line is:

- a. Demand line
- b. Price line
- c. Supply line
- d. None of the above

4 hrs. 35 Marks
7.30 → 8pm
6 hours

$$MU_x > P_x$$

$$MU_x = P_x$$

60) If $MU_x > P_x$, then consumer:

- a. Is at equilibrium
- b. He will buy more of X good
- c. He will buy less of X good
- d. None of the above

61) When $MRS_{xy} < P_x/P_y$, in order to reach equilibrium, the consumption of

- a. Good Y should increase
- b. Good X should increase
- c. Good X & Y should increase
- d. None of the above

62) The indifference curve becomes _____ as we move down and to the right.

- a. Steeper
- b. Flatter
- c. Linear
- d. None of the above

63) 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

64) 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.

65) 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

66) 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

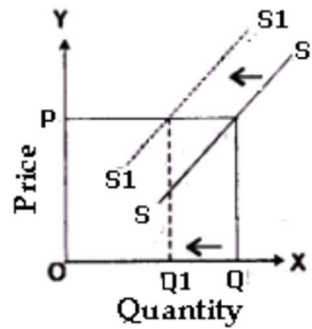
67) If the demand is more than supply, then the pressure on price will be

- ☒ a. Upward
- b. Downward
- c. Constant
- d. None of the above

68) The supply curve for highly perishable commodities during very short period is generally —

- a. Elastic
- b. Inelastic
- c. Perfectly elastic
- ☒ d. Perfectly inelastic

69) 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

70) 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

71) 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

72) 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 supply curve and ratio of price to quantity supplied
- d. Elasticity of supply is equal to reciprocal of slope of supply curve.

73) When price of a good rises from Rs. 20 to Rs. 30 the producer supplies 20% more, the price elasticity of supply is:

- a. 0.5
- ☒ b. 0.4
- c. 1
- d. None of the above

74) Supply will be _____ if firms are not working to full capacity

- a. Inelastic
- b. Perfectly inelastic
- ☒ c. Elastic
- d. Any of the above

75) Producer surplus is represented by the area:

- a. Above the supply curve and below the demand curve
- b. Below the supply curve and above the demand curve
- ☒ c. Above the supply curve and below the price line
- d. Below the supply curve and above the price line

Chapter 3 - Theory of Production & Cost

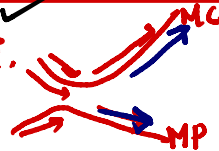
1) Identify the correct statement:

$AP = MP$

- ☒ 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.

2) Diminishing marginal returns implies:

$MP \downarrow$ $MC \uparrow$



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

3) The short run, as economists use the phrase, is characterized by

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

*

TP

- 4) The marginal, average, and total product curves encountered by the firm producing in the short run exhibit all of the following relationships except:
- when total product is rising, average and marginal product may be either rising or falling.
 - when marginal product is negative, total product and average product are falling.
 - when average product is at a maximum, marginal product equals average product, and total product is rising. x AP max
 - when marginal product is at a maximum, average product equals marginal product, and total product is rising.
- 5) Which of the following is the best definition of "production function"?
- The relationship between market price and quantity supplied.
 - The relationship between the firm's total revenue and the cost of production.
 - The relationship between the quantities of inputs needed to produce a given level of output
 - The relationship between the quantity of inputs and the firm's marginal cost of production.
- 6) The "law of diminishing returns" applies to:
- the short run, but not the long run. Law of Return to scale
 - the long run, but not the short run.
 - both the short run and the long run.
 - neither the short run nor the long run.
- 7) Diminishing returns occur:
- when units of a variable input are added to a fixed input and total product falls.
 - when units of a variable input are added to a fixed input and marginal product falls
 - when the size of the plant is increased in the long run
 - when the quantity of the fixed input is increased and returns to the variable input falls.
- 8) If a firm moves from one point on a production isoquant to another, which of the following will not happen.
- A change in the ratio in which the inputs are combined to produce output
 - A change in the ratio of marginal products of the inputs
 - A change in the marginal rate of technical substitution
 - A change in the level of output.
- 9) Which of the following statements is true?
- The services of a doctor are considered production ✓
 - Man can create matter x
 - The services of a housewife are considered production. x Economic activity
 - When a man creates a table, he creates matter. x he adds utility

$$AP > MP, \quad AP \text{ falls}$$

10) 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

11) An Iso-quant shows:

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

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

- a. Labour and management can specialize in their activities more. ✓
- b. As a larger input buyer, the firm can get finance at lower cost and purchase inputs at a lower per unit cost ✓
- c. The firm can afford to employ more sophisticated technology in production.
- d. All of these

13) The production function:

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

14) The production process described below exhibits.

Number of Workers	Output	MP
0	0	-
1	23	23
2	40	17
3	50	10

Handwritten notes: TP (Total Product) above Output; MP (Marginal Product) above the third column; an arrow points from the MP column to the text "Change in TP / Change in input"; a red arrow points down from 23 to 17 to 10.

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

15) In the short run, the firm's product curves show that

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

16) Which of the following statements is true? MP Max- inflection

- a. After the inflection point of the production function, a greater use of the variable input induces a reduction in the marginal product. $MP \downarrow$
- 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.

17) 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

\downarrow
25%

\downarrow
333%

18) The Cobb-Douglas homogeneous production function given as: $Q = L^{1/2} K^{1/2}$ exhibits-

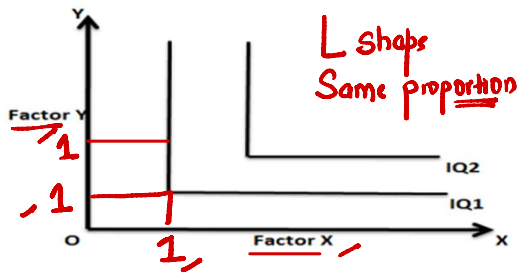
- a. Constant returns to scale
- b. Decreasing returns to scale
- c. Increasing returns to scale
- d. All of the above at various level of output

$Q = L^{1/2} K^{1/2}$
 $a + b = 1$, constant
 $a + b > 1$, inc.
 $a + b < 1$, Dec.

19) If all inputs are increased in the same proportion, then it is the case of

- 1. Short run production function \times
- 2. Long run production function \checkmark
- 3. Law of Variable Proportion - short
- 4. Law of Returns to Scale \checkmark
 - a. 1 & 2 only
 - b. 2 & 3 only
 - c. 1 & 4 only
 - d. 2 & 4 only

20)



Iso-Quants shown in the above figure exhibits:

1. Perfect substitutability of factors
2. Perfect complementarity of factors
3. Fixed proportion production function
4. Variable proportion production function

- a. 1 & 2 only
- b. 1 & 3 only
- c. 3 & 4 only
- d. 2 & 3 only

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

	List - I		List -II
A.	MP is larger than AP	1.	AP is at its maximum
B.	MP is equal to AP	2.	AP is falling
C.	MP is smaller than AP	3.	AP is rising

Codes	A	B	C
a.	1	2	3
b.	3	1	2
c.	2	3	1
d.	3	2	1



22) The schedule given below representing the combinations of two variable inputs (Labour & Capital) for two Isoquants of output 100 and 200 respectively

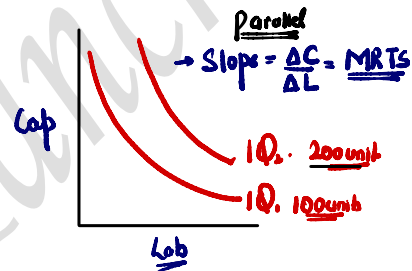
	IQ ₁			IQ ₂		
Combinations	Output	Capital	Labour	Output	Capital	Labour
I	100	90	10	200	85	5
II	100	60	20	200	70	10
III	100	40	30	200	60	15
IV	100	30	40	200	55	20

On the basis of above schedule, which of the following statement is true?

- IQ₁ & IQ₂ are parallel to each other
- IQ₁ & IQ₂ are non-parallel & intersecting to each other.
- IQ₁ & IQ₂ are neither parallel nor intersecting each other.
- Can't say

23) Stages I and III are called

- Economic Absurdity / non sense
- Economic Stability
- Economic Equilibrium
- All of the above



24) Which one of the following is also known as planning curve?

- Long run average cost curve.
- Short run average cost curve
- Average variable cost curve
- Average total cost curve

SAC: production
LAC: planning

25) Which of the following is an example of an "implicit cost"?

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

Use the following data to answer questions 26-28. ✓

Output	0	1	2	3	4	5	6
Total Cost	240	330	410	480	540	610	690
	FC: 240	330	205	160	135	122	

26) The average fixed cost of 2 units of output is:

- a. Rs. 80
- b. Rs. 85
- c. Rs. 120
- d. Rs. 205



27) The marginal cost of the sixth unit of output is:

- a. Rs. 133
- b. Rs. 75
- c. Rs. 80
- d. Rs. 450



28) Diminishing marginal returns start to occur between units:

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

10 Min Break
11:40

29) 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.

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

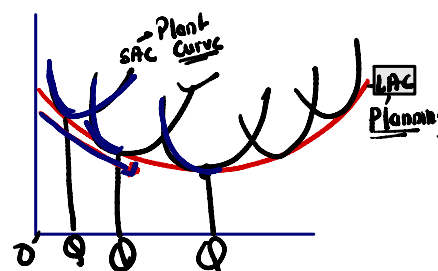
Economies of Scale

- 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

31) 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

MC = TC



32) 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

$$\text{TFC} = 120$$

4

$$\text{MC}_q = 20$$

$$\text{AC} = 15$$

33) 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

$$\text{MC} > \text{AC}$$

$$\text{AC} \uparrow$$
$$\text{MC} \uparrow$$

34) Cost incurred which has 'no relevance' to future planning is called

- a. Marginal Cost
- b. Sunk Cost
- c. Book Cost
- d. Average Cost

$$\text{AVC} = \text{AR} / \text{Price}$$

35) A firm encounters its "shutdown point" when:

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

36) When LAC Curve is declining, it will be tangent to the:

- a. Falling portions of the SAC Curves
- b. Rising portions of the SAC Curves
- c. Both (a) and (b)
- d. Neither (a) and (b)

37) Advertisement and other marketing expenditure will increase more proportionately. Which diseconomies is referred here?

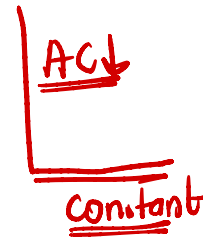
- a. Technical
- b. Commercial
- c. Financial
- d. Managerial

38) _____ arises due to endogenous factors?

- a. External economies - exog.
- b. Internal economies - endo
- c. Both a. and b.
- d. None of the above

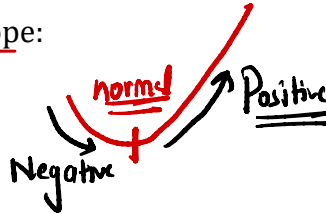
39) Empirical evidence shows that the modern firms face ____ LAC

- a. U- shaped
- b. Boat shaped
- c. L- shaped
- d. Linear



40) Average Variable Cost Curve has a positive slope:

- a. Up to normal capacity output
- b. Beyond normal capacity output
- c. At all levels of output
- d. None of the above



Chapter 4

1) Suppose a firm is producing a level of output such that $MR > MC$, what should the firm do to maximize its profits?

$$\underline{MR = MC}$$

- 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.

Large no. of buyers & sellers
Homogeneous
Free Entry

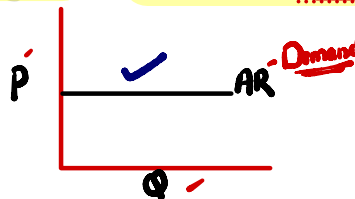
2) Which of the following is not an essential condition of pure competition?

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

Common → Demand curve
 $\underline{AR = Price}$

3) 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



4) Which of the following is not a characteristic of a "price-taker"?

- a. $TR = P \times Q$
- b. $\underline{AR = Price}$
- c. Negatively - sloped demand curve
- d. Marginal Revenue = Price

↳ Perf comp

$$\begin{array}{rcl}
 \text{Exp cost} & \text{Rev} & \\
 \text{Acc profit} & \checkmark & 100 \\
 \text{Imp cost} & - & 10 \\
 \hline
 \text{Economic profit} & = & 90
 \end{array}$$

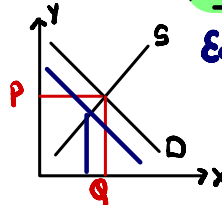
$$Eco = \text{Explicit cost} + \text{Implicit cost} \rightarrow \text{opp cost}$$

5) Which of the following statements is false?

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

6) 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.



7) 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.

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

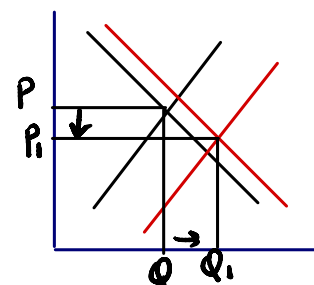
- a. an increase in equilibrium price and quantity
- b. a decrease in equilibrium price and quantity
- c. ✓ an increase in equilibrium quantity and uncertain effect on equilibrium price.
- d. a decrease in equilibrium price and increase in equilibrium quantity.

9) 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.

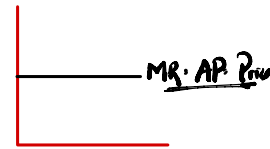
10) Oligopolistic industries are characterized by:

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



11) For a price-taking firm:

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



12) 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 realize all economies of scale.

Normal profit

a) $AR = AC$ \rightarrow zero economic profit

b) $AR > AC$ \rightarrow Monopoly
Super Normal profit
Positive eco profit

c) $AR < AC$ ✓

$AR > AVC$, continue

$AR = AVC$ \rightarrow shutdown point

13) Average revenue curve is also known as:

- a. Profit Curve
- b. Demand Curve ✓
- c. Average Cost Curve
- d. Indifference Curve

Price - PQ Relation

14) Price discrimination will be profitable only if the elasticity of demand in different sub-markets is:

- a. Uniform
- b. Different
- c. Less
- d. Zero

Price Disc $\left\{ \begin{array}{l} e > 1 \text{ Low} \\ e < 1 \text{ High} \end{array} \right.$ ✓

15) 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.

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

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



17) 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

less than
10

- a. Perfect competition
- b. Monopolistic competition.
- ☒ c. Oligopoly
- d. Monopoly

18) 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

19) 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?

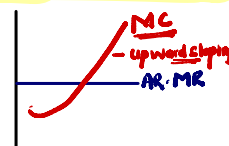
$AR < ATC$

$AR > AVC$

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

20) A purely competitive firm's supply schedule in the short run is determined by

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



21) The structure of the cold drink industry in India is best described as

- a. perfectly competitive
- b. monopolistic
- c. monopolistically competitive.
- ☒ d. Oligopolistic

$$AR = AC$$

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

- a. $AC = AR$
- b. $MC = MR$
- c. $MC = AC$
- d. $AR = MR$

* 23) 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. $AR = MR$

$$AC = MC$$

$$AC = MC$$

$$MC = AR$$

Price

24) 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. $AR = MR$

25) Which of the following is not a characteristic of a monopolistically competitive market?

- a. Free entry and exit - Normal profit
- b. Abnormal profits in the long run
- c. Many sellers
- d. Differentiated products

26) Time element was conceived by

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

* 27) When $e > 1$ then MR is

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

$$MR = AR \times \left(\frac{e-1}{e} \right)$$

↓
+ve

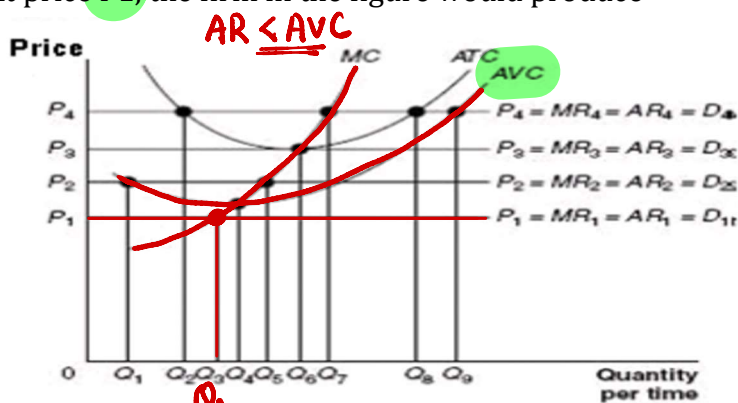
$$e = 1$$

$$MR = 0$$

$$e < 1$$

MR. negative

* 28) At price P_1 , the firm in the figure would produce



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

* 29) Secular period is also known as

- a. very short period
- b. short period
- c. very long period
- d. long period

Very short- Market period

30) Pure oligopoly is based on the _____ products

- a. Differentiated
- b. Homogeneous
- c. Unrelated
- d. none of the above

31) 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

32) 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

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

- a. first degree of price discrimination → Individual Consumer → Entire consumer surplus
- b. second degree of price discrimination → Qty → part of consumer surplus
- c. third degree of price discrimination → Sub-Market
- d. none of the above.

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

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

* 35) Example of a commodity said to have an International Market.

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

36) Conditions for equilibrium of a firm are:

1) $MR = MC$

2) MC should cut MR from below

- 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.

37) Combination of Monopoly Market (Single seller) and Monopsony Market (Single buyer) is called as

- a. Duopoly Market
- b. Oligopoly Market
- c. Bilateral Monopoly Market
- d. Monopolistic Market

38) 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.

$$TR = TC$$

↳ Normal profit

39) Demand curve is:

	List I		List II
I	Horizontal	A	Monopoly
II	Kinked	B.	Oligopoly
III.	Downward sloping	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

$MC = MR$

$AC = AR$

$AR = MR$

40) 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

*

41) Which of the following is an essential condition for price discrimination? Choose the correct answer using the codes given below:

1. Existence of two or more than two markets

2. Full control over the supply

3. Communication between buyers in different sectors of the monopolist's market

4. Existence of different elasticity of demand in different markets.

5. No possibility of reselling a commodity at a higher price in another market.

a. 1, 2, 3 & 4

b. 2, 3, 4 & 5

c. 3, 4 & 5

d. 1, 2, 4 & 5

A
₹15

B
₹20

Arbitrage

42) 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

Super Normal profit ✓
 $AR > AC/MC$

43) If the price of a product is Rs.10/unit and its price elasticity of demand is $(-)\ 2.5$. Its MR will be

- a. 10
- b. 6
- c. -10
- d. 4

$$MR = AR \times \left(\frac{e-1}{e} \right) \\ = 10 \times \frac{2.5-1}{2.5}$$

44) 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

* Aluminum industry is an example of: Raw Material \rightarrow Homogeneous

45) Aluminum industry is an example of:

- a. Collusive Oligopoly
- b. Organized oligopoly
- c. Competitive oligopoly
- d. Pure Oligopoly

46) MR curve under Monopoly lies between AR and Y-axis because the rate of decline of MR is:

- a. Just half of the rate of decline of AR
- b. Just equal to the rate of decline of AR
- c. Just double the rate of decline of the AR
- d. None of the above

47) _____ classified three degrees of price discrimination

- a. Alfred Marshall
- b. Prof. Pigou
- c. Hickes & Allen
- d. Adam Smith

48) On the basis of nature of transaction, the market is classified into:

- a. Regulated & Unregulated Market
- b. Wholesale & Retail Market
- c. Spot & Future Market
- d. None of these

* 49) Women primarily wear Traditional Assamese Saree in Assam & adjoining areas, is an example of:

- a. National Market
- b. Regional Market
- c. Local Market
- d. International Market

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

	List I		List II
A	Perfect competition	1	Differentiated product
B	Monopolistic competition	2	Homogeneous or differentiated products
C	Oligopoly	3	Homogenous product
D	Monopoly	4	Sharply differentiated products

Codes	A	B	C	D
a.	1	2	3	4
b.	3	1	2	4
c.	4	3	2	1
d.	1	4	3	2

CA Hardik Manchanda