

# Chapter 1- Nature & Scope of Business Economics

- 1) 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.**
  
- 2) 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.
  
- 3) Which of the following is a normative statement?
  - a. Planned economies allocate resources via government departments.
  - b. Most transitional economies have experienced problems of falling output and rising prices over the past decade.
  - c. There is a greater degree of consumer sovereignty in market economies than planned economies
  - d. **Reducing inequality should be a major priority for mixed economies.**
  
- 4) Macroeconomics is also called——— economics.
  - a. Applied
  - b. **Aggregate**
  - c. Experimental
  - d. none of the above
  
- 5) 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.
  
- 6) A study of how increases in the corporate income tax rate will affect the national unemployment rate is an example of
  - a. **Macro-Economics**
  - b. Descriptive Economics.
  - c. Micro-economics.
  - d. Normative economics.

- 7) Which of the following is not a subject matter of Micro-economies?
- The price of mangoes.
  - The cost of producing a fire truck for the fire department of Delhi, India.
  - The quantity of mangoes produced for the mangoes market.
  - The national economy's annual rate of growth.**
- 8) Which of the following subject matter of macroeconomics?
- Behaviour of firms
  - Factor pricing
  - Overall level of savings and investments**
  - The economic condition of section of people
- 9) The branch of economic theory that deals with the problem of allocation of resources is
- Micro-Economic theory.**
  - Macro-economic theory.
  - Econometrics.
  - none of the above.
- 10) Which of the following is not the subject matter of Business Economics?
- Should our firm be in this business?
  - How much should be produced and at price should be kept?
  - How will the product be placed in the market?
  - How should we decrease unemployment in the economy?**
- 11) The difference between positive and normative Economics is:
- Positive Economics explains the performance of the economy while normative Economics finds out the reasons for poor performance.
  - 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.**
  - 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.
  - Positive Economics prescribes while normative Economics describes.
- 12) Which of the following is not within the scope of Business Economics?
- Capital Budgeting
  - Risk Analysis
  - Business Cycles
  - Accounting Standards**
- 13) Which of the following statements is incorrect?
- Business economics is normative in nature.
  - Business Economics has a close connection with statistics.
  - Business Economist need not worry about macro variables.**
  - Business Economics is also called Managerial Economics.

- 14) In a free market economy, the allocation of resources is determined by
- voting done by consumers
  - a central planning authority.
  - consumer preferences.**
  - the level of profits of firms.
- 15) A capitalist economy uses \_\_\_\_\_ as the principal means of allocating resources.
- Demand
  - Supply
  - Efficiency
  - Prices**
- 16) Which of the following is considered as a disadvantage of allocating resources using the market system?
- Income will tend to be unevenly distributed.**
  - People do not get goods of their choice
  - Men of Initiative and enterprise are not rewarded
  - Profits will tend to be low
- 17) Which of the following is not one of the four central questions that the study of economics is supposed to answer?
- Who produces what?
  - When are goods produced?**
  - Who consumes what?
  - How are goods produced?
- 18) Larger production of \_\_\_ goods would lead to higher production in future.
- consumer goods
  - capital goods**
  - agricultural goods
  - public good
- 19) Exploitation and inequality are minimal under:
- Socialism**
  - Capitalism
  - Mixed economy
  - None of the above
- 20) Administered prices refer to:
- Prices determined by forces of demand and supply
  - Prices determined by sellers in the market
  - Prices determined by an external authority which is usually the government**
  - None of the above

- 21) The definition "Science which deals with wealth of Nation" was given by:
- Alfred Marshal
  - A C Pigou
  - Adam Smith**
  - J B Say
- 22) The benefit of economic study is –
- It ensures that all problems will be appropriately tackled
  - It helps in identifying problems
  - It enables to examine a problem in its right perspective**
  - It gives exact solutions to every problem
- 23) The managerial economics –
- Is Applied Economics that fills the gap between economic theory and business practice**
  - is just a theory concept
  - Trains managers how to behave in recession
  - Provides the tools which explain various concepts
- 24) \_\_\_\_\_ is also called as command economy
- Socialist**
  - Capitalist
  - Mixed economy
  - None of the above
- 25) According to which of the following definitions, economics studies human behavior regarding how he satisfied his wants with scarce resources?
- Robbin's definition**
  - Marshall's definition
  - J.B. Say's definition
  - Adam Smith's definition
- 26) \_\_\_\_\_ is concerned with welfare proposition.
- Normative Economics**
  - Positive Economics
  - Both (A) and (B)
  - None of these
- 27) Which of the following is/are correct about micro economics?
- Micro economics studies the economy in its totality.
  - In micro economics we make a microscopic study of the economy
  - Micro economics deals with the division of total output among industries and firms & the allocation of resources among competing uses.
  - Both (B) and (C)**

- 28) 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?
- Through the power of God
  - On the basis of decision taken by industrial groups.
  - The free market economy uses the impersonal forces of the market to solve its central problems**
  - None of these
- 29) The industrialization and economic development of the USA, Great Britain and other Western European countries have taken place under the condition of \_\_\_\_\_.
- Socialism and planned structure
  - Capitalism and laissez faire**
  - Mixed economic structure
  - None of these
- 30) In the beginning the name of economics was \_\_\_\_\_.
- Economics of wealth
  - Political economy**
  - Welfare economics
  - None of these
- 31) The word economics has been derived from a \_\_\_\_\_ word.
- French
  - Latin
  - Greek**
  - German
- 32) Business economics is \_\_\_\_\_ in its approach.
- Idealistic
  - Pragmatic**
  - Both (A) and (B)
  - None of these
- 33) "A business manager must know the external forces working over his business environment." State whether the above statement is \_\_\_\_\_.
- True**
  - False
  - Partly True
  - Partly False

34) 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

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

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

36) 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**

37) Which of the following falls under Micro Economics?

- a. National Income
- b. General Price level
- c. Factor Pricing**
- d. National Saving and Investment

38) Which of the following statements is correct?

- a. Employment and economic growth are studied in micro-economics.
- b. Micro economics deals with balance of trade
- c. Economic condition of a section of the people is studied in micro-economics**
- d. External value of money is dealt with in micro-economics

39) 'A government deficit will reduce unemployment and cause an increase in prices' This statement is:

- a. Positive**
- b. Normative
- c. Both
- d. None of the above

40) The term economics is derived from Greek work "*Oikonomia*" which means

- a. Household management**
- b. Art of Living
- c. Science of good governance
- d. Law of rational behavior

- 41) The famous book "Wealth of Nations" was published in
- 1776**
  - 1750
  - 1850
  - 1886
- 42) \_\_\_\_\_ guide a capitalist economy to decide what to produce
- Market survey
  - Economic models
  - Intensity of consumer demand**
  - Cost of Production
- 43) Which of the following is not a characteristic of capitalist economy?
- Right to Private property
  - Freedom of Enterprise
  - Consumer sovereignty
  - Planned Production**
- 44) \_\_\_\_\_ economics explains cause and effect relationship between economic phenomena
- Positive**
  - Normative
  - Negative
  - Applied
- 45) \_\_\_\_\_ refers to the sum total of arrangements for the production and distribution of goods and services in a society
- Business Economics
  - Micro Economics
  - Economic System**
  - Economics
- 46) \_\_\_\_\_ is the mainstay in the capitalism
- Profit motive
  - Private property**
  - Consumers
  - Competition
- 47) Which of the following is not an example of Capitalist economy?
- USA
  - Germany
  - North Korea**
  - South Korea

- 48)The word 'Economics' originates from the word
- Oikonomicos
  - Oyekonomic
  - Oikonomia**
  - Oiconomia
- 49)The concept of socialist economy was propounded by.....
- Karl Marx and Frederic Engels.**
  - Marshall
  - Adam Smith
  - Joel Dean
- 50)Which economic system is the predominant in the modern global economy?
- Socialism
  - Capitalism**
  - Mixed
  - All of the above
- 

## Chapter 2 - Theory of Demand

- 1) All but one of the following are assumed to remain the same while drawing an individual's demand curve for a commodity. Which one is it?
- The preference of the individual.
  - His monetary income.
  - Price of the commodity**
  - Price of related goods.
- 2) 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:
- 0
  - 1**
  - 1.5
  - 2
- 3) Identify the factor which generally keeps the price-elasticity of demand for a good low:
- Variety of uses for that good
  - Very low price of a commodity**
  - Close substitutes for that good.
  - High proportion of the consumer's income spent on it



- 4) If regardless of changes in its price, the quantity demanded of a good remains unchanged, then the demand curve for the good will be:
- Horizontal
  - Vertical**
  - positively sloped.
  - negatively sloped.
- 5) Suppose the price of Pepsi increases, we will expect the demand curve of Coca Cola to:
- Shift towards left since these are substitute
  - Shift towards right since these are substitutes**
  - Remain at the same level
  - None of the above
- 6) All of the following are determinants of demand except:
- Tastes and preferences
  - Quantity supplied.**
  - Income of the consumer
  - Price of related goods.
- 7) A movement along the demand curve for soft drinks is best described as:
- An increase in demand.
  - A decrease in demand
  - A change in quantity demanded.**
  - A change in demand.
- 8) If a good is a luxury, its income elasticity of demand is
- Positive and less than 1.
  - Negative but greater than -1.
  - Positive and greater than 1.**
  - Zero
- 9) If the quantity demanded of burger increases by 5% when the price of Pizza increases by 20%, the cross price elasticity of demand between burger and pizza is
- 0.25
  - 0.25**
  - 4
  - 4

- 10) 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 always and vice versa.**
  - When a commodity becomes fashionable people prefer to buy it and therefore its demand increases
- 11) Calculate the price elasticity of demand when the price increases from Rs. 20 to Rs. 22 and quantity demanded falls from 300 to 200 units (Midpoint method):
- 4.2
  - 4.2**
  - 4
  - 4
- 12) When the numerical value of cross elasticity between two goods is very high, it means
- The goods are perfect complements and therefore have to be used together
  - The goods are perfect substitutes and can be used with ease in place of one another
  - There is a high degree of substitutability between the two goods**
  - The goods are neutral and therefore cannot be considered as substitutes
- 13) Point elasticity is useful for which of the following situations?
- The bookstore is considering doubling the price of notebooks.
  - A restaurant is considering lowering the price of its most expensive dishes by 50 percent.
  - An auto producer is interested in determining the response of consumers to the price of cars being lowered by Rs 100.**
  - None of the above.
- 14) A decrease in price will result in an increase in total revenue if
- The percentage change in quantity demanded is less than the percentage change in price.
  - The percentage change in quantity demanded is greater than the percentage change in price.**
  - Demand is inelastic.
  - 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.
- 15) Demand for a good will tend to be more inelastic if it exhibits which of the following characteristics?
- The good has many substitutes
  - The good is a luxury (as opposed to a necessity).
  - The good is a small part of the consumer's income.**
  - There is a great deal of time for the consumer to adjust to the change in prices

- 16) What will happen in the rice market if buyers are expecting higher rice prices in the near future?
- The demand for rice will increase and the demand curve will shift to the right**
  - The demand for rice will decrease and the demand curve will shift to the left
  - The demand for rice will be unaffected as it is a necessity
  - The demand for wheat will increase and the demand curve will shift to the right
- 17) In the case of a Giffen good, the demand curve will usually be
- Horizontal
  - Downward-sloping to the right.
  - Vertical
  - Upward-sloping to the right**
- 18) For a normal good with a downward sloping demand curve
- The price elasticity of demand is negative; the income elasticity of demand is negative.
  - The price elasticity of demand is positive; the income elasticity of demand is negative.
  - The price elasticity of demand is positive; the income elasticity of demand is positive.
  - The price elasticity of demand is negative; the income elasticity of demand is positive.**
- 19) Conspicuous goods are also known as
- Prestige goods
  - Snob goods
  - Veblen goods
  - All of the above**
- 20) When income increases the money spent on necessities of life may not increase in the same proportion, This means
- income elasticity of demand is zero
  - income elasticity of demand is one
  - income elasticity of demand is greater than one
  - income elasticity of demand is less than one**
- 21) A relative price is
- price expressed in terms of money
  - what you get paid for babysitting your cousin
  - the ratio of one money price to another**
  - equal to a money price
- 22) Demand is the
- the desire for a commodity given its price and those of related commodities
  - the entire relationship between the quantity demanded and the price of a good other things remaining the same**
  - willingness to pay for a good if income is larger enough
  - ability to pay for a good

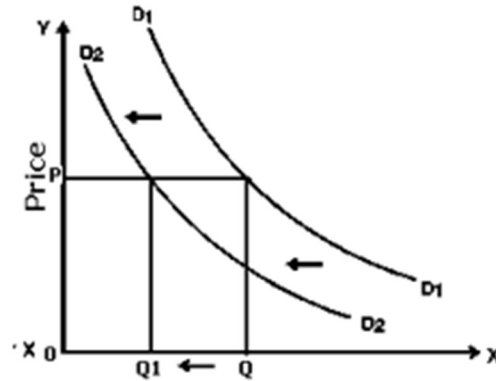
- 23) Suppose potatoes have  $(-).0.4$  as income elasticity. We can say from the data given that:
- Potatoes are superior goods
  - Potatoes are necessities
  - Potatoes are inferior goods.**
  - There is a need to increase the income of consumers so that they can purchase potatoes.
- 24) Potato chips and popcorn are substitutes. A rise in the price of potato chips will \_\_\_\_\_ the demand for popcorn and the quantity of popcorn sold will \_\_\_\_\_
- increase; increase**
  - increase; decrease
  - decrease; decrease
  - decrease; increase
- 25) An increase in the demand for computers, other things remaining same, will:
- Increase the number of computers bought.
  - Decrease the price but increase the number of computers bought.
  - Increase the price of computers.
  - Increase the price and number of computers bought.**
- 26) When total demand for a commodity whose price has fallen increases, it is due to:
- Income effect.
  - Substitution effect
  - Complementary effect
  - Price effect**
- 27) With a fall in the price of a commodity:
- Consumer's real income increases**
  - Consumer's real income decreases
  - There is no change in the real income of the consumer
  - None of the above
- 28) An example of goods that exhibit direct price-demand relationship is
- Giffen goods**
  - Complementary goods
  - Substitute goods
  - None of the above
- 29) Which of the following statements about inferior goods is/are false?
- Inferior goods are those that we will never buy, no matter how cheap they are.
  - Inferior goods are those that we buy more of, if we become poorer.
  - Inferior goods are those that we buy more of, if we become richer.
- I and III only**
  - I only
  - III only.
  - I, II, and III

- 30) At higher prices people demand more of certain goods not for their worth but for their prestige value – This is called
- Veblen effect**
  - Giffen paradox
  - Speculative effect
  - None of the above
- 31) Suppose the income elasticity of education in private school in India is 3.6. What does this indicate
- Private school education is highly wanted by rich
  - Private school education is a necessity
  - Private school education is a luxury**
  - We should have more private schools.
- 32) 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;
- The percentage increase in ticket rates will be always equal the percentage decrease in tickets sold
  - The percentage increase in ticket rates will be always greater than the percentage decrease in tickets sold**
  - The percentage increase in ticket rates will be less than the percentage decrease in tickets sold
  - (a) and (c) above are true
- 33) The following diagram shows the relationship between price of Good X and quantity demanded of Good Y. What we infer from the diagram is;



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

34)The diagram given below shows



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

35)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

36)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

37) 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

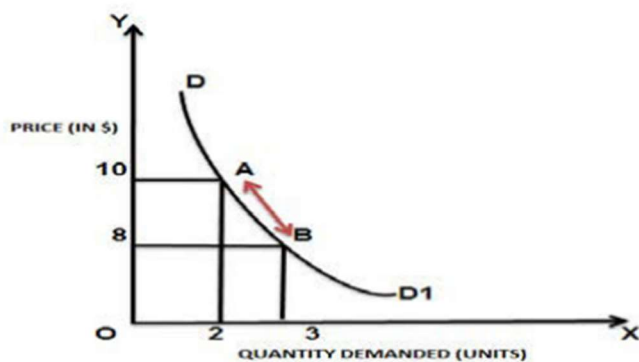
38) Let  $Q_x = 1500/P_x$ , the elasticity of demand of the good X when its price falls from Rs. 8 to Rs. 2 per unit, will be-

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

39) Law of demand is a qualitative concept whereas price elasticity of demand is \_\_\_\_\_.

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

40)



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

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

- 41) If consumers always spend 15 percent of their income on food, then the income elasticity of demand for food is \_\_\_\_\_.
- 1.50
  - 1.15
  - 1**
  - 0.15
- 42) The elasticity of substitution between two perfect substitutes is:
- Zero
  - greater than zero
  - less than infinity
  - infinite**
- 43) If a point on a demand curve of any commodity lies on X Axis, then price elasticity of demand of that commodity at that point will be \_\_\_\_\_
- Infinite
  - More than zero
  - Less than zero
  - Zero**
- 44) For Giffen goods, the Engel curve is:
- Positive sloped
  - Vertical
  - Horizontal
  - Negative sloped**
- 45) 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:
- Remain unchanged**
  - Increase
  - Decrease
  - Any of the above
- 46) A movement along a curve rather than a shift in the curve can be measured by:
- Cross elasticity of demand
  - Income elasticity of demand
  - Price elasticity of demand & Price elasticity of Supply**
  - None of these
- 47) The Substitution effect will be stronger when-
- The goods are closer substitutes
  - There is lower cost of switching to the substitute good
  - There is lower inconvenience while switching to the substitute good.
  - All of these**



- 48) 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
- 49) '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**
- 50) Demonstration effect, a term coined by \_\_\_\_\_
- a. Adam Smith
  - b. James Duesenberry**
  - c. Alfred Marshall
  - d. None of these
- 51) "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
- 52) 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
- 53) The tendency of people to imitate the consumption pattern of other people is known as
- a. Demonstration**
  - b. Bandwagon
  - c. Prestige
  - d. Veblen
- 54) When the demand falls in response to the growth of purchases by other buyers, such an effect
- a. Bandwagon
  - b. Snob**
  - c. Veblen
  - d. Demonstration

- 55) The demand function is given as  $Q = 100 - 10P$ . Find the elasticity using point method when price is Rs. 5
- 2
  - 2
  - 1
  - 1**
- 56) A consumer buys 80 units of a commodity at Rs. 4 per unit. When the price falls, he buys 100 units. If  $E_d = -1$ , the new price will be:
- Rs. 3.5
  - Rs. 3**
  - Rs. 2.5
  - Rs. 2
- 57) Price elasticity of Demand for addictive products like Cigarettes and alcohol would be
- Greater than 1
  - Less than 1**
  - Infinity
  - One
- 58) Ceteris paribus, what would be the impact on foreign exchange earnings for a given falling export prices, if the demand for the country's exports is inelastic?
- Foreign Exchange Earnings decrease**
  - Foreign Exchange Earnings increase
  - No effect on Foreign Exchange earnings
  - None of the above
- 59) If the Consumers expect an Increase in Income in the future, its current demand will be \_\_\_\_
- Decrease
  - Increase**
  - No change
  - Nothing can be said
- 60) When Consumers feel that if the commodity is expensive, that it has got more utility, we are referring to—
- Inferior goods
  - Normal goods
  - Conspicuous goods**
  - Giffen goods
- 61) Giffen Goods are goods which:
- Are considered inferior by consumers
  - Occupy a substantial place in the consumers' budget
  - Both a. and b.**
  - None of the above

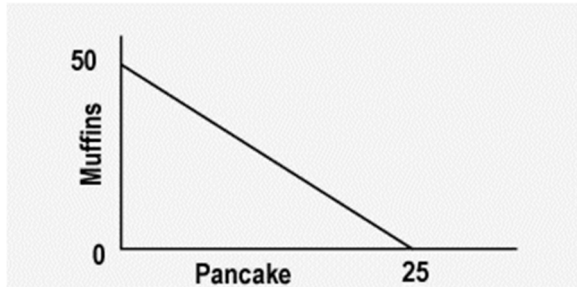
- 62) Goods which are required for immediate or urgent consumption are:
- Less elastic**
  - Unit elastic
  - More elastic
  - None of the above
- 63) If the demand for the good is more elastic, the Demand curve will be:
- Parallel to the X-axis
  - Downward sloping to the right, flatter**
  - Downward sloping to the right, steeper
  - Parallel to the y-axis
- 64) What is the elasticity between midpoint & upper extreme point of a straight line demand curve?
- Infinite
  - Zero
  - >1**
  - <1
- 65) What will be the Slope of Demand Curve when it shows the Cross Elasticity between two Complementary Goods?
- Negative**
  - Positive
  - Zero
  - Can't say

## **Consumer Behaviour**

- 1) Which one is not an assumption of the theory of consumer behaviour based on analysis of indifference curves?
- Given scale of preferences as between different combinations of two goods.
  - Diminishing marginal rate of substitution
  - Diminishing marginal utility of money**
  - Consumers would always prefer more of a particular good to less of it, other things remaining the same.
- 2) An indifference curve slopes down towards right since more of one commodity and less of another result in
- Same level of satisfaction**
  - Greater satisfaction
  - Maximum satisfaction
  - Any of the above

- 3) The successive units of stamps collected by a little boy give him greater and greater satisfaction. This is a clear case of
- Operation of the law of demand.
  - Consumer surplus enjoyed in hobbies and rare collections
  - Exception to the law of diminishing utility.**
  - None of the above
- 4) By consumer surplus, economists mean
- The area inside the budget line above the price of the commodity
  - The area between the average revenue and marginal revenue curves.
  - The difference between the maximum amount a person is willing to pay for a good and its market price**
  - The difference between the market price and the supply curve
- 5) Which of the following is a property of an indifference curve?
- It is convex to the origin due to diminishing marginal rate of substitution**
  - The marginal rate of substitution is constant as you move along an indifference curve.
  - Marginal utility is constant as you move along an indifference curve.
  - Total utility is greatest where the budget line cuts the indifference curve
- 6) When economists speak of the utility of a certain good, they are referring to
- The demand for the good.
  - The usefulness of the good in consumption.
  - The expected satisfaction derived from consuming the good.**
  - The rate at which consumers are willing to exchange one good for another.
- 7) A point below the budget line of a consumer
- Represents a combination of goods which costs the whole of consumer's income
  - Represents a combination of goods which costs less than the consumer's income**
  - Represents a combination of goods which is unattainable to the consumer given his/her money income
  - Represents a combination of goods which costs more than the consumers' income
- 8) Comforts lie between
- inferior goods and necessities
  - luxuries and inferior goods
  - necessaries and luxuries**
  - none of the above

- 9) When the total income of a consumer is Rs. 750, find out the prices of pancake & muffins respectively if:



- a. 15, 30
  - b. 30, 15**
  - c. 50, 25
  - d. 25, 50
- 10) 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**
- 11) 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
- 12) 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:
- a.  $P_p / P_n$**
  - b.  $P_n / P_p$
  - c.  $M / P_n$
  - d.  $M / P_p$

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

13) 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

14) 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

15) 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)**

16) 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

17) A rise in price of a good:

- a. **Reduce Consumer Surplus**
- b. Increase in Consumer Surplus
- c. It will not change
- d. None of these

- 18) What are the limitations of Consumer Surplus?
- Consumer surplus cannot be measured precisely
  - The Consumer surplus derived from a commodity is affected by availability of substitute
  - Both (a) & (b)**
  - None of these
- 19) When two goods are perfect substitutes for each other:
- Indifference curve for these two goods are straight parallel lines with a constant slope along the curve
  - Indifference curve has a constant MRS
  - Concave to the Origin
  - Both (a) and (b)**
- 20) After reaching the saturation point, consumption of additional units of the commodity causes -
- Total utility to fall and marginal utility to increase
  - Total and marginal utility both to increase.
  - Total utility to fall and marginal utility to become negative.**
  - Marginal utility to fall and total utility to become negative.
- 21) A consumer is in equilibrium when s/he is deriving \_\_\_\_\_ satisfaction from the goods.
- Maximum
  - Possible
  - maximum possible**
  - None of these

22) 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.	<b>1</b>	<b>3</b>	<b>4</b>	<b>2</b>
d.	1	3	2	4

- 23) If  $M_{ux} > P_x$ , then consumer:
- Is at equilibrium
  - He will buy more of X good**
  - He will buy less of X good
  - None of the above

- 24)..... shows all those combinations of two goods which a consumer can buy spending his given money income on two goods at their given prices.
- Budget Line**
  - Indifference Curve
  - Demand curve
  - Supply curve
- 25)The indifference curve becomes \_\_\_\_\_ as we move down and to the right.
- Steeper
  - Flatter**
  - Linear
  - None of the above
- 26)When  $MRS_{xy} < P_x/P_y$ , in order to reach equilibrium, the consumption of
- Good Y should increase**
  - Good X should increase
  - Good X & Y should increase
  - None of the above
- 27)Following are the characteristics of wants, except:
- Each want is satiable
  - All wants recur again & again**
  - Wants are not independent; they are complementary
  - Wants are subjective & relative
- 28)Which of the following is not an assumption of Marginal Utility Analysis?
- There should not be any gap between consumption of different units
  - Different units of the commodity are assumed to be heterogeneous**
  - Constancy of marginal utility of money
  - Independent utility
- 29)The consumer's objective of reaching highest Indifference curve and maximizing satisfaction is restricted by-
- Total utility curve
  - Marginal utility curve
  - Marginal rate of substitution
  - Price line**
-

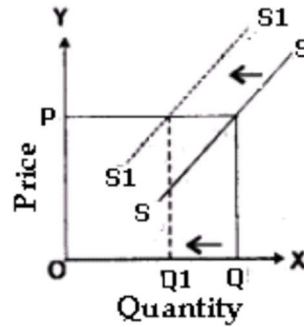


# Supply

- 1) A vertical supply curve parallel to Y axis implies that the elasticity of supply is:
  - a. **Zero**
  - b. Infinity
  - c. Equal to one
  - d. Greater than zero but less than infinity
  
- 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
  
- 3) 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.
  
- 4) 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. -4
  
- 5) 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
  
- 6) 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**

- 7) Which of the following statements is correct?
- When the price falls the quantity demanded falls
  - Seasonal changes do not affect the supply of a commodity
  - Taxes and subsidies do not influence the supply of the commodity
  - With lower cost, it is profitable to supply more of the commodity.**
- 8) If the demand is more than supply, then the pressure on price will be
- Upward**
  - Downward
  - Constant
  - None of the above
- 9) The supply curve for highly perishable commodities during very short period is generally ——
- Elastic
  - Inelastic
  - Perfectly elastic
  - Perfectly inelastic**
- 10) Supply is a \_\_\_\_\_ concept.
- Stock
  - Flow and stock
  - Flow**
  - None of the above
- 11) Data on production of vegetables for the past two years showed that, despite stable prices, there is a substantial decline in output of cabbage leading to lower supply into the market. Which of the following can possibly be the reason?
- An increase in the price of cauliflower which is equally preferred by consumers**
  - Announcement of a subsidy by government on vegetable production
  - More farmers producing cabbage and the increasing competition among them
  - A substantial decrease in the price of capsicum

12) 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
- 13) If there is a 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
- 14) 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 supplied 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.
- 15) 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**
- 16) 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**

- 17) The supply function is given as  $Q = -50 + 15p$ . Find the elasticity using point method, when price is Rs. 20.
- 1.2**
  - 0.83
  - 0.86
  - None of the above
- 18) When price of a good rises from Rs. 20 to Rs. 30 the producer supplies 20% more, the price elasticity of supply is:
- 0.5
  - 0.4**
  - 1
  - None of the above
- 19) The supply curve shows:
- The minimum quantity that supplier is willing to supply at each price
  - The minimum price which will induce suppliers to offer the various quantities for sale**
  - The maximum price which will induce suppliers to offer the various quantities for sale
  - Both a & c
- 20) The flatter the curve, supply elasticity is:
- Less
  - More**
  - zero
  - 1
- 21) Commodities which requires specialized resources for production may have:
- Less elastic supply**
  - More elastic supply
  - Unitary elastic supply
  - Infinite elasticity
- 22) The market demand curve is:  $Q_d = 10 - 2p$  and the market supply curve is:  $Q_s = -2 + 10p$ . The market will be in equilibrium if:
- $P = 1$  and  $Q = 12$
  - $P = 5$  and  $Q = 8$
  - $P = 1$  and  $Q = 8$**
  - None of the above
- 23) Producer surplus is represented by the area:
- Above the supply curve and below the demand curve
  - Below the supply curve and above the demand curve
  - Above the supply curve and below the price line**
  - Below the supply curve and above the price line

24) In case there are fewer barriers of entry into the market, elasticity of supply will be:

- a. Low
- b. High**
- c. Zero
- d. None of the above

25) 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

26) Slope of supply curve is 0.6, calculate elasticity of supply when initial price is Rs. 30 per unit and initial quantity is 100 units

- a. 0.5**
- b. 5.5
- c. -0.5
- d. -0.18

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

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

## Chapter 3

# Theory of Production

- 1) Identify the correct statement:
  - a. **The average product is at its maximum when marginal product is equal to average product.**
  - b. The law of increasing returns to scale relates to the effect of changes in factor proportions.
  - c. Economies of scale arise only because of indivisibilities of factor proportions.
  - d. Internal economies of scale can accrue when industry expands beyond optimum.
  
- 2) Which of the following is not a characteristic of land?
  - a. Its supply for the economy is limited.
  - b. It is immobile.
  - c. Its usefulness depends on human efforts.
  - d. **It is produced by our forefathers.**
  
- 3) 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.
  
- 4) Diminishing marginal returns implies:
  - a. decreasing average variable costs.
  - b. decreasing marginal costs
  - c. **increasing marginal costs**
  - d. decreasing average fixed costs.
  
- 5) 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.
  
- 6) 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.**

- 7) 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.
- 8) The “law of diminishing returns” applies to:
- the short run, but not the long run.**
  - the long run, but not the short run.
  - both the short run and the long run.
  - neither the short run nor the long run.

Given the following data, answer the following questions:

L	TP	MP
1	200	200
2	380	180
3	_____	160
4	680	_____
5	_____	120

(Note: Missing values need to be computed.)

- 9) What is the marginal production of the 4th unit?
- 170
  - 140**
  - 120
  - 160
- 10) What is the total output at the 3rd unit?
- 520
  - 680
  - 540**
  - 600
- 11) What is the Average Product of the 5th unit?
- 200
  - 160**
  - 190
  - 800

- 12) 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.**
- 13) Which of the following statements is true?
- The services of a doctor are considered production**
  - Man can create matter
  - The services of a housewife are considered production.
  - When a man creates a table, he creates matter.
- 14) Which of the following is a function of an entrepreneur?
- Initiating a business enterprise
  - Risk bearing
  - Innovating.
  - All of the above**
- 15) If decreasing returns to scale are present, then if all inputs are increased by 10% then:
- output will also decrease by 10%
  - output will increase by 10%.
  - output will increase by less than 10%**
  - output will increase by more than 10%
- 16) The production function is a relationship between a given combination of inputs and:
- another combination that yields the same output.
  - the highest resulting output.**
  - the increase in output generated by one-unit increase in one output.
  - all levels of output that can be generated by those inputs.
- 17) If the marginal product of labour is below the average product of labour, it must be true that:
- the marginal product of labour is negative.
  - the marginal product of labour is zero
  - the average product of labour is falling.**
  - the average product of labour is negative
- 18) The law of variable proportions is drawn under all of the assumptions mentioned below except the assumption that:
- the technology is changing**
  - there must be some inputs whose quantity is kept fixed
  - we consider only physical inputs and not economically profitability in monetary terms.
  - the technology is given and stable.



19) An Iso-quant shows:

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

20) 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**

21) The production process described below exhibits.

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

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

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

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

23) Which of the following statements is true?

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

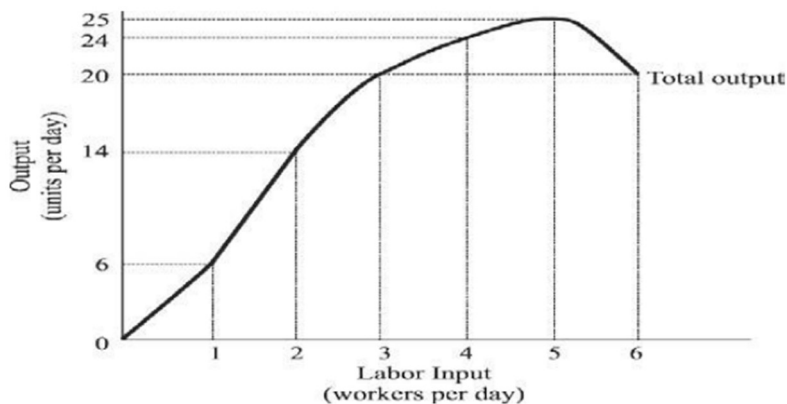
24) Marginal product, mathematically, is the slope of the

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

25) 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**

26) Use the following diagram to answer the question given below it



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

- a. Six; fourth
- b. Six; third
- c. Six; fifth
- d. **Six; sixth**

27) 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

28)Assertion (A): In the short run, a producer operates in only II stage of Law of Diminishing Returns where average product of variable factor is declining

Reason (R): In stage I and stage III the marginal product of the fixed and the variable factors respectively are negative.

- 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

29)In the long run which factor of production is fixed?

- a. Labour
- b. Capital
- c. Building
- d. **None of these**

30)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

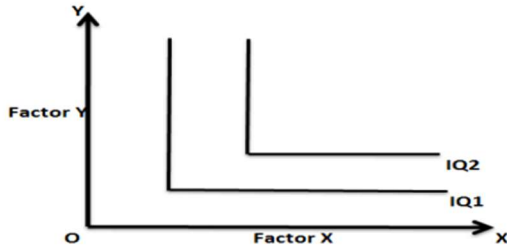
31)In second stage of the Law of Variable Proportion-

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

32)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**

33)



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**

34) 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>b.</b>	<b>3</b>	<b>1</b>	<b>2</b>
c.	2	3	1
d.	3	2	1

35) Cobb-Douglas function

When, P = Actual output

L = Labour; C = Capital

b = Constant number – factor productivity

k = Exponent of labour

j = Exponent of capital is represented as-

- $P = b L^j C^k$
- $P = b L^{1/j} C^{1/k}$
- $P = b L^k C^j$**
- $P = 1/b L^k C^j$

36) Assertion (A): An Iso-cost line is a straight line.

Reason (R): The market rate of exchange between the two inputs is constant.

- (A) is true and (R) is false
- Both (A) and (R) are true & (R) is the correct explanation of (A)**
- Both (A) and (R) are true & (R) is not the correct explanation of (A)
- (A) is false and (R) is true

37) Consider the following statements about the relationship between cost and production

- When AP rises, AVC falls
- When AP reaches at maximum, AVC is minimum
- When AP falls, AVC rises

Which of the above statements is correct?

- 1 & 2
- 3 only
- 1, 2 & 3**
- 2 & 3

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

Combinations	IQ <sub>1</sub>			IQ <sub>2</sub>		
	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

- 39) An isoquant slopes:
- downward to the left
  - downward to the right**
  - upward to the left
  - upward to the right
- 40) At shut down point:
- Price is equal to AVC
  - Total revenue is equal to TVC
  - Total loss of the firm is equal to TFC
  - All of the above**
- 41) 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:
- Rs. 95,000
  - Rs. 1,25,000
  - Rs. 80,000
  - Rs. 70,000**
- 42) Which is the other name that is given to the long run average cost curve?
- profit curve
  - planning curve**
  - demand curve
  - indifference curve
- 43) The producer is in equilibrium at a point where the cost line is:
- above the isoquant
  - below the isoquant
  - cutting the isoquant
  - tangent to isoquant**
- 44) According to \_\_\_\_, land has certain original and indestructible powers and these properties of land cannot be destroyed
- Ricardo**
  - James bates
  - James bates
  - J.R. Parkinson
- 45) Which of the following function can never be delegated by the entrepreneur?
- Initiating the business enterprise
  - Innovation
  - Risk bearing**
  - All of the above

- 46) Which of the following statement is not true?
- a. **Iso-cost line never touches the axis**
  - b. Isoquants are convex to the origin
  - c. Isoquants are non-intersecting
  - d. Higher Iso-cost line shows higher budget
- 47) \_\_\_\_\_ is that point on TP at which MP is maximum
- a. Saturation point
  - b. Production Optimization point
  - c. **Inflexion point**
  - d. Maximum point
- 48) The quantity of the variable factor becomes too excessive relative to the fixed factor so that they get in each other's way, is the case of:
- a. Increasing return to scale
  - b. Decreasing return to scale
  - c. Diminishing return to factor
  - d. **Negative return to factor**
- 49) Profit is the reward for bearing \_\_\_\_\_
- a. Foreseeable risk
  - b. **Uncertainties**
  - c. Both of the above
  - d. None of the above
- 50) \_\_\_\_\_ is a precondition for mobilization of savings?
- a. Income of individual
  - b. Ability to save
  - c. **Availability of financial products and institutions**
  - d. Willingness to save
- 51) Stages I and III are called
- a. **Economic Absurdity**
  - b. Economic Stability
  - c. Economic Equilibrium
  - d. All of the above
-

# Theory of Cost

- 1) 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.**
  
- 2) 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
  
- 3) Which one of the following is also known as envelope curve?
  - a. Long run average cost curve.**
  - b. Short run average cost curve
  - c. Average variable cost curve
  - d. Average total cost curve
  
- 4) With which of the following is the concept of marginal cost closely related?
  - a. Variable cost.**
  - b. Fixed cost
  - c. Opportunity cost
  - d. Economic cost
  
- 5) Which of the following statements is correct?
  - a. When the average cost is rising, the marginal cost must also be rising.
  - b. When the average cost is rising, the marginal cost must be falling.
  - c. When the average cost is rising, the marginal cost is above the average cost**
  - d. When the average cost is falling, the marginal cost must be rising.
  
- 6) 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.
  
- 7) 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.



8) Marginal cost is defined as:

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

Use the following data to answer questions 9-11.

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

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

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

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

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

11) Diminishing marginal returns start to occur between units:

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

12) 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.  **$AFC = ATC - AVC$**

13) 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**

- 14) Which of the following statements concerning the long-run average cost curve is false?
- It represents the least-cost input combination for producing each level of output.
  - It is derived from a series of short-run average cost curves.
  - 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**
  - As output increases, the amount of capital employed by the firm increases along the curve.
- 15) The negatively-sloped (i.e. falling) part of the long-run average total cost curve is due to which of the following?
- Diseconomies of scale
  - Diminishing returns
  - The difficulties encountered in coordinating the many activities of a large firm.
  - The increase in productivity that results from specialization**
- 16) The positively sloped (i.e. rising) part of the long run average total cost curve is due to which of the following?
- Diseconomies of scale.**
  - Increasing returns
  - The firm being able to take advantage of large-scale production techniques as it expands its output.
  - The increase in productivity that results from specialization
- 17) 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:
- Rs. 20
  - Rs. 120
  - Rs. 320
  - Rs. 420**
- 18) 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?
- Rs. 200
  - Rs. 50
  - Rs. 300
  - Rs. 100**
- 19) A firm's average fixed cost is Rs. 20 at 6 units of output. What will it be at 4 units of output?
- Rs. 60
  - Rs. 30**
  - Rs. 40
  - Rs. 20

20) 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.

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

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

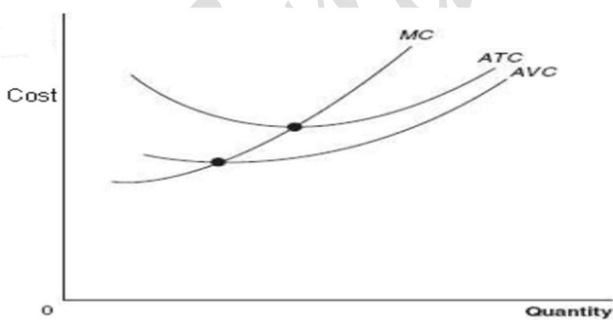
22) The marginal cost for a firm of producing the 9th unit of output is Rs. 20. Average cost at the same level of output is Rs. 15. Which of the following must be true?

- 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

23) 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.**

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



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

25) 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.**

26) Cost incurred which has 'no relevance' to future planning is called\_

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

27) Which one of the following cost curve is rectangular hyperbola in shape?

- a. TFC
- b. MC
- c. AFC**
- d. AVC

28) Which of the following is incorrect formula?

- a.  $TC = AC \times Q$
- b.  $\sum MC = TC$**
- c.  $\sum MC = TVC$
- d.  $\sum MC + TFC = TC$

29) 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

**Read the following paragraph and answer question 30-33.**

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.

30) 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

31) 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.

- 32) Suppose in the above mentioned question, the owner had invested Rs. 500,000 by withdrawing from his saving accounts on which he was earning 5% interest per annum, the economic profit or loss is
- economic profit of Rs. 75,000
  - economic loss of Rs. 75,000**
  - economic profit of Rs. 2,50,000
  - economic loss of Rs. 2,50,000
- 33) The LAC curve which envelops the family of SAC curve, is "U" shape because:
- All SAC curves are U shaped
  - Law of variable proportions
  - Law of Return to scale**
  - All of the above
- 34) Different department can be further sub divided into separate sections like sales can be split into separate sections such as for advertising, exports, and customer service is an example of:
- Technical economies
  - Managerial economies**
  - Commercial economies
  - Financial economies
- 35) When LAC Curve is declining, it will be tangent to the:
- Falling portions of the SAC Curves**
  - Rising portions of the SAC Curves
  - Both (a) and (b)
  - Neither (a) and (b)
- 36) Average Cost of Producing 50 units of a Commodity is 250 and variable cost is 10,000. What will be the average fixed cost of producing 100 units of the Commodity?
- 10
  - 30
  - 20
  - 25**
- 37) Fixed cost are a function of:
- Output
  - Capacity**
  - Time
  - They can never be changed

- 38) Beyond certain output level, when there is a sharp increase in Average Variable Cost (AVC), Average Cost (AC) also increases due to the reason that:
- a. Fall in AFC is less than the sharp rise in AVC**
  - b. Fall in AFC is greater than the sharp rise in AVC
  - c. Fall in AFC is equal to the rise in AVC
  - d. None of the above
- 39) 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
- 40) Which of the following is an example of sunk cost?
- a. Expenses incurred on advertising**
  - b. Buy a new production facility
  - c. Replace worn out machinery
  - d. All of the above
- 41) Empirical evidence shows that the modern firms face \_\_\_\_\_ LAC
- a. U- shaped
  - b. Boat shaped
  - c. L- shaped**
  - a. Linear
- 42) \_\_\_\_\_ arises due to endogenous factors?
- a. External economies
  - b. Internal economies**
  - c. Both a. and b.
  - d. None of the above
- 43) Advertisement and other marketing expenditure will increase more proportionately” Which diseconomies is referred here?
- a. Technical
  - b. Commercial**
  - c. Financial
  - d. Managerial
-

## Chapter 4

- 1) Assume that when price is Rs. 20, the quantity demanded is 15 units, and when price is Rs. 18, the quantity demanded is 16 units. Based on this information, what is the marginal revenue resulting from an increase in output from 15 units to 16 units?
  - a. Rs. 18
  - b. Rs. 16
  - c. **-Rs. 12**
  - d. Rs. 28
  
- 2) Suppose a firm is producing a level of output such that  $MR > MC$ , what should the 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.**
  
- 3) 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.
  
- 4) 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**
  
- 5) 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
  
- 6) 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.  $AC = AR$

- 7) Which of the following is not a characteristic of a “price-taker”?
- $TR = P \times Q$
  - $AR = \text{Price}$
  - Negatively – sloped demand curve**
  - Marginal Revenue = Price
- 8) Which of the following statements is false?
- Economic costs include the opportunity costs of the resources owned by the firm.
  - Accounting costs include only explicit costs.
  - Economic profit will always be less than accounting profit if resources owned and used by the firm have any opportunity costs.
  - Accounting profit is equal to total revenue less implicit costs.**
- 9) With a given supply curve, a decrease in demand causes
- an overall decrease in price but an increase in equilibrium quantity
  - an overall increase in price but a decrease in equilibrium quantity.
  - an overall decrease in price and a decrease in equilibrium quantity.**
  - no change in overall price but a reduction in equilibrium quantity.
- 10) 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:
- price will increase.
  - price will decrease.
  - quantity will increase.
  - quantity will decrease.**
- 11) If supply increases in a greater proportion than demand
- The new equilibrium price and quantity will be greater than the original equilibrium price and quantity
  - The new equilibrium price will be greater than the original equilibrium price but equilibrium quantity will be higher
  - The new equilibrium price and quantity will be lower than the original equilibrium price and quantity.
  - The new equilibrium price will be lower than the original equilibrium and the new equilibrium quantity will be higher.**
- 12) 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 utilization of personal computers. Which of the following will happen to equilibrium price and equilibrium quantity?
- Price will increase; quantity cannot be determined
  - Price will decrease; quantity cannot be determined
  - Quantity will increase; price cannot be determined**
  - Quantity will decrease; price cannot be determined



- 13) Which of the following is not a condition of perfect competition?
- A large number of firms
  - Perfect mobility of factors.
  - Informative advertising to ensure that consumers have good information.**
  - Freedom of entry and exit into and out of the market.
- 14) Which of the following is not a characteristic of a perfectly competitive market?
- Large number of firms in the industry
  - Outputs of the firms are perfect substitutes for one another.
  - Firms face downward-sloping demand curves.**
  - Resources are very mobile.
- 15) Which of the following is not a characteristic of monopolistic competition?
- Ease of entry into the industry.
  - Product differentiation.
  - A relatively large number of sellers.
  - A homogeneous product.**
- 16) Monopoly may arise in a product market because
- A significantly important resource for the production of the commodity is owned by a single firm.
  - The government has given the firm patent right to produce the commodity.
  - The costs of production and economies of scale makes production by a single producer more efficient.
  - All the above**
- 17) Oligopolistic industries are characterized by:
- a few dominant firms and substantial barriers to entry.**
  - a few large firms and no entry barriers.
  - a large number of small firms and no entry barriers.
  - one dominant firm and low entry barriers.
- 18) 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?
- The individual firm must have fewer than 10 employees.
  - The individual firm faces a downward-sloping demand curve
  - The individual firm has assets of less than ` 20 lakhs.
  - The individual firm is unable to affect market price through its output decisions**
- 19) For a price-taking firm:
- marginal revenue is less than price.
  - marginal revenue is equal to price.**
  - marginal revenue is greater than price.
  - the relationship between marginal revenue and price is indeterminate

- 20) The long-run equilibrium outcomes in monopolistic competition and perfect competition are similar, because in both market structures
- the efficient output level will be produced in the long run.
  - firms will be producing at minimum average cost
  - firms will only earn a normal profit.**
  - firms realize all economies of scale.
- 21) Which of the following is the distinguishing characteristic of oligopolies?
- A standardized product
  - The goal of profit maximization
  - The interdependence among firms**
  - Downward-sloping demand curves faced by firms.
- 22) In which form of the market structure is the degree of control over the price of its product by a firm very large?
- Monopoly**
  - Imperfect Competition
  - Oligopoly
  - Perfect competition
- 23) Price discrimination will be profitable only if the elasticity of demand in different sub-markets is:
- Uniform
  - Different**
  - Less
  - Zero
- 24) In the context of oligopoly, the kinked demand hypothesis is designed to explain
- Price and output determination
  - Price rigidity**
  - Price leadership
  - Collusion among rivals.
- 25) Suppose that the demand curve for the XYZ Co. slopes downward and to the right. We can conclude that
- the firm operates in a perfectly competitive market.
  - the firm can sell all that it wants to at the established market price.
  - the XYZ Co. is not a price-taker in the market because it must lower price to sell additional units of output**
  - the XYZ Co. will not be able to maximize profits because price and revenue are subject to change.

- 26) 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
- 27) Suppose that, at the profit-maximizing level of output, a firm finds that market price is less than average total cost, but greater than average variable cost. Which of the following statements is correct?
- a. The firm should 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.**
- 28) When price is less than average variable cost at the profit-maximizing level of output, a firm should:
- a. produce where marginal revenue equals marginal cost if it is operating in the short run.
  - b. produce where marginal revenue equals marginal cost if it is operating in the long run.
  - c. shutdown, since it will lose nothing in that case.
  - d. shutdown, since it cannot even cover its variable costs if it stays in business**
- 29) 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.**
- 30) 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
- 31) The structure of the toothpaste industry in India is best described as
- a. perfectly competitive
  - b. monopolistic
  - c. monopolistically competitive.**
  - d. Oligopolistic

- 32) The structure of the cold drink industry in India is best described as
- perfectly competitive
  - monopolistic
  - monopolistically competitive.
  - Oligopolistic**
- 33) Which of the following statements is incorrect?
- Even a monopolistic firm can have losses
  - Firms in a perfectly competitive market are price takers.
  - It is always beneficial for a firm in a perfectly competitive market to discriminate prices**
  - Kinked demand curve is related to an oligopolistic market
- 34) Under perfect competition, in the long run, there will be no \_\_\_\_\_
- normal profits
  - supernormal profits**
  - production
  - costs
- 35) When \_\_\_\_\_, we know that the firms are earning just normal profits.
- $AC = AR$**
  - $MC = MR$
  - $MC = AC$
  - $AR = MR$
- 36) 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.
- $AC = AR$
  - $MC = AC$**
  - $MC = MR$
  - $AR = MR$
- 37) 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.
- $MC = MR$
  - $MC = AC$
  - $MC = AR$**
  - $AR = MR$

- 38) Agricultural goods markets depict characteristics close to  
**a. perfect competition.**  
b. Oligopoly  
c. monopoly.  
d. monopolistic competition.
- 39) 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**
- 40) 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
- 41) 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
- 42) When an oligopolist individually chooses its level of production to maximize its profits, it charges a price that is  
a. more than the price charged by either monopoly or a competitive market  
b. less than the price charged by either monopoly or a competitive market  
c. more than the price charged by a monopoly and less than the price charged by a competitive market  
**d. less than the price charged by a monopoly and more than the price charged by a competitive market.**
- 43) 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**

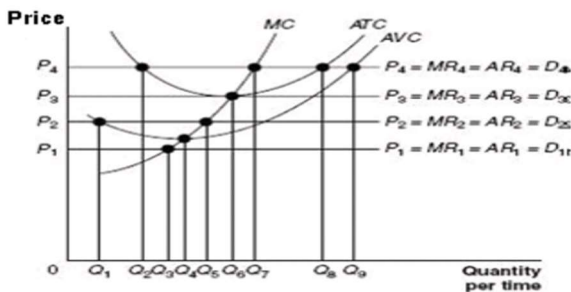
- 44) Which of the following is not a characteristic of a monopolistically competitive market?
- a. Free entry and exit
  - b. Abnormal profits in the long run**
  - c. Many sellers
  - d. Differentiated products
- 45) In a very short period market:
- a. the supply is fixed**
  - b. the demand is fixed
  - c. demand and supply are fixed
  - d. none of the above
- 46) Time element was conceived by
- a. Adam Smith
  - b. Alfred Marshall**
  - c. Pigou
  - d. Lionel Robinson
- 47) When  $e > 1$  then MR is
- a. Zero
  - b. Negative
  - c. Positive**
  - d. One
- 48) When  $e = 1$  then MR is
- a. Positive
  - b. Zero**
  - c. One
  - d. Negative
- 49) When  $e < 1$  then MR is
- a. Negative**
  - b. Zero
  - c. Positive
  - d. One
- 50) A Monopolist is a
- a. price-maker**
  - b. price-taker
  - c. price-adjuster
  - d. none of the above

- 51) Price discrimination is one of the features of \_\_\_\_\_
- monopolistic competition
  - monopoly**
  - perfect competition
  - oligopoly

- 52) Under monopoly, the degree of control over price is:
- None
  - Some
  - very considerable**
  - none of the above

- 53) Generally, perishable goods like butter, eggs, milk, vegetables etc., will have
- regional market
  - local market**
  - national market
  - none of the above

- 54) At price  $P_1$ , the firm in the figure would produce



- Zero output**
- Q3
- Q5
- Q6

- 55) Secular period is also known as
- very short period
  - short period
  - very long period**
  - long period

- 56) Stock exchange market is an example of
- unregulated market
  - regulated market**
  - spot market
  - none of the above

- 57)The market for the ultimate consumers is known as
- whole sale market
  - regulated market
  - unregulated market
  - retail market**
- 58)The condition for pure competition is
- large number of buyer and seller, free entry and exist
  - homogeneous product
  - both (a) and (b)**
  - large number of buyer and seller, homogeneous product, perfect knowledge about the product
- 59)In oligopoly, when the industry is dominated by one large firm which is considered as leader of the group, then it is called:
- full oligopoly
  - collusive oligopoly
  - partial oligopoly**
  - syndicated oligopoly
- 60)When the products are sold through a centralized body, oligopoly is known as
- organized oligopoly
  - partial oligopoly
  - competitive oligopoly
  - syndicated oligopoly**
- 61)When the monopolist divides the consumers into separate sub markets and charges different prices in different sub-markets it is known as
- first degree of price discrimination
  - second degree of price discrimination
  - third degree of price discrimination**
  - none of the above.
- 62)Under \_\_\_\_\_ the monopolist will fix a price which will take away the entire consumers' surplus.
- second degree of price discrimination
  - first degree of price discrimination**
  - third degree of price discrimination
  - none of the above.
- 63)The firm and the industry are one and the same in \_\_\_\_\_
- Perfect competition
  - Monopolistic competition
  - Duopoly
  - Monopoly**



- 64) The demand curve of a monopoly firm will be \_\_\_\_\_
- Upward sloping
  - Downward sloping**
  - Horizontal
  - Vertical
- 65) Example of a commodity said to have an International Market.
- Perishable Goods.
  - High Value and Small Bulk Commodities.**
  - Product whose trading is restricted by government.
  - Bulky Articles
- 66) Conditions for equilibrium of a firm are:
- $MR = MC$
  - MC should cut MR from below.
  - $MR = AR$  and MC should cut MR from below
  - $MR = MC$  and MC should have a positive slope.**
- 67) Natural Monopoly arises when
- There is enormous goodwill enjoyed by a firm
  - There are stringent legal and regulatory requirements.
  - There are very large Economies of Scale.**
  - There are Business Combinations and Cartels.
- 68) Sweezy's Model explains the concept of price rigidity relating to following market form:
- Oligopoly Market**
  - Perfect Competition Market
  - Monopoly Market
  - Monopolistic Market
- 69) Combination of Monopoly Market and Monopsony Market is called as
- Duopoly Market
  - Oligopoly Market
  - Bilateral Monopoly Market**
  - Monopolistic Market
- 70) Price varies by attributes such as location or by Customer Segment is \_\_\_\_\_ degree of Price Discrimination.
- First
  - Second
  - Third**
  - Fourth

- 71) The kinked demand curve model of oligopoly is useful in explaining
- the way that collusion works
  - why oligopolistic price and output are extremely sensitive to changes in marginal cost.
  - why oligopolistic prices might change only infrequently.**
  - the process by which oligopolist merge with one other.
- 72) With respect to the monopolist's demand curve it can be said that
- The stronger the barrier to entry, the more elastic is the monopolist's demand curve
  - Price exceeds marginal revenue at all outputs greater than 1.**
  - Demand is perfectly inelastic.
  - Marginal revenue equals price at all outputs.
- 73) For an imperfectly competitive firm
- Total revenue curve is straight up sloping line because a firm's sales are independent of product price
  - The marginal revenue curve lies above the demand curve because any reduction in price applies to all units sold.
  - The marginal revenue curve lies below the demand curve because any reduction in price applies to all units sold.**
  - Marginal revenue curve lies below the demand curve because any reduction in price applies to only extra unit sold.
- 74) A firm reaches a break-even point (normal profit position) where,
- Marginal revenue curve cuts the horizontal axis.
  - Marginal cost curve intersects the average variable cost curve.
  - Total revenue equals total variable cost.
  - Total revenue and total cost are equal.**
- 75) A purely competitive seller's average revenue curve coincides with
- its marginal revenue curve only
  - its demand curve only
  - both its demand & marginal revenue curves**
  - Neither demand nor marginal revenue curve

76) Demand curve is:

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

- I-C, II-A, III-B
- I-C, II-B, III-a**
- I-A, II-B, III-C
- I-B, II-A, III-C

77) Price control is:

	List I		List II
I	Highest	A	Monopoly
II	Second Highest	B.	Oligopoly
III.	Third Highest	C.	Monopolistic Competition
IV.	Fourth Highest	D.	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**

78) Which of the following assumptions is correct in connection with oligopoly?

- 1. If an oligopolist increases his price his rivals will follow.
- 2. If an oligopolist increases his price his rivals will not follow.
- 3. If an oligopolist increases his price his rivals will lower their prices.
- 4. If an oligopolist decreases his price his rivals will not react.

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

79) 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 or organization may be the result of control over the supply of raw materials
- 4. Monopoly form of market or 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**

80) 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

81) 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>b.</b>	<b>3</b>	<b>1</b>	<b>2</b>	<b>4</b>
c.	4	3	2	1
d.	1	4	3	2

82) 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**

- 83) Monopolistic competition has features of
- Monopoly but not competition
  - Monopoly and competition with features of competition predominating**
  - Monopoly and competition with features of monopoly predominating
  - None of the above
- 84) Marginal revenue along with marginal cost helps to determine
- Profit maximizing output**
  - Profit/unit
  - Price/unit
  - Total revenue
- 85) Which of the following is true at equilibrium in monopolistic competition?
- Price is greater than marginal cost
  - Price is greater than marginal revenue
  - Both (A) and (B)**
  - Price is equal to marginal revenue
- 86) Monopoly equilibrium can be reached when \_\_\_\_\_.
- Marginal cost is rising**
  - Marginal cost is remaining constant
  - Marginal cost is falling
  - None of these
- 87) If a product has elastic demand, its marginal revenue (MR) will be \_\_\_\_\_. (Given that the price of the product is Rs.5/unit).
- Positive**
  - Zero
  - Negative
  - can't be determined
- 88) 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?
- Rs. 10/unit
  - Rs. 20/unit
  - Rs. 30/unit**
  - Rs. 40/unit
- 89) If the price of a product is Rs.10/unit and its price elasticity of demand is (-) 2.5. Its MR will be \_\_\_\_\_
- 10
  - 6**
  - 10
  - 4

- 90) When the perfectly competitive firm and industry are in long run equilibrium then:
- $P = MR = SAC = LAC$
  - $D = MR = SMC = LMC$
  - $P = MR =$  Lowest point on the LAC curve
  - All of the above**
- 91) Which of the following statements about price and marginal cost in competitive and monopolized markets is true?
- In competitive markets, price equals marginal cost; in monopolized markets, price equals marginal cost.
  - In competitive markets, price exceeds marginal cost; in monopolized markets, price exceeds marginal cost.
  - In competitive markets, price equals marginal cost; in monopolized markets, price exceeds marginal cost.**
  - In competitive markets, price exceeds marginal cost; in monopolized markets, price equals marginal cost.
- 92) If oligopolists engage in collusion and successfully form a cartel, the market outcome is
- The same as if it were served by a monopoly**
  - The same as if it were served by competitive firms
  - Efficient because cooperation improves efficiency
  - Known as Nash equilibrium
- 93) 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?
- Rs. 4,000
  - Rs. 450
  - Rs. 200**
  - Rs. 100
- 94) In long run equilibrium the pure monopolist can make pure profits because of
- Blocked entry**
  - The high price he charges
  - The low LAC costs
  - Advertising
- 95) Full capacity is utilized only when there is
- Monopoly
  - Perfect competition**
  - Price discrimination
  - Oligopoly

- 96) If a competitive firm doubles its output, its total revenue:
- Doubles**
  - more than doubles.
  - less than doubles.
  - cannot be determined because the price of the good may rise or fall
- 97) In Economics, we are concerned with:
- Value in use only
  - Exchange value only**
  - Both value in use and exchange value
  - None of the above
- 98) Women primarily wear Traditional Assamese Saree in Assam & adjoining areas, is an example of:
- National Market
  - Regional Market**
  - Local Market
  - International Market
- 99) Markets where goods are exchanged for money payable either immediately or within a short span of time:
- Forward Market
  - Spot Market**
  - Both (a) and (b)
  - Neither (a) nor (b)
- 100) On the basis of nature of transaction, the market is classified into:
- Regulated & Unregulated Market
  - Wholesale & Retail Market
  - Spot & Future Market**
  - None of these
- 101) "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 behaviour in the short run is:
- Rational, if the firm is covering its variable cost**
  - Rational, if the firm is covering its fixed cost
  - Irrational, since plant closing is necessary to eliminate losses
  - Irrational, since fixed costs are eliminated if a firm shuts down.
- 102) \_\_\_\_ is not an objective of price discrimination
- To secure equity through pricing
  - To enjoy economies of scale
  - To dispose of surplus stock
  - To escape foreign market**

- 103) This type of oligopoly tends to process raw materials or produce intermediate goods that are used as inputs by other industries
- Open oligopoly
  - Collusive oligopoly
  - Pure oligopoly**
  - Full oligopoly
- 104) The elasticity of demand on the upper segment of a kinked demand curve will be:
- Infinite
  - Equal to one
  - Greater than one**
  - Less than one
- 105) \_\_\_ classified three degrees of price discrimination
- Alfred Marshall
  - Prof. Pigou**
  - Hickes & Allen
  - Adam smith
- 106) MR curve under Monopoly lies between AR and Y-axis because the rate of decline of MR is:
- Just half of the rate of decline of AR
  - Just equal to the rate of decline of AR
  - Just double the rate of decline of the AR**
  - None of the above
- 107) Aluminum industry is an example of:
- Collusive Oligopoly
  - Organized oligopoly
  - Competitive oligopoly
  - Pure Oligopoly**

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## Chapter -5

### Business Cycles

- 1) The term business cycle refers to
- the ups and downs in production of commodities
  - the fluctuating levels of economic activity over a period of time**
  - decline in economic activities over prolonged period of time
  - increasing unemployment rate and diminishing rate of savings



- 2) The trough of a business cycle occurs when \_\_\_\_ hits its lowest point.
- inflation in the economy
  - the money supply
  - aggregate economic activity**
  - the unemployment rate
- 3) The lowest point in the business cycle is referred to as the
- Expansion
  - Boom
  - Peak
  - Trough**
- 4) A leading indicator is
- a variable that tends to move along with the level of economic activity
  - a variable that tends to move in advance of aggregate economic activity**
  - a variable that tends to move consequent on the level of aggregate economic activity
  - None of the above
- 5) A variable that tends to move later than aggregate economic activity is called
- a leading variable
  - a coincident variable.
  - a lagging variable.**
  - a cyclical variable
- 6) Industries that are extremely sensitive to the business cycle are the
- Durable goods and service sectors.
  - Non-durable goods and service sectors.
  - Capital goods and non-durable goods sectors.
  - Capital goods and durable goods sectors.**
- 7) A decrease in government spending would cause
- the aggregate demand curve to shift to the right.
  - the aggregate demand curve to shift to the left**
  - a movement down and to the right along the aggregate demand curve.
  - a movement up and to the left along the aggregate demand curve.
- 8) Which of the following best describes a typical business cycle?
- Economic expansions are followed by economic contractions.**
  - Inflation is followed by rising income and unemployment.
  - Economic expansions are followed by economic growth and development.
  - Stagflation is followed by inflationary economic growth

- 9) During recession, the unemployment rate \_\_\_\_\_ and output \_\_\_\_\_.
- Rises; falls**
  - Rises; rises
  - Falls; rises
  - Falls; falls
- 10) The four phases of the business cycle are
- expansion, peak, contraction and trough**
  - contraction, expansion, trough and boom
  - expansion contraction, peak, and trough
  - peak, depression, bust, and boom
- 11) When aggregate economic activity is declining, the economy is said to be in
- Contraction**
  - an expansion
  - a trough
  - a turning point
- 12) Peaks and troughs of the business cycle are known collectively as
- Volatility
  - Turning points.**
  - Equilibrium points.
  - Real business cycle events
- 13) The most probable outcome of an increase in the money supply is
- interest rates to rise, investment spending to rise, and aggregate demand to rise
  - interest rates to rise, investment spending to fall, and aggregate demand to fall
  - interest rates to fall, investment spending to rise, and aggregate demand to rise**
  - interest rates to fall, investment spending to fall, and aggregate demand to fall
- 14) Which of the following is not a characteristic of business cycles?
- Business cycles have serious consequences on the well-being of the society.
  - Business cycles occur periodically, although they do not exhibit the same regularity.
  - Business cycles have uniform characteristics and causes**
  - Business cycles are contagious and unpredictable.
- 15) Economic recession shares all of these characteristics except
- Fall in the levels of investment, employment
  - Incomes of wage and interest earners gradually decline resulting in decreased demand for goods and services
  - Investor confidence is adversely affected and new investments may not be forthcoming
  - Increase in the price of inputs due to increased demand for inputs**

- 16) The different phases of a business cycle
- do not have the same length and severity**
  - expansion phase always last more than ten years
  - last many years and are difficult to get over in short periods
  - none of the above
- 17) Which of the following is not an example of coincident indicator?
- Industrial production
  - Inflation
  - Retail sales
  - New orders for plant and equipment**
- 18) According to \_\_\_\_\_ trade cycles occur due to onset of innovations.
- Hawtrey
  - Adam Smith
  - J M Keynes
  - Schumpeter**
- 19) Economic indicators are –
- A one stroke solution to check the phase of economy
  - Indicators showing the movement of economy
  - Some activities which predict the direction of economy**
  - Just an illusion
- 20) Which economic indicator is required to predict the turning point of business cycle?
- Leading indicator
  - Lagging indicator
  - Coincident
  - All of the above**
- 21) Business cycle generally originate in free market economies, what is a free market economy?
- The economy where government is in possession of major assets
  - The economy where private firms control major assets**
  - The economy where decisions of productions are taken by public sector undertakings
  - The economy where price is controlled by government
- 22) Which of the following statements is correct?
- The business cycle largely affects the agricultural sector
  - The business cycle largely affects small employees
  - The business cycle generally affects all sectors of economy but business sector in particular**
  - The business cycle affects low wages workers

23) 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

24) 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**

25) 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

26) Cost of living increases when business cycle is \_\_\_\_\_

- a. at peak
- b. contracting
- c. **expanding**
- d. at lowest point

27) 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

28) 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

29) 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

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

	List I		List II
I	Leading indicator	A	Industrial production
II	Lagging indicator	B.	Changes in stock price
III.	Coincident indicator	C.	Corporate profit

- a. I-A, II-B, III-C
- b. I-B, II-C, III-A**
- c. I-C, II-B, III-A
- d. I-A, II-C, III-B

31) 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. Overdebtness
- d. Lower profits & pessimism

32) 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**

33) Find the correct option:

1) Hawtrey	a) Innovation
2) Pigou	b) Money supply
3) Schumpeter	c) Psychological factors
4) Keynes	d) Effective aggregate demand

a) a, b, c, d

**b) b, c, a, d**

c) a, b, d, c

d) b, a, d, c

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