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CH:1- NATURE AND SCOPE OF BUSINESS ECONOMICS

UNIT - 1

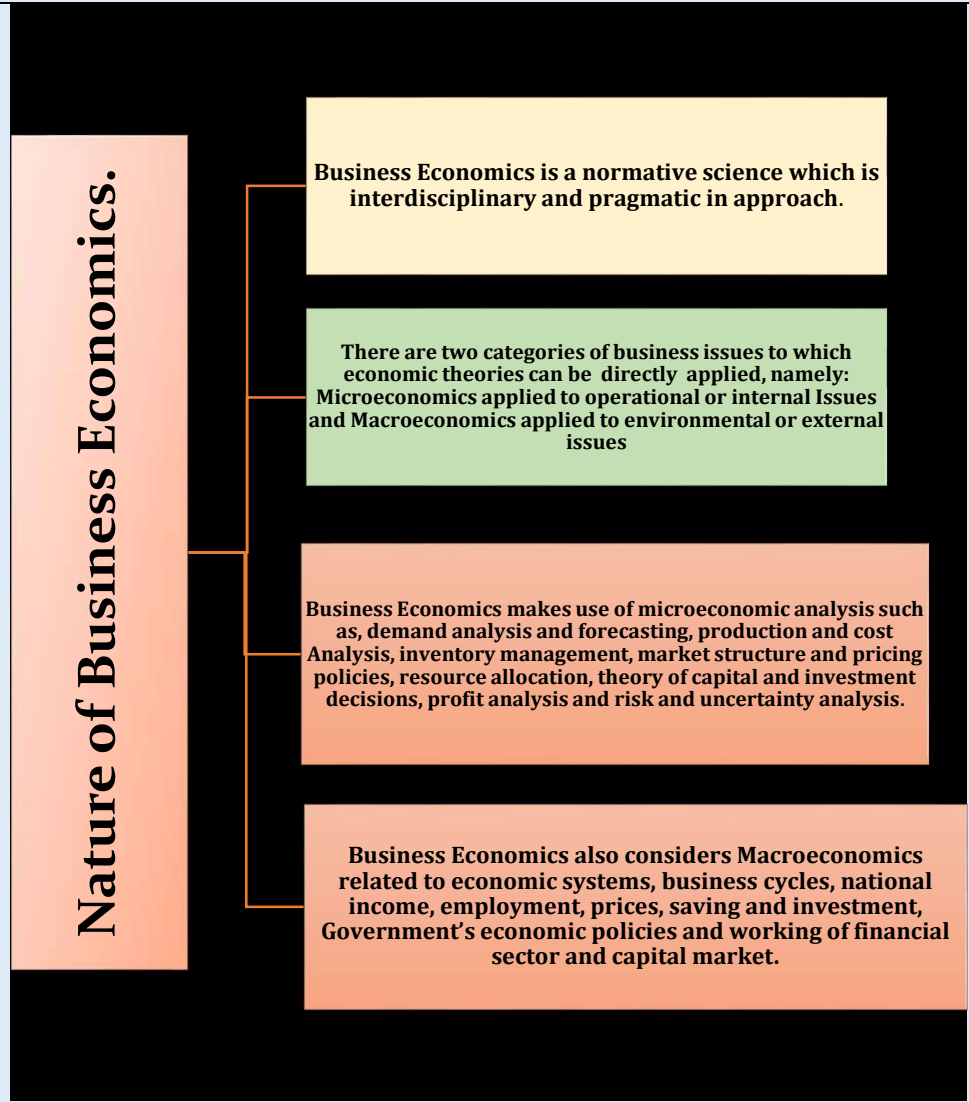
The nature and scope of Managerial Economics.

INTRODUCTION	<p>Economics is the study process by which the relatively scarce resources are allocated to satisfy the competing unlimited wants of human beings in a society</p> <p>An economy exists because of two facts i.e. humans wants are unlimited and the resources are scarce</p>
DIVISION OF ECONOMICS	<p>The subject matter of Economics is divided into two parts- Micro and Macro Economics.</p>
MICRO ECONOMICS	<div style="display: flex; align-items: center;"> <div style="border: 1px solid gray; border-radius: 15px; padding: 10px; margin-right: 10px;"> <p style="text-align: center;">Microeconomics</p>  </div> <div style="background-color: #f0e68c; padding: 10px; border-radius: 15px; flex-grow: 1;"> <p>• Microeconomics examines how the individual units (consumers or firms) make decisions as to how to efficiently allocate their scarce resources.</p> </div> </div>
MACRO ECONOMICS	<div style="display: flex; align-items: center;"> <div style="border: 1px solid gray; border-radius: 15px; padding: 10px; margin-right: 10px;">  </div> <div style="background-color: #f0e68c; padding: 10px; border-radius: 15px; flex-grow: 1;"> <p>• Macroeconomics study the behavior of the large economic aggregates, such as, the overall levels of output, total consumption, total saving and total investment and how these aggregates shift over time.</p> </div> </div>
DEFINITION OF BUSINESS ECONOMICS	<p>Business Economics may be defined as the use of economic analysis to make business decision involving the best use of an organization's scarce resources.</p>
	<p>While Business Economics is basically concerned with Micro</p>

SCOPE OF BUSINESS ECONOMICS

economic analysis has got an important role to play
Macroeconomics analyses the environment in which the business has to function.

NATURE OF BUSINESS ECONOMICS



UNIT – 2

BASIC PROBLEM OF AN ECONOMY AND ROLE OF PRICE MECHANISM

BASIC PROBLEMS OF AN ECONOMY	<p>As mentioned in the last unit all countries, without exception Face the problem of society. Their resources (nature productive resources, man – made Capital goods consumer goods, money and time etc.,) Are limited and these resources having alternative uses?</p>
THE CENTRAL ECONOMIC PROBLEM	<p>The central economic problem further divided into four basic</p> <div style="border: 1px solid black; padding: 5px; margin: 10px 0;"> <div style="background-color: #FFD700; padding: 2px 10px; display: inline-block; margin-bottom: 5px;">What to produce?</div> <div style="background-color: #90EE90; padding: 2px 10px; display: inline-block; margin-bottom: 5px;">How to produce?</div> <div style="background-color: #6495ED; padding: 2px 10px; display: inline-block;">For whom to produce?</div> </div> <p>Economic problems. These are: What provisions (if any) are to be made for economic growth?</p>
CAPITALIST ECONOMY	<p>Capitalism the predominant economic system in the modern global economy is an economic system in which all means of production are owned and controlled by private individuals for profit. In short, private property is the mainstay of capitalism and profit motives is its driving force.</p>
SOCIAL ECONOMY	<p>A socialist economy is also called as “command Economy” or a “Centrally planned Economy” .Here; the resources are allocated according to the command of a central planning authority.</p>
THE MIXED ECONOMY	<p>The mixed economic system depends on both markets and governments for allocation of resources. Infact , every economy in the real world makes use of both markets and government and therefore is mixed economy in its nature</p>



Question 1

'Economics is the study of mankind in the ordinary business of life' was given by:-

- (a) Adam Smith
- (b) Alfred Marshal
- (c) Lord Robbins
- (d) Samuelson

Answer: b

Explanation:

Economics is a study of mankind in the ordinary business of life is the Welfare definition given by Alfred marshal.

Question 2

The branch of economic theory that deals with the problem of allocation of Resources is:

- (a) Micro Economics
- (b) Econometrics
- (c) Macro Economics
- (d) None of these

Answer: a

Explanation:

The study of micro economics deals with how a producer allocates his resources and fixed a price of his product for the optimum utilization of resources.

Question 3

Capitalistic Economy uses as principal means of allocating resources

- (a) Demand
- (b) Price
- (c) Supply
- (d) All of the above

Answer: b

Explanation:

A capitalistic economy is characterized by absence of state intervention this economy uses price mechanism to solve their basic economics.

Question 4

Under a free economy, prices are:

- (a) Regulated
- (b) Depend Upon demand and supply
- (c) Partly regulated
- (d) None of these

Answer: c

Explanation:

Under free economy (capitalist economy) prices are determined by price or market i.e. there is no authority to determine prices _ but they are decided by forces of demand and supply.

Question 5

Which of the following falls under micro economics?

- (a) National income (b) General price level
(c) Factor pricing (d) National saving and investment

Answer: c

Explanation:

Micro economics studies economic behavior of individual economics units. Pricing of every factor is micro concept.

Question 6

In a free market economy, when consumers increase their purchase of a goods and the level of __exceeds __then prices

- (a) Demand, supply (b) Prices, demand
(c) Supply, demand (d) Profit, supply

Answer: a

Explanation:

In a market (capitalist) economy prices are determined by market forces of Demand and supply. When demand of goods increase, the supply remaining the same, the prices of goods rises.

Question 7

Under inductive method logic proceeds from:

- (a) General to particular (b) Positive to normative
(c) Normative to positive (d) Particular to general

Answer: d

Explanation:

Under inductive Method Conclusions are drawn on the basis of collection and analysis is of facts relevant to the enquiry. The logic in this case proceeds from the particular to general.

Question 8

The meaning of time element in economics is:

- (a) Calendar time (b) Clock time
(c) Operational time in which supply (d) None of these
adjust

with the market demand

Answer: a

Explanation:

In Economics the time element is taken as per day, per week, per month, per annum etc. Hence time element should be taken as calendar time.

Question 9

Micro economics does not study

- (a) Consumer behavior (b) Factor pricing
(c) General price level (d) None of these

Answer: c

Explanation:

Micro Economics is the study of particular firms, particular households' individual price, wage income, individual industries and particular Commodities.

Question 10

All wants of an individual are not of:

- (a) Equal importance (b) Immediate importance
(c) Fixed importance (d) All of the above

Answer: a

Explanation:

All wants to individuals are not of equal importance as all cannot be fulfilled.

Question 11

Freedom of economic choices characteristics of:

- (a) Mixed economy (b) socialistic economy
(c) Capitalistic economy (d) None

Answer: c

Explanation:

Characteristic of capitalistic economy:

- ❖ Right to private property
- ❖ Freedom of enterprise:
- ❖ Freedom of economic choice
- ❖ Profit motive:
- ❖ Absence of Government interference

Question 12

Who is the author of "The Nature and causes of wealth of Nation"?

- (a) Karl Mars (b) J B say
(c) Adam smith (d) C Pigou

Answer: c

Explanation:

Science of wealth: Although the activity of acquiring and increasing material wealth is as old as Civilization, a disciplined study of the wealth producing

activities Commenced about 235 years back (in 1776) when Adam Smith : the father of Economics, published “The Nature and causes of wealth of Nation”.

Question 13

When the economy makes technological progress, the production possibility Curve will shift?

- (a) Inward to the left (b) Outward to the right
(c) A movement along the same curve (d) A point inside the curve

Answer: b

Explanation:

PPC points show that goods and services product are at least cost and no resource is wasted. As economy makes progress in technology the PPC will shift outward and to the right showing that more of both goods can be produced than before.

Question 14

Socialist Economy is also Known as

- (a) Capitalized Economy (b) Mixed Economy
(c) Planned Economy (d) None

Answer: c

Explanation:

Socialist economy is a planned economy. The entire national economy in socialist society develops in a planned and proportionate way. This is the objective law governing socialist economic development and an important feature showing the superiority of the socialist economy over the capitalist economy. A planned economy is a type of economy consisting of a mixture of public ownership of the means of production and the coordination of production and distribution through state planning. In a socialist system, production is geared towards satisfying economic demands and human needs.

Question 15

Who has defined economics as “Science which deals with wealth “

- (a) Adam Smith (b) Canon
(c) J.B. Say (d) A.C. Pigou

Answer: c

Explanation:

Many classical economists defined economics in term of wealth. JB Say is one of them .He said Economics is a “Science which deals with wealth”.

Question 16

Production possibility Curve is also known as:

- (a) Demand curve (b) Transformation Curve
(c) Supply Curve (d) Indifference Curve

Answer: b

Explanation:

In economics, a production possibility curve is also known as transformation curve. It is a graph that shows different rates of production of two goods that an individual or groups can efficiently produce with limited resources.

Question 17

The term "Mixed Economy" denotes.

- (a) Co- existence of both consumers and Producers goods industries in the economy
- (b) Co- existence of both private and public sectors in the economy.
- (c) Co- existence of both rural and urban Sectors in the economy
- (d) Co- existence of both large and small industry In the economy

Answer: b

Explanation:

The term "Mixed Economy" denotes co- existence of both private & public sector in the economy. In fact, in a mixed economy, there are three sectors.

- Private sector
- Public sector
- Combined sector

Question 18

Which of the following is not a feature of a capitalist economy?

- (a) Right to private property
- (b) Restriction on consumer Right to choose
- (c) Profit motive
- (d) freedom of enterprise

Answer: b

Explanation:

The feature of a capitalist economy is:

- ❖ The right of private property.
- ❖ Freedom of enterprise.
- ❖ Freedom to choice by the consumer.
- ❖ Profit motive.
- ❖ Competition.
- ❖ Inequalities of income.
- ❖ Hence, restriction on consumer right to choose is not a feature of a capitalistic.

Question 19

The most important function of an entrepreneur is to –

- (a) Innovate
- (b) Bear the sense of responsibilities.
- (c) Finance
- (d) Earn profit

Answer: a

Explanation:

Entrepreneur is one of the factors of production. He is the one who co- ordinate with other factor like land, labor, capital etc. various functions of entrepreneur Are decision – making,managerial, organizational function of an entrepreneur is Innovate.

Question 20**Who does price mechanism exist?**

- (a) Capitalist Economy (b) Socialist Economy
(c) Both type of economics (d) None of the above

Answer: a**Explanation:**

A capitalistic economy has no central planning to decide what. How and for whom to produce. This economy uses the impersonal forces of the market demand and supply or price mechanism to solve its central problem.

Question 21**Positive science only explains**

- (a)Whatis? (b) What ought to be?
(c) What is right or wrong (d) None of the above

Answer: a**Explanation:**

A positive or pure science analyses causes and effect relationship between variables but It does not pass value judgment. It states what is. Thus option (a) is correct.

Question 22**In which among the following system the `right to property' exists**

- (a) Mixed economy (b) Socialist economy
(c) Capitalist economy (d) Traditional economy

Answer: c**Explanation:**

Capitalism is an economics system in which all the means of production are owned and controlled by private individuals for profit. The right of private property means that productive factors such as land, factories, machinery, mines etc. are under private ownership. The owners of these factors are free to use them in the manner they like. Thus option (c) is correct.

Question 23**Economics which is concerned with welfare propositions is called:-**

- (a) Socialistic economics (b) Positive economics
(c) Capitalistic economics (d) Normal economics

Answer: d

Explanation:

Normal aspects is concerned with welfare proposition .it involves value judgments.

It is prescriptive in nature and describes ` what should be the thing. For e.g. what should be the wages rate. Thus normative economics is the correct option.

Question 24

A system of economy in which all the means of production re - owned and controlled by the private individual for the purpose of profit is called

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

Answer: b

Explanation:

Capitalistic is an economic system in which all the means of production are owned and controlled. By private individuals for profit. The government does not interfere in the management of economic Affairs under this system.

Question 25

Economic is the science of choice making. It implies:

- (a) No choice is to be made (b) choice to be made between Alternative uses
(c) Choice to be made means (d) Net of the Above

Answer: b

Explanation:

Robbins gave the following definition of economics –

“Economics is the science which studies human behavior as a relationship between ends and scarce means which have alternative uses”

Thus economics is a science of choice which is to be made between alternative uses.

Question 26

Which of the following is a part of the subject matter of macroeconomics?

- (a) Study of firms (b) Market demand for a product
(c) Aggregate profits of a firm (d) None

Answer: c

Explanation:

In macroeconomics, we study the economic behavior of large aggregates such as Overall condition of economy, total production etc. Out of the option given only NNP studies income which 1s related with the entire.

Question 27

The usual shape of production possibility is __ towards the origin.

- (a) Convex
(c) Concave
- (b) Straight line
(d) A rectangular hyperbola

Answer: c

Explanation:

PPC show the various combinations of two goods which the economy can produce with the given amount of resources. In this context, since there are only two Goods, therefore the opportunity cost of producing one goods is in terms of scarified Thus, opportunity cost goes on increasing. It is this principal of increasing opposite Cost that makes the PPC concave to origin.

Question 28

Deductive and inductive method is complimentary to each other. It is:

- (a) Absolutely correct
(c) Partially incorrect
- (b) Absolutely incorrect
(d) None of the Above

Answer: a

Explanation:

Deductive and inductive methods are not mutually exclusive and are used side by side in any Sacrifice inquiry. Conclusion drawn from the deductive method of reasoning are verified by Inductive method of observing concrete facts of life. Thus it can be said that deductive method are complementary to each other is absolutely correct.

Question 29

What will be the shape of Production Possibility Curve (PPC) when marginal opportunity cost is constant?

- (a) Concave
(c) Backward bending
- (b) Convex
(d) Straight line

Answer: d

Explanation:

The slope of PPC depends upon marginal opportunity cost. A constant OC indicates that given resource are equally suited for the production of two goods. So when the constant, PPC is a straight line.

Question 30

A capitalist economy is by and large

- (a) A closed economy
(c) A centrally controlled economy collects
any taxes nor incurs
- (b) A free market economy
(d) An economy in which a govt. neither

Answer: b

Explanation:

A capitalist economy also known as free market economy has no central planning authority to decide what how and for whom to produce. Such an economy uses the impersonal force of the market demand and supply or the price mechanism to solve its central problem.

Question 31

In Inductive method, logic proceeds from;

- (a) General to particular (b) Particular to General
(c) Both (a) and (b) (d) None of these

Answer: b

Explanation:

Under inductive method, conclusion is drawn on the basis of collection and analysis of facts relevant to the enquiry. Here the logic proceeds from particular to general this means generalization is made based on facts collected.

Question 32

Collective Ownership is concept of Mixed Economy state this statement with reason.

- (a) True (b) False
(c) Partly false (c) None

Answer: b

Explanation:

Characteristic of SOCIALIST economy are:

Collective Ownership: There is collective ownership of all means of production except small Farms, workshops and trading firms which many remain in private hands. As a result of social ownership profit – motive and self – interest are not the driving forces of economic activity as it is in the case of a market economy. The resources are used to achieve certain socio-economic activity.

Question 33

Normative Economic is based on:

- (a) Ethical Consideration (b) Facts and Generalization
(c) What is? (d) All of the Above

Answer: a

Explanation:

Normative economic is concerned with welfare proposition. It states “what should be thing “. It does not deal with facts but involves value judgment. The ethical aspect of economic is normative economic for – what should be the wage rate level? This is a normative statement.

Question 34

Which of the following is the feature of mixed economy?

- (a) Planned economy
(c) Balance regional
- (b) Facts and generalization
(d) All of the Above

Answer: d

Explanation:

An economy which incorporates the feature of both capitalist and socialist economics is called A Mixed Economy. It has the following features Mixed Economy is a planned economy i.e. Here the government has. A clear and defined economic plan. In mixed economy the price are the determined both by price mechanism and central planning Authority. Hence dual system of pricing exists. There is a balanced regional development in a mixed economy as the public sector enterprises will be set up in backward areas for balanced development. Hence, the answer will be all of these

Question 35

Which of these is a part of micro economy?

- (a) Factor pricing
(c) Balance of payment
- (b) National Income
(d) None of the above

Answer: a

Explanation:

Micro economics is his study of economic behavior of an individual firms or industry in the national Economy. It is the study of a particular unit. Factor pricing relates to pricing of individual factor and hence is a subject of micro economics Mixed means.

Question 36

The term, "Mixed Economy" denotes:

- (a) Coexistence of both private and public sector
(c) Both (a) and (b)
- (b) Coexistence of poor and rich people
(d) None of the Above

Answer: a

Explanation:

Mixed economy is an economy which includes the best feature of both controlled economies

And market economy the most important feature of mixed economy.

Question 37

Who gave the positive aspect of science?

- (a) Alfred Marshall
(c) Adam Smith
- (b) AC. Pigou
(d) Prof. Robbins

Answer: d

Explanation:

A positive or pure science analyses cause and effect relationship between variables but it does not pass value judgments. This positive aspect of science was emphasized by professor Robbins.

Question 38

Inequalities of income do not perpetuate in_____

- | | |
|----------------|-------------------|
| (a) Socialism | (b) Mixed economy |
| (c) Capitalism | (d) None |

Answer: a

Explanation:

A relative equality of income is an important feature of socialistic economy. Education and other facilities more or less equally, thus the basic cause of inequalities are removed.

Question 39

Which of the following statement is incorrect?

- | | |
|---|--|
| (a) Alfred Marshall Propagated the wealth definition of economics | (b) L. Robbins introduced the "scarcity definition of economics" |
| (c) Samuelson emphasized upon the "growth" aspect of economics | (d) A.C. Pigou believed in "welfare" aspect of economics |

Answer: a

Explanation:

The 'wealth' definition of Economics was given by Adam Smith and JB Say, "An inquiry into the nature and causes of the wealth of the nations – Adam Smith." "Science which deals with wealth" JB Say.

Question 40

In a capitalist economy the allocation of resources is performed by:

- | | |
|---------------|---------------------|
| (a) Producers | (b) Government. |
| (c) Planners | (d) Price mechanism |

Answer: d

Explanation:

A capitalistic economy has no central planning authority decide what, how and for whom to produce. Thus the allocation of resources is performed by the market forces of demand and supply known as price mechanism.

Question 41

Location of industries is matter of which economy.

- | | |
|---------------------|---------------------|
| (a) Macro Economics | (b) Micro Economics |
| (c) (A) or (B) | (d) None |

Answer: b

Explanation:

We mainly study the following in Micro- Economics.

- ✚ Product price
- ✚ Consumer behavior;
- ✚ Factor pricing;
- ✚ The economic, condition of a section of people;
- ✚ Behavior of firms; and location of industry.

Question 42

Micro economics applied for External uses.

- (a) True (b) False
(c) Partly True (d) None

Answer: b

Explanation:

Micro economics applied to operational or internal issues Macroeconomics applied to environmental or external issue. Therefore this statement is false

Question 43

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

- (a) Capital Budgeting (b) Risk Analysis
(c) Business cycle (d) Accounting standard

Answer: d

Explanation:

Accounting standard is not within the scope of business economics where all other covered under the scope therefore the correct answer is d.

Question 44

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

- (a) Consumer goods (b) Capital goods
(c) Agriculture goods (d) Public goods

Answer: b

Explanation:

All the producers have limited amount of money and they to invest this money in both the consumer goods and the capital good. Capital goods are utilized to produce consumer goods. So, if an economy is investing more in capital goods, it shows signs in near future an increase in GDP.

Question 45

Economics goods are considered scarce resources because they:-

- (a) Cannot be increased in quantity (b) Do not exist adequate quantity to satisfy the requirement of the society
(c) Are of primary importance satisfying social requirement (d) Are limited to man made goods.

Answer: b

Explanation:

Sacrifice is sometimes referred to as the fundamental fact of economics. There are not enough to fulfill all of the wants that people have.

Question 46

Macroeconomics is also called _____ economics

- (a) Applied (b) Aggregate
(c) Experimental (d) None of the above

Answer: b

Explanation:

Macroeconomics is the branch of economic that's studies the behavior and performed of an economy as a whole. It focuses on the aggregate changes in the economy such As unemployment, growth rate, gross domestic product and inflation.

Question 47

Which economic system depends on both markets and government for allocation of resources?

- (a) Mixed Economy (b) Capital Economy
(c) Social Economy (d) None of the above

Answer: a

Explanation:

The mixed economics system depends on both markets and government for allocation of resources in fact; every economy in the real world makes use of both markets and government and therefore is mixed economy in its nature.

Question 48

In a free market economy, the allocation of resources is determined by:-

- (a) Voting done by consumer (b) A central planning authority
(c) Consumer preference (d) No level of profit of firms.

Answer: c

Explanation:

The advantage of resources allocation in a free market economy is resources are allocated according to the needs of consumer. The profit motives forces producers to reduce costs and use the resources more efficiently (avoids wastage).

Question 49

Which theory explains the relation between inputs outputs?

- (a) Demand Theory (b) Production of theory
(c) Inventory Theory (d) Inventory Theory

Answer: b

Explanation:

Production theory explains the relationship between inputs and outputs. A Business economist has to decide on the optimum size of output. Given the Objectives of the firm.

Question 50

Government Economic policies does not Includes.

- | | |
|-----------------------|------------------------|
| (a) Industrial policy | (b) Competition policy |
| (c) Fiscal policy | (d) None. |

Answer: d

Explanation:

Government economics polices like industrial policy, competition policy, monetary and fiscal policy, price policy, foreign trade policy and globalization policies.

Question 51

Business economics is

- | | |
|---|---|
| (a) Abstract and applies tools of micro economics | (b) Involves practical application of economic theory in business decision making |
| (c) Incorporates tools from multiple Disciplines | (d) Both (b) and (c) |

Answer: d

Explanation:

Business Economics Involves practical application of economics theory in business decision making & also incorporates tools from multiple disciplines. Therefore,(d) is correct answer.

Past Examination Question

MAY - 2018

Question 1

Socialist Economy was propounded by :

- | | |
|---------------|----------------|
| (a) Karl Marx | (b) Samuelsson |
| (c) A.C.PIGOU | (d) Adam Smith |

Answer: a

Explanation :

Karl Marx gave the theory of socialist economy.

Question 2**Concept of Business Economics was given by :**

- (a) Joel Deo (b) Alfred Marshall
(c) Adam Smith (d) L. Robbins

Answer: a**Explanation:**

Concept of Business was given by Joel Deo.

Question3**“Features of the book wealth of nation “**

- (a) It was the first book user on economic (b) It was created in 1776
(c) It was also known as `wealth of nation ` (d) Both b and c.

Answer: d**Explanation:**

Adam Smith was the father of economics. He wrote the books `the nature and cause Of wealth of nation ` . In1776. This book was also Known as `wealth of the nation`. He defined economics at ` An Inquiry cuts the nature and causes of nations`

Question 4**In India, Mixed Economy exists due to :-**

- (a) Coexistence of public sector and private sector (b) Individual forces of demand
(c) Orders by government (d) None of these

Answer: a**Explanation:****There are three types of economy. These are:**

- ❖ Capitalist economy (private enterprises)
 - ❖ Socialist economy (government by government)
 - ❖ Mixed economy (public and private enterprises)
- Mixed economy means where a co- existence of public and private sector.

Question 5**Which economy system is described by Schumpeter as capitalism in oxygen tent?**

- (a) Laissez – Faire Economy (b) Command Economy
(c)Mixed Economy (d) Agrarian Economy

Answer: c**Explanation:**

Mixed Economy is described by Schumpeter as capitalism in oxygen text. According To him it is only a trick of capitalism to cheat the working class by offering them so Temporary advantage like social security,upliftment of depressed classes etc.

Question 6

Capitalistic Economy use __ as principal means of allocating resources

- (a) Demand (b) Supply
(c) Price (d) All of these

Answer: c

Explanation:

Price is principal means of allocating resources in capitalist while "is not in socialist economy. Price mechanism is a characteristic is of capitalist economy.

Question 7

Capitalist economy is characterized by _____.

- (a) Profit Motive (b) Competition among sellers and buyers
(c) Inequalities of income (d) All the above

Answer: d

Explanation:

Characteristics of capitalism include Profit motive, Competition among buyers & sellers, inequalities of income.

NOV - 2018

Question 1

Humans have ___ resources in response to satisfy their wants?

- (a) Unlimited (b) Limited
(c) Scarce (d) Multiple

Answer: c

Explanation:

Human beings have unlimited wants. And resources to satisfy these unlimited wants are relatively scarce from the subject matter of Economics.

Question 2

Price Mechanism is the main feature of which economy?

- (a) Capitalistic Economy (b) Mixed Economy
(c) Social Economy (d) All the above

Answer: a

Explanation:

Capitalism is self – regulating and work automatically through price mechanism.

Question 3

Business Economics is also known as?

- (a) Applied Economics
(c) Micro Economics
- (b) Managerial Economics
(d) All the above

Answer: b

Explanation:

Business economics also referred to as managerial economics, generally refers to The Integration of economics theory with business practice.

Question 4

Business economy involves theory of business economics with __

- (a) Normative Economics
(c) Micro Economics
- (b) Business practice
(d) Macro Economics

Answer: b

Explanation:

Business economy Involves theory of business with business practice, (application of theory).

Question 5

Which is not included in Economics?

- (a) Family Structure
(c) Micro Economics
- (b) Managerial Economics
(d) Macro economics

Answer: a

Explanation:

Family structure in no sense effects economics therefore is not included in economics.

Question 6

Business Environment involves the element of.

- (a) Micro Environment
(c)Both (a) and (b)
- (b) Macro Environment
(d) Macro Economics

Answer: d

Explanation:

Business economics involves economy as a whole and therefore elements of macro - economics is included in it.

Question 7

In which economy market and government both play on important role?

- (a) Mixed economy
(c)Capitalistic economy
- (b) Socialistic economy
(d) None

Answer: a

Explanation:

The mixed economic system depends on market and gouts to for allocation of resources Intact every economy in the real words makes use of both market and gouts and therefore is mixed economy in its nature.

Question 8**Which Factor is included in business Economics?**

- (a) Business Economics is an science (b) Interdisciplinary in nature
 (c) Normative in nature (d) All of the Above

Answer: d**Explanation:****FACTS OF BUSINESS ECONOMICS ARE: -**

- ❖ It is science
- ❖ It is normative in nature
- ❖ It is nature disciplinary in nature 4: is pragmatic in approach.
- ❖ Therefore, answer will be all of the above

Question 9**Which out of these is the feature of capitalism?**

- I. Profit motive
 II. Human welfare
 III. Work through price mechanism
- (a) (i) and (ii) (b) (ii) and (iii)
 (c) (i) and (ii) (d) All of the above

Answer: c**Explanation:****Feature of capitalist economy: -**

- ❖ Profits motive
- ❖ Work through of operative efficiency
- ❖ High degree of operative efficiency
- ❖ Therefore, human's welfare is not a feature of a capitalist economy.

MAY - 2019**Question 1****The economy which makes use of both markets and government:**

- (a) Mixed Economy (b) Socialistic economy
 (b) Capitalistic economy (d) None of all the above

Answer: a**Explanation:**

An economy or economic system that relies on both market and government to allocate Resources. Every economy in the real world regardless of their common designation (Such as capitalism socialism, or communism) makes use of both markets and government And is technically a mixed economy.

Question 2

The practical application theory in business is called..... ..

- (a) Macro economics (b) Micro economics
(c) Business economics (d) Socialistic economy

Answer: d

Explanation:

The practical application of economic theory in business decision is called business Economics.

Question 3

Which is not a Type of Economy.....

- (a) Capitalism (b) Socialism
(c) Mixed economy (d) Political economy

Answer: d

Explanation:

There are three main types of economies: Capitalism (free market), Socialism (command), and mixed.

Question 4

Micro economic theory deals with the issues.....

- (a) Producing price (b) Consumer behavior
(c) Factor pricing (d) All of the above

Answer: d

Explanation:

As a terms imply. Microeconomics focuses on micro or small segment of economy and its studies the decision making process and economic problems of individuals (household, firms industry etc). In an economy with respect to that how they use Scarce means or resources at their disposal for satisfying their unlimited ends.

Question 5

Nature of business economics is:-

- (a) Theory of market and private enterprises (b) Normative in nature
(c) Incorporates element of macro analysis (d) All of the above

Answer: b

Explanation:

Business economics seeks to establish rules which help business firms attain their goals Which indeed are also the essence of the word normative. However, if the firm is to Establish valid decision rules, they must thoroughly understand their environment.

Question 6

Central Economic Problem is?

- (a) What to Produce? (b) How to Produce

(c) For Whom to Produce?

(d) All the above.

Answer: d

Explanation:

The Central Economic Problems are :-

- What to Produce?
- How to Produce?
- For Whom to Produce?
- What provisions made for growth?

DEC - 2020

Question 1

Economics in terms of Dynamic Growth and development defined by :

(a) Alfred Marshall

(b) Adam smith

(c) Robbins

(d) Paul A Samuelson

Answer: d

Economics in terms of Dynamic Growth and development defined by "Paul A Samuelson".

Question 2

A Socialistic economy is also called as :-

(a) Profit oriented economy

(b) Self-regulatory economy

(c) Centrally planned economy

(d) Unorganized economy

Answer: c

Socialist economy is a centrally planned economy.

Question 3

_____ Economics explain economics phenomenon according to their causes and effects.

(a) Normative

(b) Empirical

(c) Positive

(d) Applied

Answer: c

Positive economics explain economics phenomenon according to their causes and effects.

Question 4

In capitalistic economy ___ and ___ will be more.

(a) Inequalities, exploitation

(b) Exploitation, equalities

(c) Equalities, non exploitation

(d) Non exploitation, inequalities

Answer: a

Major problem in Capitalism is raising inequalities and exploitation by others.

Question 5

In which economy, cost benefit analysis is used to answer the fundamental questions of economy?

- (a) Mixed economy (b) Socialistic economy
(c) Capitalistic economy (d) Regulatory economy

Answer: a

Explanation:

In a mixed economy, all the central problems of an economy is solved keeping in mind the cost of the factors of production with economic gains and social welfare.

Question 6

The study of behavior of different individuals, organizations with in an economic system is known as _____

- (a) Micro economics (b) Macroeconomics
(c) Welfare economics (d) None

Answer: a

Explanation:

Behavioral economics (also, macroeconomics) studies the effects of psychological, cognitive, emotional, cultural and social factors on the decisions of individuals and institutions and how those decisions vary from those implied by classical economic

Question 7

In which economic system production and distribution of goods and services aim at maximizing the welfare of community as a whole :

- (a) Capitalistic economy (b) Normative
(c) Mixed (d) Socialism

Answer:d

Explanation:

Socialists contend that shared ownership of resources and central planning provide a more equal distribution of goods and services and a more equitable society.

Question 8

The nature of business economics is :

- (a) Normative in nature (b) Pragmatic
(c) Pure science (d) Independent

Answer: a

Explanation:

Usually, Business Economics is normative in nature. It offers suggestions for the application of economic principles while forming policies, making decisions, and planning for the future. However, firms must understand their environment thoroughly to establish decision rules.

Question 9

_____ is responsible for all economic problems.

- (a) Unlimited wants (b) Alternative resources
(c) Scarcity of resources (d) Others

Answer: c

Explanation:

Scarcity of Resources: Resources (i.e. land, labor, capital, etc.) are limited in relation to their demand and economy cannot produce all what people want. It is the basic reason for existence of economic problems in all economies.

JAN - 2021**Question 1**

Effective demand depends on

- (a) Price (b) Cost
(c) Desire (d) Product

Answer: a

Explanation:

Effective demand depends on supply price. Effective demand refers to that point where aggregate demand is equal to aggregate supply. Therefore, supply price and demand price are independent.

Question 2

Why does demand curve slopes downwards?

- (a) Law of diminishing marginal cost (b) Arrival of old consumers
(c) Cost effect (d) Different users

Answer: b

Explanation:

When the prices of the goods fall the old buyers tend to buy more goods than usual thereby increasing its demand. This causes the downward sloping of demand curve.

Question 3

What is not a determinant of demand?

- (a) Consumer's expectations (b) Consumer's tastes and preferences
(c) Income of the consumers (d) Prices of unrelated goods

Answer: d

Explanation:

Determinants of demand:-

- ✚ The price of the good or service.

- ✚ The income of buyers.
- ✚ The prices of related goods or services—either complementary and purchased along with a particular item, or substitutes and bought instead of a product.
- ✚ The tastes or preferences of consumers will drive demand.
- ✚ Consumer expectations

Question 4

What are exceptions to Law of Demand?

- (a) Law of Diminishing Marginal (b) Substitutions effect
(c) Conspicuous goods (d) Different uses

Answer: c

Explanation:

There are two exceptions to the Law of Demand.

Giffen and Conspicuous goods are exceptions to the Law of Demand.

NATURE AND SCOPE OF BUSINESS ECONOMICS

Question 5

Capitalist system offer incentives for

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

Answer: d

Explanation:

In capitalist economies, people have strong incentives to work hard, increase efficiency, and produce superior products.'

Question 6

Macro-economic is also called _____ economics

- (a) Applied (b) Aggregate
(c) Micro (d) Experimental

Answer: b

Explanation:

The study of macroeconomics involves the study of the factors affecting the economy or society as a whole rather the individual factors. It is also known as aggregate economics.

Question 7

The book "Wealth of Nations" was written by

- (a) Alfred Marshall (b) John Robinson
(c) Adam Smith (d) Robert Malthus

Answer: c

Explanation:

Adam Smith is most famous for his 1776 book, "The Wealth of Nations." he is considered the father of modern economics.

Question 8

Rama: My corn harvest this year is poor Manoj: Don't worry. Price increase will compensate for the fall in quantity supplied Meera: climate affects crop yields.

Some years are bad, other are good

Bharti: The Government ought to guarantee that out income will not fall. In this conversation, the normative statement is made by

- | | |
|-----------|------------|
| (a) Rama | (b) Manoj |
| (c) Meera | (d) Bharti |

Answer: d

Explanation:

Normative statements typically present an opinion-based analysis in terms of what is thought to be desirable.

Question 9

In a mixed economy there are _____ sectors of industries

- | | |
|----------|-----------|
| (a) Two | (b) Three |
| (c) Four | (d) Five |

Answer: b

Explanation:

It is categorized into three sectors based on ownership of resources:

Private sector which is owned by private sector. Public sector which is owned by the government. Joint sector which is owned in partnership between the private agents and the government.

Question 10

An economy exists because of two basic facts i.e.:-

- | | |
|--|---|
| (a) Human wants are limited and resource are unlimited | (b) Human wants are unlimited and resources are unlimited |
| (c) Human wants are unlimited and resources are scare | (d) Human wants are limited and resources are abundant |

Answer: c

Explanation:

Resources are scarce because we live in a world in which humans' wants are infinite but the land, labor, and capital required to satisfy those wants are limited. This conflict between society's unlimited wants and our limited resources means choices must be made when deciding how to allocate scarce resources.

Question 11

An economy is called capitalist economy when ____ is given

- (a) Right to private property (b) Freedom of government interference
(c) Freedom of business choices (d) Discrimination

Answer: a

Explanation:

Private property rights are central to a capitalist economy, its execution, and its legal defenses. Nobody can rightfully trade property they do not own.

Question 12

Coexistence of public and private sector is the feature of

- (a) Capitalist Economy (b) Mixed Economy
(c) Socialist Economy (d) Federal Economy

Answer: b

Explanation:

Mixed economy is referred to the economic system in which both public sector and private sector coexist. In this type of economic system, private sector as well as the state direct the economy and the means of production is shared between them.

Question 13

Which one of the area comes under macro-economic?

- (a) Product pricing (b) Consumer behaviour
(c) The general price level and interest rates (d) Economic condition of a section of people

Answer: c

Explanation:

Macroeconomics studies economy-wide phenomena such as inflation, price levels, rate of interest, economic growth, national income, gross domestic product (GDP), and changes in unemployment.

Question 14

Laissez-faire economy is also known as:

- (a) Capitalist economy (b) Socialist economy
(c) Mixed economy (d) Communist economy

Answer: a

Explanation:

Laissez-faire capitalism is also referred to as free market capitalism or market capitalism.

Question 15

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. |

Answer: b

Explanation:

Relative scarcity: Second, there may be physical quantities of a resource present but scarcity exists because of problems about supply or distribution.

JULY- 2021

Question 1

The famous book abbreviated as “The Wealth of Nation”, which is also considered as the 1st modern work of economics, was written by__?

- | | |
|---------------------|----------------|
| (a) Frederic Engels | (b) Karl Marx |
| (c) David Ricardo | (d) Adam Smith |

Answer: b

Explanation:

The latter, often abbreviated as The Wealth of Nations, is considered his magnum opus and the first modern work of economics. In his work, Adam Smith.

Question 2

In which Economic system production and distribution of goods aims in welfare of the society as whole?

- | | |
|------------------------|-----------------------|
| (a) Capitalist economy | (b) Mixed economy |
| (c) Socialist economy | (d) Communist economy |

Answer: c

Explanation:

Socialism is an economic system in which the means of production are socially owned and used to meet human needs instead of to create profits. The means of production refers to the tools, technology, buildings, and other materials used to make the goods or services in an economy.

Question 3

Study of the behaviour of different individuals and organizations within an economic system is called

- | | |
|--------------------------|---------------------|
| (a) Industrial economics | (b) Macro economics |
|--------------------------|---------------------|

(c) Micro economics

(d) Welfare economics

Answer: c

Explanation:

Microeconomics is the study of individuals, households and firms' behavior in decision making and allocation of resources. It generally applies to markets of goods and services and deals with individual and economic issues.

Question 4

Which one of the following is not the scope of business economics?

(a) Cost standards

(b) Cost analysis

(c) Demand analysis

(d) Inventory management

Answer: a

Explanation:

Cost standards

Question 5

Which of the following statement is correct?

(a) Mixed economy is not golden path between social and capital economy

(b) Capital economy is not golden path between mixed and social economy

(c) Social economy is not golden path between mixed and capital economy

(d) Mixed economy is golden path between social and capital economy

Answer: a

Explanation:

A mixed economic system is a system that combines aspects of both capitalism and socialism. A mixed economic system protects private property and allows a level of economic freedom in the use of capital, but also allows for governments to interfere in economic activities in order to achieve social aims

Question 6

The concept of socialist economy was propounded by

(a) Karl Marx and Adam smith

(b) Fredrik angels and Karl Marx

(c) Fredrik angels

(d) Karl Marx and Fredrik angels

Answer: a

Explanation:

Karl Marx described a socialist society as such: ... The same amount of labour which he has given to society in one form, he receives back in another. Socialism is a post-commodity economic system and production is carried out to directly produce use-value rather than toward generating profit.

Question 7**Business Economics is pragmatic in its approach because?**

- (a) It deals with practical problems which the firm faces in real world.
- (b) It deals with practical problems which the firm faces due to WTO policies.
- (c) It deals with practical problems which the firm faces due to lack of directors
- (d) Business Economics is abstract and purely theoretical.

Answer: c**Explanation:**

Business economics is pragmatic in its approach. It does not involve itself with the theoretical controversies of economics. Yet it does not relegate the realities of business decision-making to the background by bringing in abstract assumptions.

Question 8**The central economic problem does not deal with which of the following economic problem...?**

- (a) What to produce...?
- (b) How to produce...?
- (c) For whom to produce...?
- (d) Where to produce...?

Answer: d**Explanation:**

The central problem of an economy does not deal with the time of production as it is assumed that human wants are unlimited and goods are required.

Question 9**Business Economics is essentially a component of Applied Economics as it includes application of selected quantitative techniques. Which technique is not included in it?**

- (a) Regression analysis
- (b) Capital budgeting
- (c) Economic analysis
- (d) Linear programming

Answer: c**Explanation:**

Applied economics is the application of economic theory to determine the likely outcomes associated with various possible courses of action in the real world. By better understanding the likely consequences of choices made by individuals, businesses, and policy makers, we can help them make better choices.

Question 10**Which of the following is not a study of Macro -economics?**

- (a) Consumer behaviour
- (b) National Income

(c) General price level

(d) Level of employment

Answer: a

Explanation:

Macroeconomics is the branch of economics that studies the economy as a whole. Macroeconomics focuses on three things: National output, unemployment, and inflation.

Hence, Consumer behavior is Micro Key.

Question 11

The central economic problem of an economy arises due to?

(a) Scarcity of resources due to relevant wants

(b) Co-Existence of public and private sector.

(c) GOVT. intervention in economy.

(d) Federal structure of Constitution

Answer: a

Explanation:

Economic problem arises from scarcity of resource. Every economy faces scarcity of resources because their wants are unlimited and their resources (means) are limited. Therefore, economic problem is the problem of economising scarce resources. It means making the best use of the available resources.

DEC-2021

Question 12

Demonstration effect in economics given by

(a) Robert

(b) James Duesenberry

(c) both

(d) none

Answer: c

Explanation:

James Duesenberry and Robert

Duesenberry (1949) gave the name "demonstration effect" to this phenomenon, arguing that it promoted unhappiness with current levels of consumption, which impacted savings rates and consequently opportunities for macroeconomic growth.

Question 13

According to whom fluctuation in economics activities are due to fluctuation in aggregate effective demand?

(a) Milton Friedman

(b) Keynes

(c) Nouriel Roubini

(d) none

Answer: b

Explanation:

Keynes

Question 14**Who gave the concept of socialist economy**

- (a) Alfred Marshal (b) David Ricardo
(c) Karl Marx (d) none

Answer: c**Explanation:**

Karl Marx

Question 15**Centrally planned economics also called as**

- (a) Socialist (b) Private
(c) Mixed (d) Consumer economy

Answer: a**Explanation:****Private or command economy**

A centrally planned economy, also known as a command economy, is an economic system where a government body makes economic decisions regarding the production and distribution of goods.

Question 16**What is demerit of capitalism?**

- (a) price mechanism (b) perfect competition
(c) equal distribution (d) none

Answer: a**Explanation:****Price mechanism**

Unequal distribution of income. Poor get poorer and the rich get richer- class struggle. High social costs. Unwanted multiplicity and way too much competition.

Question 17**Which of the following is the property of Indifference**

- (a) IC Curve (b) IM Curve
(c) Id Cure (d) IM Cure

Answer: a**Explanation:**

IC never touch either of the axes

Question 18**__ option is getting more price than strike price**

- (a) out of the honey (b) out of the money
(c) both (d)None

Answer: b

Explanation:

out of the money

Question 19

Events ,Trends, issues and expectations are outcomes of

- (a) Environmental analysis (b) Microenvironment
(c) Macro environment (d) Environmental scanning

Answer: d

Explanation:

Events ,Trends, issues and expectations are outcomes of environmental scanning

Question 20

According to _____ trade cycle is purely monetary phenomenon

- (a) Richard Lipsey (b) Adam Smith
(c) John Stuart Mill (d) Hawtrey

Answer: d

Explanation:Hawtrey

Question 21

Which one of the following is characteristic of capitalism-

- (a) relatively equal income distribution (b) competition
(c) Price mechanism (d) None

Answer: c

Explanation:Price mechanism is not characteristic

5 Characteristics of Capitalism

- ✚ Free Enterprise.
- ✚ Property Rights.
- ✚ Minimal Government Involvement.
- ✚ Profit Motive.
- ✚ Technological Advancement.

Question 22

Hicks and Allen believed that utility

- (a) can be measured in cardinal numbers (b) can be measured in ordinal number
(c) cannot t be measured (d) cannot be expressed

Answer: b

Explanation:

can be measured in ordinal number

Question 23

Which of following is incorrect Option

- (a) Goldman Sachs was founded in 1869 by Gordon moor
(b) Apple is the largest phone manufacturer in world
(c) Amazon is most valuable brand in world
(d) None

Answer: b

Explanation:

Apple is the largest phone manufacturer in world: Samsung led the global smartphone market in 2021 with annual shipments of 272 million units. Apple, Xiaomi, OPPO and vivo recorded their highest-ever annual shipments. The top five brands gained share due to a significant decline by Huawei, and LG's exit from the market.

Question 24

Which of the following is an economic activity-

- (a) they are driven by altruism
(b) they are driven by emotional reasons
(c) they are driven by sentimental reasons
(d) they are driven by rationality

Answer: d

Explanation:

They are driven by rationality: One way to identify economic activities is that they are driven by rationality and logic. The reason for performing such activities is for our own self-interest.

Question 25

Bears means-

- (a) Pessimistic
(b) Optimistic
(c) Positivity
(d) Negativity

Answer: a

Explanation:

Pessimistic: Bear means to tolerate something, usually something that you dislike. It is most commonly used in the expression can't bear.

JUNE-2022

Question 1

Socialist economy is also known as _____

- (a) Private Economy
(b) Consumer Economy
(c) Command Economy
(d) Mixed Economy

Answer: c

Explanation:

Socialist economy is also known as “command economy” or “centrally planned economy”.

Question 2**Predominance of bureaucracy under which system?**

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

Answer: b**Explanation:**

Socialist economy involves the predominance of bureaucracy and resulting inefficiency and delays.

Question 3**Find the correct statement:**

- (a) Mixed economy is not a golden path between socialist & capitalist economy (b) Socialist Economy is not a golden path between mixed & capitalist economy
(c) Capital Economy is not a golden path between mixed & socialist economy (d) None of the above

Answer: a**Explanation:**

Mixed economy is not always a golden path between socialist and capitalist economy. Sometimes, it is very difficult to maintain a proper balance between public and private sectors.

Question 4**Micro economics is also known as:**

- (a) public economics (b) price theory
(c) income theory (d) demand theory

Answer: b**Explanation:**

Price theory- Micro economics is also known as price theory.

Question 5**Normative science refers to:**

- (a) what to produce (b) how to produce
(c) whom to produce (d) what should be

Answer: d**Explanation:**

Normative science is prescriptive in nature. It involve value judgments. It is prescriptive in nature and suggests "what should be" a particular course of action in difference circumstances.

Question 6**Business is pragmatic in approach:**

- (a) true (b) False
(c) None of the above (d) Uncertain

Answer: a**Explanation:**

Business economics is a pragmatic in its approach as it tackles practical problems which the firms face in the real world.

Question 7**Central problems of economics-**

- (a) Scarcity of resources (b) Poverty
(c) Unemployment (d) All of the above

Answer: a**Explanation:**

The central problem of economy is the scarcity of resources. The resources are limited, society has to decide the central problem of scarcity of resources.

Question 8**Business economics being ___in approach tackles practical problems.**

- (a) Interdisciplinary (b) Normative
(c) Positive (d) Pragmatic

Answer: d**Explanation:**

Business economics being pragmatic in approach, tackles practical problems and deals with them on practical and theory basis.

Question 9**Which of the following is incorrect?**

- (a) Economic activity is productive (b) Economic activity is self-motive
(c) Consumption is an economic activity (d) All of the above

Answer: c**Explanation:**

Consumption is the start of all human economic activity. If a person desires something, he will take action to satisfy the desire hence consumption is an economic activity.

DEC – 2022**Question 1****_____ Economic system is self regulating and run by invisible hands.**

- a) Mixed b) Socialistic

c) Capitalistic

d) Planned

Answer: c**Explanation**

Capitalism is often thought of as an economic system in which private actors own and control property in accord with their interests, and demand and supply freely set prices in markets in a way that can serve the best interests of society. The essential feature of capitalism is the motive to make a profit.

Question 2**The basic problem of scarcity gives rise to**

- a) Technological problems
c) Cultural problems

- b) Social problems
d) Economic problems

Answer: d**Explanation**

Scarcity is one of the key concepts of economics. It means that the demand for a good or service is greater than the availability of the good or service. Therefore, scarcity can limit the choices available to the consumers who ultimately make up the economy hence it creates economic problem.

Question 3**Which of the following is NOT a basic problem of an economy?**

- a) Whether to produce more of consumer goods for or capital goods
c) Whether to produce for rich people or for poor people
b) Whether to lay emphasis on labour intensive technique or on capital intensity techniques
d) Whether to accept foreign direct investment in the economy

Answer: d**Explanation**

The four basic problems of an economy, which arise from the central problem of scarcity of resources are:

- What to produce?
- How to produce?
- For whom to produce?
- What provisions (if any) are to be made for economic growth?

Question 4**_____ involves the predominance of bureaucracy and resulting in inefficiency and delays.**

- a) Socialistic economy
c) Mixed economy

- b) capitalistic economy
d) Free market economy

Answer: a**Explanation**

Socialist economy is a centrally planned economy. Hence decisions are delayed due to number of procedures & rules

Question 5

Capitalistic system offers incentives for

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

Answer: d

Explanation

In capitalist economies, people have strong incentives to work hard, increase efficiency, and produce superior products.

Question 6

Which of the following does not fall in the category of macro environment?

- | | |
|----------------------------|----------------------------|
| a) Big Bazar | b) Fiscal Policy |
| c) Consumer Protection Act | d) Consumer Protection Act |

Answer: a

Explanation

Technology and Business are highly interrelated and interdependent. The fruits of technological research and development are available to society through business and this also improves the quality of life of the society. Hence, technology is patronized by business.

Question 7

Study of gdp of Indian economy after covid 19 is a study of

- | | |
|-----------------------|-------------------------|
| a) microeconomics | b) macroeconomics |
| c) business economics | d) managerial economics |

Answer: b

Explanation

A macro environment refers to the set of conditions that exist in the economy as a whole, rather than in a particular sector or region.

Question 8

If the income elasticity of AC is 1.8, what is the nature of this commodity?

- | | |
|------------------|----------------------|
| a) conspicuous | b) necessities |
| c) Griffin goods | d) none of the above |

Answer: a

Explanation

Conspicuous consumption is the act of displaying ostentatious wealth to gain status and reputation in society.

Elasticity is greater than 1

Question 9**When marginal utility is zero**

- a) total utility is maximum b) total utility is minimum
c) total utility is Zero d) total utility is increasing

Answer: a**Explanation**

TU is maximum, the MU reaches zero. TU stops growing in this phase, this point is known as the point of safety. When consumption increases beyond the point of satisfaction, then the MU becomes negative and TU starts falling.

Question 10**India follows which type of economy?**

- a) Mixed economy b) socialist economy
c) capitalist economy d) political economy

Answer: a**Explanation**

India is considered a mixed economy: the private and public sectors co-exist and the country leverages international trade.

Question 11**When marginal utility is zero then total utility is _____**

- a) Maximum b) Lower
c) Negative d) Increasing

Answer: a**Explanation**

When marginal utility is zero, then total utility is maximum because any further consumption of that commodity will lead to negative marginal utility and therefore total utility will tend to decrease.

Question 12**Which one of the following is NOT a part of Economic policies?**

- a) Industrial Policy b) Technological Policy
c) Monetary Policy d) Fiscal Policy

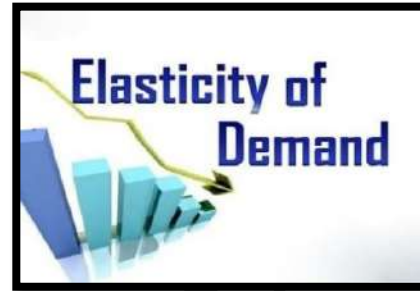
Answer: b**Explanation**

Types of economic policies: fiscal, monetary, industrial, foreign policy and public debt.

Chapter 2

UNIT 1:

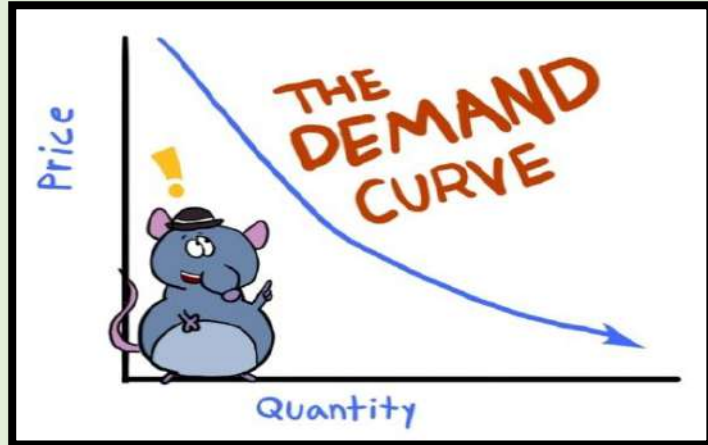
LAW OF DEMAND AND ELASTICITY OF DEMAND



Demand	Demand means desire or wish to buy and consume a commodity or service backed by adequate ability to pay and willingness to pay.
Factor determine price.	The important factors that determine demand are price of the commodity, price of related commodities, income of the consumer, tastes and preferences of consumers, consumer expectations regarding future prices, size of population, composition of population, the level of national income and its distribution, consumer-credit facility and interest rates.
Law of demand.	<p>The law of demand states that people will buy more at lower prices and less at higher prices, other things being equal.</p> <div style="text-align: center; border: 1px solid black; padding: 10px; margin: 10px auto; width: 80%;"> <p style="background-color: #38761d; color: white; padding: 5px; display: inline-block;">Law of Demand</p></div> <div style="display: flex; justify-content: space-around; align-items: center; margin-top: 10px;"> <div style="text-align: center;"> <p style="color: #38761d;">When the price goes up...</p> <p style="color: #38761d; font-size: 2em;">↓</p> <p style="color: #38761d;">...the quantity demanded goes down.</p> </div> <div style="text-align: center; font-size: 0.8em;"> <p style="background-color: #ffff00; padding: 2px;">NOTE: The relationship between price and quantity is inverse.</p> </div> <div style="text-align: center;"> <p style="color: #38761d;">When the price goes down...</p> <p style="color: #38761d; font-size: 2em;">↑</p> <p style="color: #38761d;">...the quantity demanded goes up.</p> </div> </div>

Demand curve.

According to Marshall, the demand curve slopes downwards due to the operation of the law of diminishing marginal utility. However, according to Hicks and Allen it is due to income effect and substitution effect.



Exceptions to the Law of Demand

- Conspicuous goods
- Giffen goods
- Conspicuous necessities
- Future expectations about prices
- Demand for necessities
- Speculative goods



Expansion and Contraction of Demand

When, as a result of decrease in price, the quantity demanded increases, in Economics, we say that there is an expansion of demand and when, as a result of increase in price, the quantity demanded decreases, we say that there

	is contraction of demand.
<p>Increase and Decrease in Demand</p>	<p>A rightward shift in the demand curve (when more is demanded at each price) can be because by a rise in income, a rise in the price of a substitute, a fall in the price of a complement, a change in tastes in favour of this commodity, an increase in population, and a redistribution of income to groups who favour this commodity.</p> <p>A leftward shift in the demand curve (when less is demanded at each price) can be because by a fall in income, a fall in the price of a substitute, a rise in the price of a complement, a change in tastes against this commodity, a decrease in population, and a redistribution of income away from groups who favour this commodity.</p>
<p>Movements along the Demand Curve vs. Shift of Demand Curve</p>	<p>A movement along the demand curve indicates changes in the quantity demanded because of price changes, other factors remaining constant. A shift of the demand curve indicates that there is a change in demand at each possible price because one or more other factors, such as incomes, tastes or the price of some other goods have changed.</p>



Question 1

Which factor generally keeps the price - elasticity of demand for goods low?

- (a) Variety of uses for that goods
- (b) Its low price
- (c) Close substitutes for that goods
- (d) High proportion of the consumers

Income spent on it

Answer: b**Explanation:**

Lower the price of the good, the lower is its response to change in price lower is the price Elasticity. Demand of a commodity having very low price will not be affected that a low Priced commodity has a small price in consumer`s budget.

Question 2**What is an Engels curve?**

- (a) Another name of demand curve (b) Curve showing both demand & supply Curve.
 (c) Curve named after Lord Engels (d) All

Answer: c**Explanation:**

Engels`s curve was a named after Engel`s the original of this curve

Question 3**Exception to the Law of demand includes**

- (a) Conspicuous goods (b) Giffen goods
 (c) Conspicuous necessities (d) All

Answer: d**Explanation:**

Exception to The law of demand includes:-

Conspicuous goods

- Giffen goods
- conspicuous necessities
- Future expectation about
- Price
- Demand for necessities
- Speculative goods

Question 4**The important Factor that determines demand:-**

- (a) Price of the commodity (b) Price of related commodities
 (c) Income of the consumer (d) All

Answer: d**Explanation:**

The important factors that determine demand are given below:

- ❖ Price of the commodity
- ❖ Price of related to commodities
- ❖ Income of the consumer
- ❖ Taste and preference of consumer
- ❖ Consumer`s expectation

Question 5**Movement along the same demand curve show:**

- (a) Expansion of demand (b) Expansion of supply
 (c) Expansion of contraction of demand (d) Increase and decrease of demand

Answer: c**Explanation:**

Expansion of contraction of demand occurs when the demand of a commodity changes due to change in its own price. In other words, the demands curve moves along the same demand curve.

Question 6

An increase in demand can result from:

- | | |
|--|--|
| (a) A decline in the market price | (b) An increase in income |
| (c) A reduction in the price of substitution | (d) Increase in the price of complements |

Answer: b

Explanation:

Increase in demand means when the demand of a commodity increases due to factors than its own price. Therefore, an increase in income of consumer will lead to increase in demand.

Question 7

Demand for a commodity refers to - ___

- | | |
|---|--|
| (a) Desire for the commodity | (b) Need for the commodity |
| (c) Quantity demanded of that Commodity | (d) Quantity of the commodity demanded at a certain price during any particular period of time |

Answer: d

Explanation:

Demand for a commodity refers to Quantity of the commodity demanded at a certain Price during any particular period of time.

Question 8

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

- | | |
|--------------|--------------|
| (a) Zero | (b) Infinite |
| (c) Positive | (d) Negative |

Answer: d

Explanation:

In case of inferior goods, are the income increases the demand for inferior goods, (Like jawar, bajra) decrease and vice- versa. Hence, inferior goods have negative income elasticity

Question 9

For what types of goods demand fall with rise in income levels of household?

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

Answer: a

Explanation:

An inferior good is one whose demand drops when people's incomes rise. When incomes are low or the economy contracts inferior goods become a more affordable.

Question10

In case of inferior goods like bajra, a fall in its price tends to:

- | | |
|-----------------------------|--|
| (a) Makes the demand remain | (b) Reduce the demand |
| (c) Increase the demand | (d) Change the demand in an abnormal way |

Answer: b

Explanation:

Fall in the price of such good like Bajra, will also reduce its demand as income effect dominates the substitution effect.

Question 11

Find the slope of an assumed liner demand curve for theater tickets, when person Purchase 1,000 at Rs. 5.00 per ticket and 200 at Rs. 15.00 per ticket.

- (a) 1 / 80 (b) 2 / 80
(c) - 1/ 80 (c)- 1/ 80

Answer: c

Explanation:

The slope of a linear demand curve is simply:

Change in Price / Change in Quantity

So when the price change from Rs. 5.00, the quantity changes from 1,000 to 200. This gives us:

$15 - 5 / 200 - 1000$

$-1 / 80$

Thus the slope of the demand curve is given by -1/80.

Question 12

The price of hot - dogs Increase by 22% and the quantity demanded falls by 25% this Indicates for hot dogs are:

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

Answer: a

Explanation:

Demand for good is elastic when the percentage change in quantity demanded is more than the percentage change in price. Price of hot dogs increase by 22% hence, demand for hot dog is elastic.

Question 13

What is demand function?

- (a) Relation between the demand for a Product And its supply. (b) Relationship between the demand For a production and its supply
(c) Relationship between the demand And determinates (d) None

Answer: c

Explanation:

The demand function states the relationship between the demand for a product (the dependent variable) and its determinates (the independent or explanatory Variables). $D_x = f(P_x, M, p_y, P_c, T, A)$

Question 14

A rightward shift in the demand curve is cause due to?

- (a) When more is demand at each price (b) When less is demanded at each price
(c) Both (d) None

Answer: a

Explanation:

Can be caused by a rise in income, a rise in the price of a substitute, a fall in the price of a complement, a change in tastes in favor of this commodity, an increase in population and a redistribution of income to groups who favor this commodity.

Question 15

The quantity demanded does not respond to price change and so the elasticity is:

- (a) Zero (b) Infinite
(c) One (d) None

Answer: a

Explanation:

When the quantity demanded of a commodity does not change with respect to the price the elasticity is said to be zero. It can be explained as follows;

$$\text{Elasticity} = \frac{\% \text{ change in Qt. demanded}}{\% \text{ change in price}}$$

When Qt. demanded will be 0 the elasticity will be zero as per the above formula.

Question 16

In case of a straight line demand curve meeting the two axes. The price elasticity of Demand at the mid - point of the line would be:

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

Answer: a

Explanation:

Under Geometric Method, elasticity is determined by:

$$e = \frac{\text{lower segment of demand curve}}{\text{upper segment of demand curve}}$$

Therefore, elasticity of demand at the midpoint is equal to one, as the lower part = upper part

Question 17

An increase in demand can result from:

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

Answer: b

Explanation:

Increase in demand means when the demand of a commodity increases due to factors other than its own price. Therefore, an increase in income of consumer will lead to an increase in demand.

Question 18

Compute income elasticity if demand increases by 5 % and income by 1 %

- (a) 2 (b) 5
(c) 1.5 (d) 0

Answer: b

Explanation:

Income elasticity is calculated as follows:

$$\frac{\% \text{ change in demand}}{\% \text{ change in income}}$$

$$\frac{5}{1} = 5$$

So elasticity is 5.

Question 19

What is the value of elasticity of demand if the demand for the goods is perfectly elastic?

- (a) 0 (b) 1
(c) Infinity (d) Less than 0

Answer: c

Explanation:

The demand for a good is perfectly elastic when demand changes even if there is no change in price or a very slight change in price.

i.e. $\frac{\text{change in } Q_t \text{ demanded}}{\% \text{ change in price}}$

$$= \frac{\Delta Q}{\Delta P}$$

$$= \frac{\Delta Q}{\Delta 0} \text{ so elasticity} = \infty$$

Any divided by 0 is infinity

Question 20

What is the original price of a commodity when price elasticity is 0.71 and demand changes?

From 20 units to 15 units and the new price is Rs .10? (Point elasticity)

- (a) 15.4 (b) 20
(c) 18 (d) 8

Answer: a

Explanation:

$$E = 0.71$$

$$Q_1 = 20$$

$$Q_2 = 15$$

$$P_1 = ?$$

$$P_2 = 10$$

As per point elasticity of demand:

$$E = \frac{\Delta Q}{Q} \times \frac{P}{\Delta p}$$

$$E = \frac{5}{20} \times \frac{P}{P-10} = 0.71$$

$$0.71 = \frac{P}{4P-40}$$

$$0.71 \times (4P - 40) = P$$

$$2.84 P - 28.4 = P$$

$$1.84 P = \frac{28.4}{1.84} = 15.43$$

Question 21

Increase in price from 4 to 6 then decrease in demand from 15 units to 10 units .what Is the price elasticity (point elasticity)?

- (a) 0.66 (b) 0.66
(c) 1.5 (c) 1.5

Answer: a

Explanation:

Given original price = RS .4

New price = RS. 6

Original quantity = 15 units

New quantity demanded = 10 units
 Change in price = 6 - 4 = 2
 Change in quantity demanded = 10 units - 15 units = -5 units
 Price elasticity = $\frac{\% \text{ change in } Q_{t.\text{demanded}}}{\% \text{ change in price}}$

$$= \frac{-5}{2} \times 100$$

$$= \frac{15}{4} \times 100$$

$$= -0.66$$

Question 22

When price remains constant and quantity demanded changes, then the elasticity of demanded will be?

- (a) Vertical to X axis (b) Horizontal to X axis
 (c) (A) or (B) (d) Horizontal to yaxis

Answer: b

Explanation:

When price remain constant and quantity demanded changes, then the elasticity of Demanded will be horizontal to X axis in other words when at a given price, the quantity Demanded changes to any level, the demand said to be perfectly elastic i.e. a slight Fall – in price will bring an infinite increase in demand and a slight increase in price Will reduce the demand to zero.

Question 23

In case of substitute goods, cross elasticity is—

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

Answer: c

Explanation:

In case of substitute goods cross elasticity is positive. It means when the price of the Substitute goods falls the demand the commodity also falls or vice versa.

Question 24

What will be the price elasticity if original price is 5? Original quantity is 8 units and changed Price is 6, changed quantity is 4 units:

- (a) 2.5 (b) 2.5
 (c) 1.5 (d) 1

Answer: a

Explanation:

$$E = \frac{\Delta Q}{\Delta p} \times \frac{P}{Q}$$

$$= \frac{4}{1} \times \frac{5}{8}$$

$$= 2.5$$

Question 25

Which of the following factors will cause the demand curve for labor to shift the right?

- (a) The demand for the product by labor decline (b) The prices of substitute inputs fall.
 (c) The productivity of labor increase (d) The wage rate decline

Answer: c

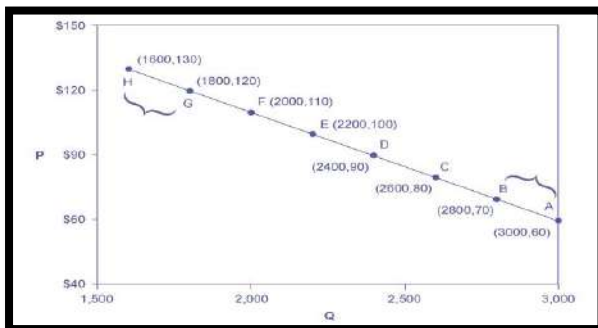
Explanation:

A shift to the right of the demand curve for labor means that the demand for labor as increased at every wage rate we will examine [a] through [b] to see if any of these would cause the demand for labor to rise.

- If the demand for the product produced by labor decline, then the demand for labor should decline. So this doesn't work.
- If the prices of substitute inputs fall, then you would expect companies to switch from labor to substitute inputs. Thus the demand for labor should fall. So this doesn't work.
- If the productivity of labor increases then employers will demand more. Labor so this one does work.
- The wages rate declining causes a change in quantity demanded not demand. So this Doesn't work. Thus the correct answer is (c).

Question 26

Let's calculate the elasticity between point A and B and between points G and H shown Calculating the price elasticity demand.



- (a) 0.25 (b) 0.45
(c) 0.35 (d) 0.65

Answer: b

Explanation:

First apply formula to calculate the elasticity as price decreases from \$ 70 at point B to \$ 60 At point A:

$$\begin{aligned} \% \text{ change in quantity} &= \frac{3,000 - 2,800}{(3,000 + 2,800)/2} \times 100 \\ &= \frac{200}{2,900} \times 100 \\ &= 6.9 \\ \% \text{ change in price} &= \frac{60 - 70}{(60 + 70)/2} \times 100 \\ &= \frac{-10}{65} \times 100 \\ &= -15.4 \\ \text{Price Elasticity of Demand} &= \frac{6.9\%}{-15.4\%} \\ &= 0.45 \end{aligned}$$

Question 27

In case of movement of the demand curve, it:

- (a) Moves upward or downward (b) Moves left or right
(c) Both of the above (d) None of the above

Answer: a

Explanation:

Movement of the demand curve happens when all other factors affecting the quantity demanded remain constant and only the price changes. Hence the demand moves upward or downward along the same curve. Therefore, the correct answer is option A.

Question 28

The price elasticity of demand is defined as the responsiveness of:

- (a) Price to change in quantity
 (b) Quantity demanded to a change in demanded
 (c) Price to change in income
 (d) Quantity demanded to a change in Income.

Answer: b

Explanation:

By definition, the elasticity of demanded is the change in demanded due to the change in One or more of the variable factors that it depends on. Therefore, option a and c incorrect since they talk about the responsiveness of a price. The responsiveness of the quantity demanded to the change in income is called income Elasticity of demand while that to the price is called price elasticity of demand. Therefore, the correct answer is option B.

Question 29

The price of a commodity decrease from Rs. 6 to Rs. 4 this result in an increase in the quantity Demanded from 10 units to 15 units find the coefficient of price elasticity.

- (a) 1.5
 (b) 2.5
 (c) 1.25
 (d) 2.25

Answer: a

Explanation:

The coefficient of price elasticity = $E_p = \frac{\Delta q}{\Delta p} \times \frac{P}{q} = \frac{5}{2} \times \frac{6}{10} = 1.5$

Where, q is quantity, p is a price and Δ is the change.

Therefore, we have

$$\Delta q = 15 - 10 = 5$$

$$\Delta p = 6 - 4 = 2$$

$$\text{Hence, } E_p = 5/2 \times 6/10 = 1.5$$

Question 30

Contraction of demand is the result of:

- (a) Decrease in the number consumers
 (b) Increase in the price of the good concerned
 (c) Increase of the price of other goods
 (d) Decrease in the price of purchasers

Answer: b

Explanation:

Contraction in demand refers to a fall in the quantity demanded due to a rise in the price of commodity.

Question 31

Giffen goods are the Exceptions of law of Demand?

- (a) True
 (b) False
 (c) Can't true
 (d) None

Answer: a

Explanation:

Giffen goods, in economic theory, is a good that is greater demanded as its price Increase which is exception of law of demand.

Question 32

The price of a good decrease ` 100 to `60 per unit. If the price elasticity of demand For it is 1.5 and the original quantity demanded is 30 units, calculate the new quantity Demanded.

- (a) 42units (b) 40units
(c)45units (d) 48units

Answer: d

Explanation:

$$E_p = \Delta q / \Delta p \times p/q, \text{ Here } 1.5 = \frac{\Delta q}{40} \times \frac{100}{30}$$

$$\Delta q = \frac{1.5 \times 1200}{100} = 18$$

Therefore, new quantity demands = 30+ 48 units.

Question 33

The cross elasticity between bread and DVDs is:

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

Answer: C

Explanation:

In case the two goods are not related, the coefficient of cross elasticity is zero.

Question 34

If the price of air - conditioner increase from `30,000 to ` 30,010 and resultant change in Demand is negligible, we use the measure of __ to measure elasticity

- (a) Point elasticity (b) Perfect elasticity
(c) Perfect inelasticity (d) Price elasticity

Answer: a

Explanation:

Point elasticity method is used when there is very small change in prices. Here change Of Rs. 10 is very small in case of price of air conditioner.

Question 35

Which of the following pairs of goods is an example of substitutes?

- (a) Tea and sugar (b) Tea and coffee.
(c) Pen and ink (d) Shirt and trousers.

Answer: b

Explanation:

Substitutes are the goods, which can be used in place of each other. In the question Tea and coffee can be used in place of each other whereas other pairs are complementary goods.

Question 36

If the local pizzeria raises the price of a medium pizza from Rs.60 to Rs. 100 and quantity demanded falls from 700 pizzas a night to 100 pizzas a night, the price elasticity of demanded for pizzas is:

- (a) 0.67 (b) 1.5

(c)2.0

(d) 3.0

Answer: d**Explanation:**

We know are elasticity method as

$$\begin{aligned}
 &= \frac{Q-Q_1}{Q+Q_1} * \frac{P+P_1}{P-P_1} \\
 &= \frac{700-100}{700+100} * \frac{60+100}{60-100} \\
 &= 3.0
 \end{aligned}$$

UNIT: 2

THEORY OF CONSUMER BEHAVIOR

NATURE OF HUMANWANTS

All desires, tastes and motives of human beings are called wants in Economics.

Classification of wants

Classification of wants

Necessaries

Comforts

Luxuries

MARGINAL UTILITY ANALYSIS

“The additional benefit which a person derives from a given increase in the stock of a thing diminishes with every increase in the stock that he already has.”

In other words, as a consumer increases the consumption of any one commodity keeping constant the consumption of all other commodities, the marginal utility of the variable commodity must eventually decline

Consumer's Surplus

Marshall defined the concept of consumer's surplus as the "excess of the price which a consumer would be willing to pay rather than go without a thing over that which he actually does pay", is called consumer's surplus."

Thus consumer's surplus = what a consumer is ready to pay - what he actually pays.

Indifference Curve analysis

This approach to consumer behaviour is based on consumer preferences. It believes that human satisfaction, being a psychological phenomenon, cannot be measured quantitatively in monetary terms as was attempted in Marshall's utility analysis. In this approach, it is felt that it is much easier and scientifically more sound to order preferences than to measure them in terms of money.

Marginal rate

Marginal rate of substitution is the rate at which the consumer is prepared to exchange goods X and Y.

Budget line or price line shows all those combinations of two goods which the consumer can buy spending his given money income on the two goods at their given prices.

Others.

A consumer is said to be in equilibrium when he is deriving maximum possible satisfaction from the goods and is in no position to rearrange his purchase of goods.

The consumer attains equilibrium at the point where the budget line is tangent to the indifference curve and $MU_x / P_x = MU_y / P_y = MU_z / P_z$

Question 1

Show various combinations of two products that give same amount of satisfaction:

- (a) ISO curve
(c) Marginal utility curve
- (b) Indifference curve
(d) ISO quant

Answer: b

Explanation:

An indifference curve shows various combinations of two goods which gives the same satisfaction to the consumers.

Question 2

Total utility is maximum when:-

- (a) Marginal utility is maximum
(c) Average utility is maximum
- (b) Marginal utility is zero
(d) Average utility zero

Answer: b

Explanation:

Total utility will be maximum when marginal utility is zero when marginal utility becomes Negative total utility starts decreasing.

Question 3

Marginal utility curve of a consumer is also his:

- (a) Indifference curve
(c) Supply curve
- (b) Total utility curve
(d) Demand curve

Answer: d

Explanation:

As the marginal utility of consumer increase he demands more of a commodity therefore the marginal utility curve drives its shape from demand curve.

Question 4

At equilibrium the slope of the difference curve is:

- (a) Equal to the slope of budget line
(c) Smaller than the slop of budget
- (b) Greater than the slop of budget line
(d) None

Answer: a

Explanation:

A consumer is at equilibrium when the budget line touches as a tangent to the indifference Curve. At this point the slop of indifference curve is equal to the slop of budget line.

Question 5

The law of equal marginal utility considers price of money as:

- (a) Zero
(c) More than one
- (b) Less than one
(d) One

Answer: d

Explanation:

According to Marshall, money has constant marginal utility therefore the law of equal-marginal Utility consider price as one i.e. with a unit increase in price marginal utility increase.

Question 6

A in difference curve is always:

- (a) Concave to the origin
(c) L- shaped
- (b) Convex to the origin
(d) A vertical straight line

Answer: b

Explanation:

Indifference curve is always convex to the origin due to diminishing marginal rate of substitution.

Question 7

Indifference curve between income and Leisure for an individual are generally:

- | | |
|--------------------------------------|--------------------------------------|
| (a) Concave to the origin | (b) Convex to the origin |
| (c) Negatively sloped straight lines | (d) Positively sloped straight lines |

Answer: d

Explanation:

As the income of an individual increases he prefers less of work and more of leisure there is A direct relation between income and leisure therefore the curve is positively sloped,

Question 8

Marginal utility approach was given by:

- | | |
|----------------|---------------------|
| (a) J. R Hicks | (b) Alfred Marshall |
| (c) Robbins | (d) A. G. Pigou |

Answer: b

Explanation:

Marginal utility approach was given by Alfred Marshall. Marshall gave the concept of Cardinal measurability of money.

Question 9

In case of a right angled indifference curve the goods are:

- | | |
|---------------------------|-------------------------|
| (a) Perfect complements | (b) Perfect substitutes |
| (b) ImPerfect substitutes | (d) Giffen good |

Answer: a

Explanation:

In case of perfect complement like bread and butter. The increase in one commodity will lead to increase in other Hence the difference curve will be right angled.

Question 10

Indifference curves never intersect each other due to:

- | | |
|--------------------------------------|--------------------------------|
| (a) Different levels of satisfaction | (b) Same level of satisfaction |
| (c) Convex to origin | (d) Concave to the origin |

Answer: a

Explanation:

When there is more than one indifference curve each shows a difference level of satisfaction hence they never interest.

Question 11

A budget constraint line is a result of:

- | | |
|----------------------------|---------------------------------|
| (a) Concave to origin | (b) Market price of commodity Y |
| (c) Income of the consumer | (d) All of these |

Answer: c

Explanation:

A budget constraint line shows how the income of a consumer is spent in two or more commodities.

Question 12

The difference between what a consumer is ready to pay and what he actually pays is:

- (a) Consumer Surplus (b) Both
(c) Consumer deficit (d) None

Answer: a

Explanation:

According to Alfred Marshall, Consumer surplus is the excess of the price which a consumer would be willing to pay rather than go without a thing over that which he actually pays. It is the economic measure of surplus satisfaction consumer surplus can be summed up as what consumer is ready to pay. What he actually pays.

Question 13

Total utility derived from the consumption of a commodity is equal to 5. Marginal Utility is equal to 1 and consumer has bought 3 units what will be his consumer surplus?

- (a) 2 (b) 2.5
(c) 3 (d) 4

Answer: a

Explanation:

Consumer surplus = what a consumer is ready to pay - what he actually pays
 $= 5 - (3 \times 1)$
 $= 5 - 3$
 $= 2$

Question 14

The slope of I. C is always

- (a) Downward (b) Upward
(c) Straight line (d) All above

Answer: a

Explanation:

The slope of indifference curve is due to the diminishing marginal rate of substitution so the slope of indifference curve is always downward sloping.

Question 15

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

- (a) A.C. PIGOU (b) Marshall
(c) Adam Smith (d) Robbins

Answer: a

Explanation:

As per the definition given by A.C. Pigou "Money is the Measuring rod of utility"

Question 16

According to the law of diminishing marginal utility___?

- (a) Additional consumption always Yield extra utility (b) Additional consumption leads to lower average total utility
(c) Additional consumption always Yield negative utility (d) After a point any addition in the consumption causes a reduction

Answer: d

Explanation:

The law of diminishing marginal utility is similar to the law of diminishing returns Which states that as the amount of one factor of production increase as all other Factor of production are held the same the marginal return (extra by adding an Extra unity) decrease.

Question 17

Consumer Surplus is based on which concept?

- (a) Diminishing Marginal Utility (b) Law of Demand
(c) Indifference curve is approach (d) None

Answer: a

Explanation:

The concept of consumer surplus is derived from the law of diminishing marginal utility According to this concept as the consumer consumes more and more of a commodity the utility derived from every additional goes on diminishing.

Question 18

On which approach, indifferent curve analysis is based?

- (a) Cardinal approach (b) Ordinal approach
(c) Cardinal and ordinal approach (d) None

Answer: b

Explanation:

Indifference curve analysis is based on consumer preference. It believes that human Satisfaction is a psychological phenomenon and cannot be measured quantitatively In monetary terms. The consumer preference approach is therefore, an ordinal concept Based on ordering of preference compared with Marshall `s approach of cordiality

Question 19

Cardinal approach is related to:

- (a) Indifference curve (b) Equi – marginal utility
(c) Both (d) None

Answer: b

Explanation:

The law of equal marginal utility states that the marginal utility derived by consuming an Additional unit of the commodity may equal therefore this law clearly states that utility is measurable and hence is a cardinal concept.

Question 20

The substitution effect of fall in the price of the commodity will lead to:

- (a) Upward movement in indifference curve (b) Downward movement in indifference curve
(c) Movement from lower IC to a higher one (d) None

Answer: c

Explanation:

When there is a fall in the price of the commodity the real income of the consumer increase Due to the substitution effect. Due to the increase in real income of the consumer the quantity demanded of both the commodities increase in hence, the indifference curve shift to a higher one.

Question 21

The satisfaction which a consumer derives in the consumption of a commodity is equal to Rs. 320. The price of that commodity is t 180. What will be his consumer surplus?

- (a) 180 (b) 200
(c) 140 (d) 500

Answer: c

Explanation:

Consumer Surplus = what a consumer is willing to pay - what he actually pays.

= Rs 320 - 180

= Rs 140.

Question 22

The law of equi- marginal utility is one of the laws within whose parameters marginal utility analysis is framed the other one is:

- (a) Law of diminishing marginal utility (b) Law of proportion
(c) Law of consumer surplus (d) Law of increasing returns

Answer: a

Explanation:

Marginal utility analysis is framed within the parameter of two laws: - One is law of diminishing marginal utility and the other is law of equi- marginal utility.

Question 23

When indifference curve is L shaped then two goods will be:

- (a) Complimentary goods (b) Perfect substitute goods
(c) Perfect Compliments goods (d) Substitute goods

Answer: c

Explanation:

In case of perfect compliments like pen and ink, increase in consumption of one commodity will lead to increase in consumption of other commodity also. Hence the shape of the indifference Curve will be right angled because the movement along the x- axis will have an equal movement on y - Axis giving it a right angled shape.

Question 24

Curves are convex to the origin because they are based on:

- (a) Increasing marginal rate of substitution (b) Diminishing marginal rate of substitution
(c) Constant marginal rate of substitution (d) Zero marginal rate of substitution

Answer: b

Explanation:

Indifference curve is always convex to the origin due to diminishing marginal rate of substitution

I.e. consumer has more and more units of A he is prepared to give less and less units B

Question 25

When TU is maximum then MU is?

- (a) Zero (b) Negative
(c) Both (d) None

Answer: a

Explanation:

The relationship between TU and MU can be described as:

- ❖ When TU rises MU diminishes
- ❖ When TU maximum then MU is zero

- ❖ When TU diminishing MU is negative

Question 26

Total utility derived from the consumption of a commodity is equal to 5, marginal utility is Equal to 1 and consumer has bought 3 units. What will be his consumer surplus?

- (a) 4 (b) 3.50
(c) 3.50 (d) 2

Answer: d

Explanation:

Consumer Surplus = what a consumer is ready to pay- what he actually pays. As per the cardinal measurement of utility a consumer is at equilibrium when his marginal Utility= price.

In the given question –

Total utility derived by the consumer by consuming 3 units = 5 (What he is ready to pay)

Where as the price for purchasing 3 units was 3 (since for 3 units $MU = 3$ and $MU = p$ so He paid 3)

SO consumer surplus = what a consumer is ready to pay – what he actually pays
= 5- 3 = 2

Question 27

When marginal utility from the consumption of a commodity is zero then the:

- (a) Total utility is zero (b) Total utility is rising
(c) Total utility is highest (d) Total utility is falling

Answer: c

Explanation:

When marginal utility is zero, then total utility is maximum because any further consumption of that commodity will lead to negative marginal utility and therefore total utility will tend to decrease.

Question 28

The convexity of indifference curve is due to___

- (a) Total utility is falling (b) Rising marginal rate of substitution
(c) Constant marginal rate of substitution (d) None of the above

Answer: a

Explanation:

Indifference curve is always convex to the origin due to diminishing marginal rate of substitution i.e. as consumer has more and more units of A he is prepared to give less and less units of B.

Question 29

Total utility starts decreasing when ___

- (a) Marginal utility is positive (b) Marginal utility become units negatives
(c) Marginal utility becomes zero (d) None of these

Answer: b

Explanation:

Relationship between TU and MU is expressed as follows:

- ❖ When MU increases at an increasing rate
- ❖ When MU is zero TU is maximum
- ❖ When MU is negative TU falls Hence when TU decreasing MU is negative

Question 30

The want satisfying power of a commodity is known as:

- (a) Supply (b) Consumption
(c) Utility (d) Demand

Answer: c

Explanation:

The want satisfying power of a commodity is called utility. It is a quality possessed by a commodity or service to satisfy human wants. Utility can also be defined as value –in – use of a commodity because the satisfaction which we get from the consumption of a commodity is its value – in- use.

Question 31

The total utility divided by the number of units consumed is known as?

- (a) Total utility (b) Average utility
(c) Marginal utility (d) None of above

Answer: b

Explanation:

Average Utility: Average Utility is that in which the total unit in which the total unit of consumption of goods is divided by number of total Units the Quotient is known as average Utility.

Question 32

Consumer's surplus is also known as?

- (a) Different surplus (b) Elasticity of demand
(c) Buyer's surplus (d) Indifference surplus

Answer: c

Explanation:

Consumer's surplus is also known as Buyer' Surplus

Question 33

Those want which are superfluous and expensive

- (a) Comforts (b) Luxuries
(c) Necessaries (d) None

Answer: b

Explanation:

Luxuries are those wants which are superfluous and expensive they are not essential for Living item such as expensive clothing exclusive motor cars, classy furniture, goods used for vanity etc. fall under this category.

Question 34

Which is the rate at which a consumer is prepared to exchange goods?

- (a) Marginal rate of substitution (b) Total rate of substitution
(c) Average rate of substitution (d) None

Answer: a

Explanation:

Marginal Rate substitution (MRS) is the rate at which a consumer is prepared to exchange goods.

Question 35

States the statement with reason two ICs never intersect each other:

- (a) True (b) False
(c) Can't say (d) None

Answer: a

Explanation:

The important properties of an indifference curve are: Indifference curves slopes downward to the right, it is always convex to the origin, two ICs never intersect each Other, it will never touch the axes and higher the indifference curve higher is the level Satisfaction.

Question 36

In Economics wants are classified in to Parts

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

Answer: c

Explanation:

In Economics wants are classified in to necessities, comforts and luxuries.

UNIT: 3

SUPPLY



Meaning.

“Supply’ refers to the amount of a good or service that the producers are willing and able to offer to the market at various prices during a given period of time

The determinants of supply

The determinants of supply other than its own price are: prices of the related goods, prices of factors of production, state of technology, government policy and other factors.

The law of supply

The law of supply states that when the price of the good rises, the corresponding quantity supplied increases and when the price reduces, the quantity supplied also reduces. The direct relationship between price and quantity supplied.

The supply curve

The supply curve establishes the relationship between the amount of supply and the price. It is an upward sloping curve showing a positive relationship between price and quantity supplied.

When the supply of a good increases as a result of an increase in its price we say that there is an increase in quantity supplied and there is an upward movement on the supply curve. The reverse is the case when there is a fall in



the price of the good.

Elasticity of supply

Elasticity of supply means the responsiveness of supply to change in the price of the commodity.

Classification of elasticity of supply

The elasticity of supply can be classified into perfectly inelastic supply, relatively less-elastic supply, relatively greater-elastic supply, unit-elastic and perfectly elastic supply.

The measurement of supply

The measurement of supply-elasticity is of two types- point elasticity and arc-elasticity.

Equilibrium price

Equilibrium price is one at which the wishes of both the buyers and the sellers are satisfied. At this price, the amount that buyers want to buy and sellers want to sell will be equal.

**Type of Supply
Elasticity**

- Perfectly inelastic supply
- Relatively less-elastic supply
- Unit-elastic
- Relatively greater-elastic supply

Elasticity of Supply

The elasticity of supply is defined as the responsiveness of the quantity supplied of a good to a change in its price

$$E_1 = \frac{\% \text{Change on quantity supplied}}{\% \text{change in price}}$$

Exceptions to the law of supply

Labor Supply

Rare Goods

Future
ExpectationImmediate
Need For
CashSelf
Consumption

Hoardings

Question 1

The supply of goods refers to:-

- (a) Actual production of goods
(b) Total stock of goods
(c) Stock available for sale
(d) Amount of goods offered for sale at a Particular price per unit of time

Answer: d

Explanation:

Supply of goods refers to the amount offered for sale at a particular price and during a particular period of time

Question 2

Increase or Decrease in Supply means:-

- (a) Shift in Supply
(b) Movement along same supply curve
(c) Both (a) and (b)
(d) Neither (a) or (b)

Answer: a

Explanation:

When supply of a commodity changes the two factor other than its own price, the Supply the curve shifts.

Question 3

When the price of the commodity increase from 200 per unit to 250 per unit And consequently the quantity supply rises from 1000 units to 1100 units. What will be the coefficient of elasticity of supply?

- (a) 4.0 (b) 0.4
(c) 5.0 (b) 0.5

Answer: b

Explanation:

$$E = \frac{\Delta Q}{Q} \times \frac{P}{\Delta P}$$

$$= \frac{1000-1100}{1000} \times \frac{200}{200-250}$$

$$= \frac{-100}{1000} \times \frac{200}{-50}$$

$$= 0.40$$

Question 4

The Supply curve shift to the right because of:

- (a) Improved technology (b) Increased price of factors of production
(b) Increase excise duty (b) All of the above

Answer: a

Explanation:

When the supply curve bodily shifts toward the right as a result of a change in one of the Factors that influence the quantity supplied other than the commodity own price we say there is increase in the supply curve is due to improved technology among the various option

Question 5

As the price of a commodity increase normally its supply:-

- (a) Decrease (b) Remains unchanged
(c) Increase (d) Cannot be determined

Answer: c

Explanation:

Other things being equal the higher the relative price of goods the greater the quantity of it that will be supplied this is because goods and service is product by the firms in order To earn profits and ceteris paribus profits profit rise if the price of its product rises

Question 6

If equilibrium is present in a market, then it can be said that:

- (a) The price of the product will tend To rise (b) Quantity demanded equals quantity supplied
(c) Quantity demanded exceeds quantity supplied (d) Quantity supplied exceeds quantity demanded

Answer: b

Explanation:

Equilibrium refers to a market situation where quantity demanded is equal to quantity Supplied the intersection of demand and supply determines the equilibrium price. At This price

the amount that the buyer wants to buy is equal to the amount that seller want to sell.
Equilibrium price also called as market clearing price.

Question 7

Supply is a ___ concept

- (a) Flow (b) Stock
(c) Flow and stock both (d) Qualitative

Answer: a

Explanation:

Supply of a commodity is a flow concept. The commodity which the sellers or producers are able and willing to offer for sale at a particular price, during a certain period of time.

Question 8

If a 20 % fall in the price brings about a 10 % fall in the quantity supplied, then the Elasticity of supply will be equal

- (a) 2 (b) 1
(c) 0.5 (d) 1.5

Answer: c

Explanation:

Elasticity of supply = $\frac{\text{change in quantity supply}}{\text{change in price}}$

$$= \frac{10}{20} = 0.5$$

Hence, 0.5 is the correct answer

Question 9

Elasticity of supply is greater than one when:-

- (a) Proportionate change in the price is more than the proportionate change in quantity supplied (b) Proportionate change in quantity supplied is more than the proportionate change in price
(c) Change in price and quantity supplied are equal (d) All of these

Answer: b

Explanation:

Elasticity of supply is greater than one when proportionate change in quantity supplied is more than the proportionate change in price.

Question 10

If the supply of bottles water decreases the equilibrium price.....and the equilibrium quantity.....

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

Answer: a

Explanation:

When supply decrease equilibrium price will increase but equilibrium quantity will decrease.

Question 11

If supply curve is perfectly Inelastic, the supply curve is:

- (a) Vertical (b) Horizontal
(c) Upward (d) Downward sloping

Answer: a

Explanation:

A perfectly inelastic supply curve is a vertical line there is perfectly elastic supply when even a tiny increase or reduction in the price will lead to very large changes in the quantity supplied so that the price elasticity of supply is infinite. A perfectly elastic supply curve is a horizontal line.

Question 12

A change in the supply of a commodity along with same supply curve may occur due to

- (a) Change in the price of the commodity (b) Change in the cost of inputs
(c) Change in future expectation about the of the good (d) None of these

Answer: a

Explanation:

When the supply of a commodity changes due to a change in its own price there is a movement along the same supply curve in other words, there is a change in quantity supplied.

Question 13

What is the elasticity of supply when price changes from 15 to 12 and supply changes from 6 units to 5 units?

- (a) 0.77 (b) 0.87
(c) 0.833 (d) 0.58

Answer: c

Explanation:

Elasticity of supply = as
$$\frac{\% \text{ change in quantity demanded}}{\% \text{ change in price}}$$

$$= \frac{\Delta S}{S} \times \frac{P}{\Delta P}$$

$$= \frac{1}{6} \times \frac{15}{3}$$

$$= 0.8333$$

Question 14

If the supply of a commodity is perfectly elastic an increase in the demand will result in:

- (a) Decrease in both price quantities (b) Increase in both price and quantity at
At equally equilibrium
(c) Increase in equilibrium quantity (d) Increase in equilibrium prices
equilibrium price remaining constant equilibrium quantity remaining constant

Answer: c

Explanation:

When the supply of a commodity is perfectly elasticity and demand increase there will be an increase in equilibrium quantity and no change in equilibrium price.

Question 15

Exceptions to law of demand?

- (a) Conspicuous goods (b) Both (a) and (c)

(c) Giffen good

(d) None

Answer: b**Explanation:**

The three exceptions to the law of Demand are Giffen goods, Conspicuous Goods and Speculative Goods.

Question 16**If the price of apples from 30 per Kg to 40 per Kg and the supply increase from 240 Kg to 300 Kg. Elasticity of supply is**

(a) 0.75

(b) 0.67

(c) 00.67

(d) 00.77

Answer: a**Explanation:**Elasticity of supply (es) = $\frac{\% \text{ change in quantity demanded}}{\% \text{ change in price}}$

$$= \frac{60}{280} \times \frac{30}{10}$$

$$= 0.75$$

Question 17**A horizontal supply curve parallel to the quantity axis implies that the elasticity of supply is:**

(a) Zero

(b) Infinite

(c) Equal to one

(d) Greater than zero but less than one

Answer: b**Explanation:**

Elasticity of supply of a commodity is infinite when the supply changes even if there is no change in price. In this case elasticity = ∞ and the curve is parallel to quantity or X axis.

Question 18**Increase or decrease in supply means:-**(a) Change in supply due to change
In its own price(b) Change in supply due to change in factor
than its own price

(c) Both of above

(d) None of the above

Answer: b**Explanation:**

Increase or decrease in supply means change in supply due to factor than its own price like cost of Production cost of inputs etc. whereas change in quantity supplied means change in supply due to Change in its own price

Question 19**An increase in supply with demand remaining the same brings about:-**(a) An increased in equilibrium quantity and
Decrease in equilibrium price.(b) An increase in equilibrium price and
decrease in equilibrium quantity(c) Decrease in both equilibrium price and
quantity

(d) None of above

Answer: a**Explanation:**When there is a supply demand remaining the same the equilibrium price of goods decrease
And equilibrium quantity increase

Question 20

Elasticity of supply is defined as responsiveness of quantity supplied of a good to change in:-

- (a) Price of concerned good (b) Price of substitute good
(c) Demand (d) None of above

Answer: a

Explanation:

Elasticity of supply is defined as the responsiveness of the quantity supplied of goods to a change in its price.

Question 21

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

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

Answer: a

Explanation:

Market price depends on the demand as well as supply of various products along with The market condition prevailing at the time market condition is a factor which usually Does not change in short run Thus short run price is also known as market price

Question 22

Supply curve is a ____presentation of supply schedule?

- (a) Pictorial (b) Graphical
(c) Chart (d) Diagrammatical.

Answer: b

Explanation:

Supply curve is a graphical presentation of supply schedule.

Question 23

The supply curve for perishable commodities is:-

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

Answer: d

Explanation:

The market-period supply curve of a perishable commodity is perfectly inelastic, or a vertical straight line.

Question 24

Elasticity of supply is measured by dividing the percentage change in quantity supplied Of a good by:

- (a) Percentage change in income. (b) Percentage change in quantity demanded of goods
(c) Percentage change in price (d) Percentage change in taste and preference.

Answer: c

Explanation:

Elasticity of supply measures the degree of responsiveness of quantity supplied to a change in own price of the commodity it is also defined as the percentage change in quantity supplied divided by percentage change in price.

PAST EXAMINATION QUESTION

MAY 2018

Question 1

"High priced goods consumed by status seeking rich people to satisfy their need for conspicuous goods" is:

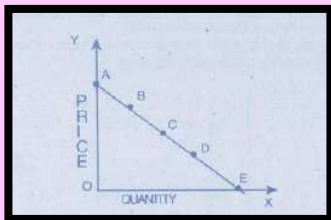
- (a) Veblen effect (b) Bandwagon effect
(c) Snob effect (d) Demonstration effect

Answer: a

Explanation:

Veblen effect was given by Veblen. Hence, this is called Veblen effect, also known as prestige good effect. Related to conspicuous consumption. Veblen effect takes place as some consumer's measure the utility by its price i.e. if price rises they think it has got more utility so, it is used by rich people to satisfy their need.

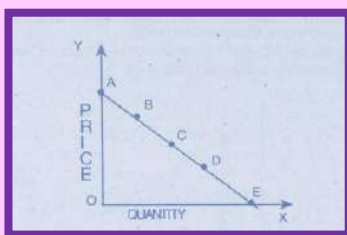
Question 2



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

Answer :a

Explanation:



- ✓ When change of demand is greater than price change then $e > 1$
- ✓ When change of demand is less than price change then $e < 1$
- ✓ When change of demand is same as change of price then it is $e = 1$
- ✓ When there is no change in demand as change in price then $e = 0$
- ✓ When price is change slightly but demand change at high then it is $e = \text{infinity}$
- ✓ Here, C shows $e = 1$ by which we can prove that $C \Rightarrow e = 1, A \Rightarrow e = \text{infinity}, B \Rightarrow e \geq 1$
- ✓ $D \Rightarrow e < 1, E \Rightarrow e = 0$

Question 3

Marginal utility is _____

- | | |
|--|--|
| (a) Extra output firm obtains by adding another unit | (b) Explains why product supply curves slope upward |
| (c) Typically rises as successive units of a good are consumed | (d) Extra satisfaction from consumption of 1 more unit |

Answer: d

Explanation:

Marginal means additional. Therefore, marginal utility means the additional utility which the consumer is getting after consuming a successive unit of that commodity.

Question 4

An Increase in demand can result from:

- | | |
|--|--|
| (a) Decline in the market price | (b) An increase in income |
| (c) A reduction in the price of substitute | (d) An increase in the price of complement |

Answer: b

Explanation:

Price and Demand are inversely related as price rises demand falls & vice versa but income and demand are directly related. As rise in income increases the quantity demanded and fall in income decreases the quantity demanded.

Question 5

Cross elasticity of perfect substitutes is:

- | | |
|----------|--------------|
| (a) Zero | (b) Negative |
| (c) One | (d) Infinity |

Answer: d

Explanation:

When there are perfectly substitutes available the cross elasticity of these perfectly substitutes leads to infinity as rise in price of one good will cause a rise in demand of its substitutes.

Question 6

The law of supply does not apply to _____.

- (a) Agricultural products (b) Industrial products
(c) Perishable Commodities (d) Both a and c

Answer: d

Explanation:

The law of supply does not apply to agricultural products & perishable Commodities

Question 7

For what type of goods increase in income leads to increase in demand?

- (a) Interior goods (b) Luxuries
(c) Substitutes (d) Necessities

Answer: b

Explanation:

A luxury good (or up market good) is a good for which demand increases more than proportionally as income rises.

Question 8

Which economist authored the book “The Economics of Welfare”?

- (a) Alfred Marshall (b) Prof. Robbins
(c) A C Pigou (d) None

Answer: c

Explanation:

The Economics of Welfare, originally published in 1920, by A. C Pigou reconceptualised economics as a science of economic welfare.

Question 9

Elasticity between two points:-

- (a) Point elasticity (b) Cross elasticity
(c) Arc elasticity (d) None

Answer: b

Explanation:

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

Question 10

Indifference curve is L shaped then two goods will be:

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

Answer : c**Explanation:**

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

Question 11**The concept of consumer's surplus is derived from:**

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

Answer : a**Explanation:**

Consumer surplus is a surplus which a consumer would be willing to pay rather than go without anything over that which he actually does pay. Consumer surplus is given by Marshall and it is derived from "what a consumer is willing to pay - what he actually pays".

Question 12**When supply curve shifts to the right there is:**

- (a) An increase (b) Expansion
(c) Contraction (d) Decrease

Answer: a**Explanation:**

When the supply curve shifts to the right due to change in one or more factors other than commodity own price. We say that there is increase in supply and when supply curve shifts to the left we say that there is decrease in supply.

Question 13**What are the Determinants of Supply?**

- (a) Cost of inputs (b) Both a & c
(c) Taxes and Subsidies (d) None of these.

Answer: b**Explanation:****Supply determinants are :-**

- Cost of inputs. Cost of supplies needed to produce a good.
- Productivity: - Amount of work done or goods produced.
- Technology: - Addition of technology will increase production and supply.
- Number of sellers.

- Taxes and subsidies.
- Government regulations

Question 14

When supply price increase in the short run, the profit of the producer.

- | | |
|---------------|--------------------------|
| (a) Increases | (b) Remains constant |
| (c) Decreases | (d) Decreases marginally |

Answer: a

Explanation:

Supply and price are directly related as supply Increase, price increase and price decrease, supply decrease. So, increase in supply-price will increase the profit of producer.

NOV - 2018

Question 1

When Price of a commodity increases what will be the effect on Quantity demanded?

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

Answer: c

Explanation:

As per the Law of demand, other things being equal, if the price of a commodity falls, the quantity demanded of it will rise and if the price of a commodity rises, its quantity demanded will decline.

Question 2

According to law of supply, change in supply is related to?

- | | |
|---------------------------|----------------------------|
| (a) Price of goods | (b) Price of related goods |
| (c) Factors of production | (d) None of these |

Answer : a

Explanation:

The law of supply can be stated as other things remaining constant; the quantity of a good produced and offered for sale will increase as the price rises.

Question 3

In case of inferior goods, with rise of income of consumers demand of goods will?

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

Answer : b

Explanation:

In general cases, as consumer income rises they will prefer high

quality goods and therefore, demand for Giffen goods will decrease.

Question 4

In case of necessities, consumer's surplus?

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

Answer: a

Explanation:

In case of necessities, the marginal utilities of the earlier limits are infinitely large. In such case the consumer's surplus is always infinite.

Question 5

When price of a commodity rises from 200 to 300 and quantity supplied increases from 2000 to 5000 units, find elasticity of supply.

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

Answer: a

Explanation:

$$\begin{aligned} \frac{\Delta q}{q} \times \frac{p}{\Delta p} \\ = \frac{3000}{2000} \times \frac{200}{100} \\ = 3.0 \end{aligned}$$

Question 6

Marginal utility of 3rd units?

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

Answer: c

Explanation:

Doubtful = $Tu_3 - Tu_2 \Rightarrow 480 - 380 = 100$

Therefore, 100

Question 7

Which equation is incorrect?

- (a) $\frac{MU_X}{MU_Y} = \frac{P_X}{P_Y}$ (b) $\frac{MU_X}{MU_Y} > \frac{P_X}{P_Y}$
(c) $\frac{MU_X}{MU_Y} < \frac{P_X}{P_Y}$ (d) $\frac{MU_X}{MU_Y} \neq \frac{P_X}{P_Y}$

Answer: a

Explanation:

The law of utility states that consumer will be in equilibrium when $\frac{MU_x}{MU_y} = \frac{P_x}{P_y}$

Question 8

The scope of the indifference curve shows consumer equilibrium at point where

$MRS_{(XY)} = \frac{P_x}{P_y}$ (Price line)

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

Answer: c

Explanation:

Consumer will be in equilibrium only when $MRS_{(XY)} = P_x/P_y$ (Price line)

Question 9

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

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

Answer: c

Explanation:

Properties of Indifference curve are:

Indifference curves slope downward to the right

Indifference curves are always convex to the origin.

Indifference curves can never intersect each other

A higher Indifference curve represents higher level of satisfaction

Indifference curves will not touch either axis

Question 10

In case of Normal goods, Rise in price leads to ___?

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

Answer: a

Explanation:

In general cases when the price of commodities rises, the purchasing power of the consumer will fall and therefore demand will fall.

Question 11

Method of demand forecasting does not include?

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

Answer: a

Explanation:

Methods of demand forecasting are

1. Survey of buyer's intentions
2. Collection opinion method
3. Expert opinion method
4. Statistical method
5. Controlled experiments
6. Barometric method.
7. Therefore, Mathematical method is not a method of forecasting.

Question 12

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

- | | |
|---------------|---------------|
| (a) Decreases | (b) Increases |
| (c) No change | (d) Can't say |

Answer : a

Explanation:

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

Question 13

An IC shows _____ MRS between the commodities?

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

Answer : a

Explanation:

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

Question 14

Forecasting of demand is the Art and Science of predicting?

- | | |
|--|-------------------------------|
| (a) Actual demand of a product at some future date | (b) Probable demand in future |
| (c) Total demand in future | (d) None of these |

Answer: b

Explanation:

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

Question 15

Addition made to total utility refer to?

- | | |
|-------------------|---------------------|
| (a) Total utility | (b) Average utility |
|-------------------|---------------------|

(c) Marginal utility

(d) All of the above.

Answer: c**Explanation:**

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

Question 16**Elasticity of supply is zero means?**

(a) Perfectly inelastic

(b) Perfectly elastic

(c) Imperfectly elastic

(d) All of the above.

Answer: a**Explanation:****Elasticity of supply:** $e > 1$ - elastic supply $e < 1$ - inelastic supply $e = 0$ = Perfectly inelastic supply $e = \infty$ = perfectly elastic supply $e = 1$ = Unit elastic

Therefore, elasticity of supply is zero means, it is perfectly inelastic Supply

MAY - 2019**Question 1****Human wants are _____ in companion to meanstosatisfythem.**

(a) Finite

(b) Unlimited

(c) Unlimited

(d) Limited

Answer : c**Explanation.**

Wants are unlimited. A human is never truly satisfied, and so his wants to be endless. We may temporarily satisfy some of our wants but they always reoccur.

Question 2**Demand Function expresses _____ relation between demand of commodity****And its factor:**

(a) Inverse

(b) Direct

(c) Functional

(d) None of these

Answer : c**Explanation:**

Demand Function expresses functional relation between demand of commodity And its factor affecting it.

Question 3

When price increases from Rs. 200 to Rs. 300 and supply increases from 2000 units to 5000 units, then calculate elasticity of supply?

- (a) 3 (b) 0.3
(c) 4 (d) 0.4

Answer: a

Explanation:

$$\text{Price elasticity} = \frac{\% \text{ change in } Q_t \text{ demanded}}{\% \text{ change in price}} = \frac{3000}{100} \times \frac{200}{2000} = 3$$

Question 4

In an indifference curve analysis, the consumer attains equilibrium at a point where the marginal rate of substitution isthe price ratio.

- (a) Greater than (b) Less than
(c) Equal to (d) Not related to

Answer: c

Explanation:

In an indifference curve analysis, the consumer attains equilibrium at a point where the marginal rate of substitution is equal to the price ratio.

Question 5

Which of the following statement is not true?

- (a) MU is the slope of TU curve (b) MU cannot be negative
(c) MU is the rate of change of TU (d) MU can become zero

Answer: C

Explanation:

MU is the rate of change of TU.

Question 6

Which of the following statements about indifference curve is not true?

- (a) Indifference curve shows price of 2 commodities (b) Indifference curve is convex to origin
(c) Indifference curve can't touch either of the axis (d) Two indifference curve can touch each other.

Answer : a

Explanation:

An indifference curve is a graph showing combination of two goods that give the consumer equal satisfaction and utility. Each point on an indifference curve indicates

that a consumer is indifferent between the two and all points give him the same utility.

Hence, Indifference curve shows price of 2 commodities statements about indifference curve is not true.

Question 7

An indifference curve shows.....marginal rate of substitution between two commodities

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

Answer : b

Explanation:

An indifference curve shows decreasing marginal rate of substitution between two commodities.

Question 8

The art and science of predicting the probable demand for a product at some future date:

- (a) Actual demand for a product at some future date (b) Forecasting of demand
(c) Total demand for a product at some future date (d) None of these

Answer: b

Explanation:

Forecasting of demand is the art and science of predicting the Probable demand for a product at some future date.

Question 9

Normally, when the price of a commodity increases its demand:

- (a) Remains constant (b) Increases
(c) Decreases (d) Zero

Answer: c

Explanation:

Normally, when the price of a commodity increases its demand Decreases

Question 10

Addition made to the total utility by the consumption of an additional unit of a commodity is called:-

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

Answer: c

Explanation:

Addition made to the total utility by the consumption of an additional unit of a commodity is called Marginal utility.

Question 11

Which one of the following is not a method of demand forecasting?

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

Answer: c

Explanation:

The mathematical methods covered by this module are the core analytic methods that are useful for modelling the real world. The analytical (as opposed to numerical) solution of first and second-order ordinary differential equations is discussed, followed by linear algebra (vectors, matrices and determinants).

Hence, Mathematical method is not a method of demand forecasting.

Question 12

In case of inferior commodity, the rise in income will result in demand curve:

- (a) Upward
(c) No change
- (b) Downward
(d) Initially downward but ultimately upward

Answer: b

Explanation:

In case of inferior commodity the rise in income will result in demand curve Downward.

Question 13

According to law of supply, the supply of commodity normally depends on:

- (a) Price of related commodity
(c) Price of factors of production
- (b) Price of commodity
(d) Demand for the product

Answer: b

Explanation:

According to law of supply, the supply of commodity normally depends on Price of commodity.

Question 14

Demand curve of a normal commodity:

- (a) Downwards from left to right
 (c) Parallel to x - axis
- (b) Upwards from left to right
 (d) Parallel to y -axis

Answer: a

Explanation:

Demand curve of a normal commodity is Downwards from left to right.

Question 15

From the following information:

Hours of labor	Total output	Marginal Product
0	-	-
1	200	200
2	-	180
3	480	-

What is the marginal product of third hour labour?

- (a) 120
 (c) 480
- (b) 180
 (d) 100

Answer: d

Explanation:

100

Question 16

The shape of AFC curve is:

- (a) Concave
 (c) U shaped
- (b) Convex
 (d) Upward sloping

Answer: b

Explanation:

AFC Curve is in Convex.

NOV - 2019

Question 1

which one is a Flow concept?

- (a) Supply
 (c) Law of Demand
- (b) Demand
 (d) None of the above

Answer: a

Explanation:

Supply refers to what a firm offer for sale in the market, not necessarily to what they

succeed in selling. What is offered may not get sold.

Supply is a flow concept. The quantity supplied is 'so much' per unit of time, per day, per week, or per year.

Question 2

Total utility is also known as:-

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

Answer: a

Explanation:

Total utility is measurable and additive total utility may be defined as the sum of utility derived from different units of a commodity consumed by a consumer. Total utility is the sum of total marginal utilities derived from the consumption of different unit's i.e.

$$TU = Mu_1 + Mu_2 + \dots + Mu_n$$

∴ We can say that total utility is also known as total satiety.

Question 3

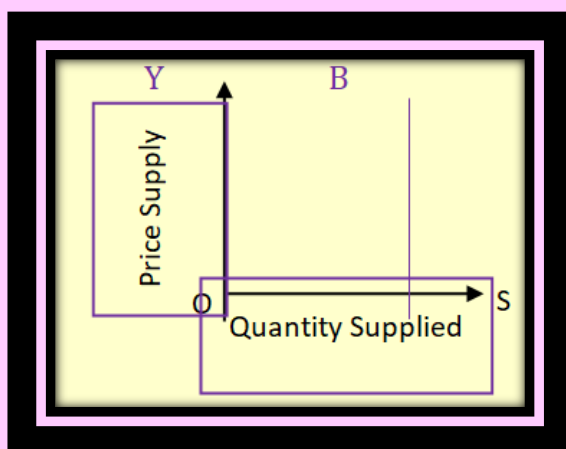
A vertical supply curve parallel to y axis implies the elasticity of supply is:-

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

Answer: a

Explanation:

A Vertical supply curve parallel to y-axis implies that elasticity of



Question 4

Budget line is also called:-

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

Answer: a**Explanation:**

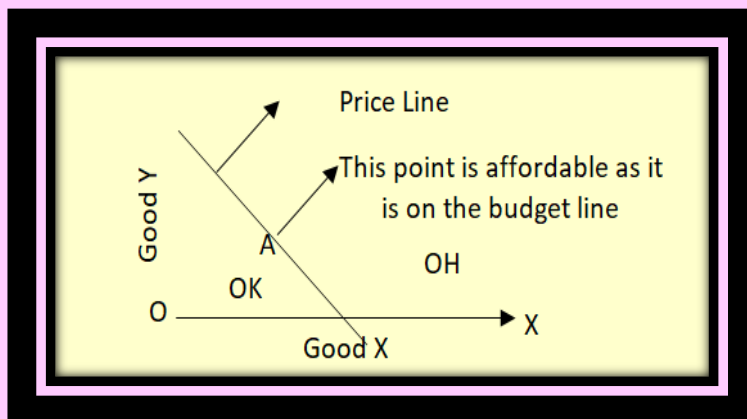
Budget line shows all those combinations of two goods which the consumer can buy spending his given money incomes on the two goods at their given prices. All those combinations which are within the reach of the consumer. Will lie on the budget line.

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

Where Budget line is also called price line.

$\therefore P_x Q_x \Rightarrow$ Price and Quantity of good X

$P_x Q_y \Rightarrow$ Price and Quantity of good Y = B is the Budget



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

Question 5

The Quantity supplied of a goods or services is the amount that_

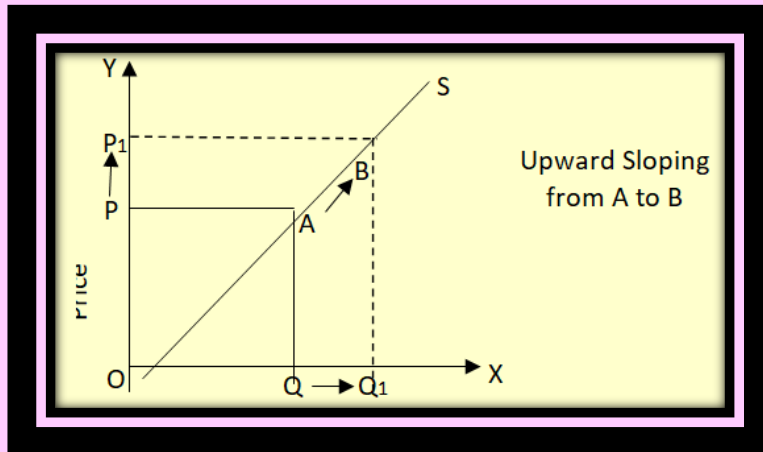
- (a) As actually bought during a given time period at given price. (b) Producers wish, they could sell at higher price
 (c) Producers plan to sell during a given time period at given price. (d) People are willing to buy during a given their period at a given price.

Answer: c**Explanation:**

The quantity supplied of a good or services is the amount that producers plan to sell during a given time period at given price. The quantity supplied of a good also

depends upon government's industrial and foreign policies, goals of the firm, infrastructural facilities etc.

Law of supply states that other things remaining constant, the quantity of a good produced and offered for sale will increase as the price of the good rises and decreases as the price falls.



Question 6

Luxury goods have income elasticity:-

- | | |
|------------------------------|---------------------------------|
| (a) Negative and less than 1 | (b) Positive and greater than 1 |
| (c) Zero | (d) None |

Answer: b

Explanation:

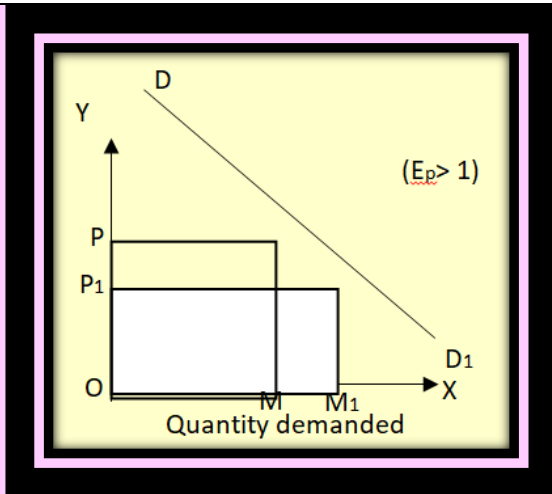
Luxury goods have income elasticity is positive and greater than one.

i.e. ($E_p > 1$)

Demand for luxury goods arise beyond a certain level of consumers income and keep on rising as income increases.

E.g. Car, TV etc.

Elasticity greater than one when the percentage change in quantity demanded is greater than percentage change in price.



Elasticity is greater than one.

Question 7

Percentage change quantity supplied is divided by ____ to obtain elasticity of supply

- (a) Percentage decrease in price
- (b) Percentage change in price
- (c) Both (a) and (b)
- (d) None

Answer: b

Explanation:

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

$$E.S. = \frac{\text{Percentage change in Quantity Supplied}}{\text{Percentage change in Price}}$$

Question 8

If the price of the product is 20 per unit and if the price decreases by 5% as a result of which quantity demanded increases by 10% find an u old quantity is 10 units)

- (a) 9
- (b) 19
- (c) 10
- (d) 12

Answer: a

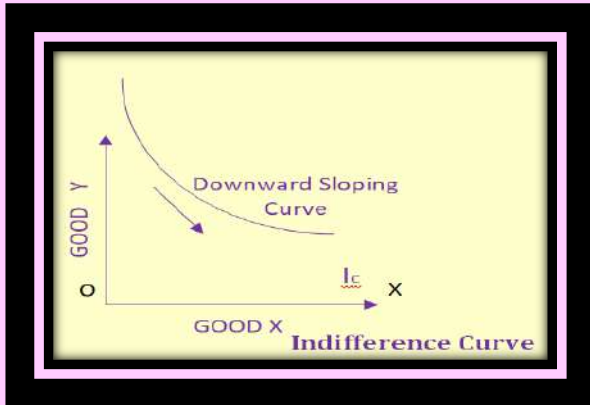
Explanation:

Price (P) (₹)	Quantity units	Total Revenue TR = P x 20
20	10	200

Explanation:

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

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

**Question 11**

Elasticity for habitual goods is

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

Answer: d

Explanation:

Elasticity for habitual goods is inelastic. Elasticity is less than one when the percentage change in quantity demanded is less than the percentage change in price. In such case demand is said to be inelastic.

$$E_p = \frac{\text{Percentage Change Quantity Demanded}}{\text{Percentage Change in Price}}$$

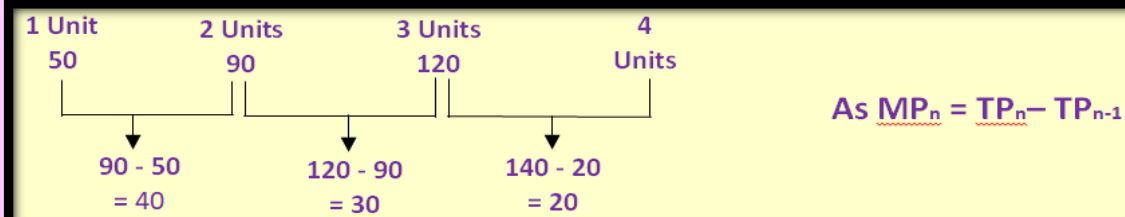
Question 12

Diminishing marginal returns for the first four units of variable inputs is exhibited by the total product sequences.

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

Answer: d

Explanation:



DEC - 2020

Question 1

To know the base price and quantity, which method of elasticity is used?

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

Answer:a

Explanation:

We use midpoint formula (or what is also known as arc elasticity formula) for correctly calculating price elasticity of demand.

Question 2

The price elasticity of demand for X is 1 and the original quantity demand of X is 90 units. if the price of X decreases from Rs.300 to Rs.180 per unit, calculate the new quantity demand of X

- (a) 126 units
(b) 36 units
(c) 144 units
(d) 120 units

Answer: a

Explanation:

We know,

$$\text{Price elasticity of demand (Ed)} = (-) \frac{P}{Q} \times \frac{\Delta Q}{\Delta P}$$

$$= 1 = \frac{300}{90} \times \frac{\Delta Q}{120} = 36 \text{ units} = \Delta Q = 36 \text{ units} = \Delta Q$$

In order to get unitary elasticity, new quantity should be 126 units.

Question 3

Demand forecasting by means of asking customer what they are going to buy comes under:-

- (a) survey of buyers intention
(b) statistical method
(c) grass roots method
(d) experts opinion method

Answer:a

Explanation:

Demand forecasting by means of asking customer what they are going to buy comes under survey of buyers intention.

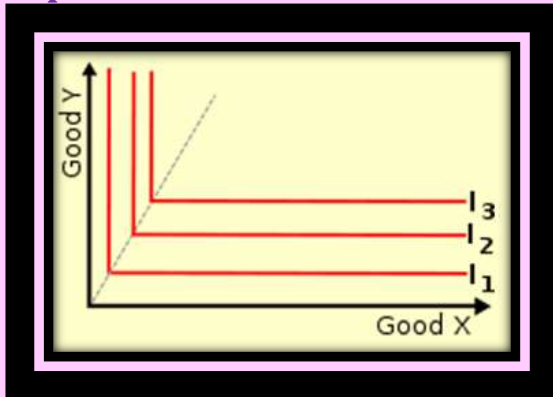
Question 4

If Indifference curve is L shaped, means two goods will be

- | | |
|---------------------------------|------------------------------|
| (a) Perfect Complementary Goods | (b) Perfect Substitute goods |
| (c) Perfect inferior goods | (d) Perfect superior goods |

Answer: a

Explanation:



A perfect complement is a good that must be consumed with another good. Few goods behave as perfect complements. One example is a left shoe and a right; shoes are naturally sold in pairs, and the ratio between sales of left and right shoes will never shift noticeably from 1:1.

Question 5

Let assume that in OY-axis we have good A and on OX-axis good B. If the price of good B increases by Rs.1 but the price of good A remains constant and income also remains unchanged, the budget line will shift

- | | |
|----------------------|----------------------|
| (a) Right on OY axis | (b) Right on OX axis |
| (c) Left on OY axis | (d) Left on OX axis |

Answer: a

Explanation:

Perfect complementary goods are those goods which are consumed together to gain the utility.

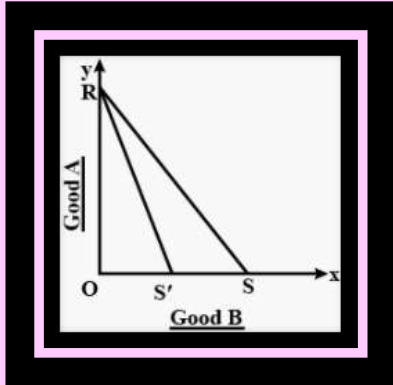
When two goods are perfect complements they are represented by a "L shaped" Indifference curve.

Suppose RS is the original budget line. So if price of 'Good B' increases by Rs. 1 with no increase in price of 'Good A', the consumer can purchase smaller quantity of Good B than before.

Since, Good A with the same given income and price, there will be no shift in the point S (See the graph)

→ Thus with the rise in price of B the budget line will shift to the left to the new position "RS".

Therefore the Budget Line will shift Left on OX axis.



Question 6

Purushotham wanted to buy laptop by paying Rs. 60000 but the actual price is Rs. 55000, then consumer surplus is

- (a) 60000 (b) 55000
(c) 5000 (d) 6500

Answer: c

Explanation:

Difference between what consumer is willing to pay and what he actually pays is Consumer surplus.

JAN - 2021

ELASTICITY OF DEMAND

Question 1

Identify the factor which generally keeps the price elasticity of a good low:

- (a) Variety of uses for that good (b) Very low price of a commodity
(c) Close sub substitutes for that good (d) High proportion of the consumer's income spent on it

Answer: b

Explanation:

Lower the price of the good, the lower is its response to change in prices i.e. lower is the price elasticity. A low priced commodity has a small place in consumer's budget.

Question 2

In the case of inferior goods, the income elasticity of demand is:

- (a) Positive (b) Zero
(c) Negative (d) Infinite

Answer: c

Explanation:

Inferior goods have a negative income elasticity of demand; as consumers' income rises, they buy fewer inferior goods. A typical example of such type of product is margarine, which is much cheaper than butter.

Question 3

What is numerical measures of elasticity for "perfectly Elastic"

- (a) Zero (b) Infinity
(c) Greater than one and less than infinity (d) Less than one

Answer: b

Explanation:

Demand is said to be perfectly elastic when the PED coefficient is equal to infinity. When demand is perfectly elastic, buyers will only buy at one price and no other.

Question 4

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

- (a) -1.5 (b) 1.5
(c) 3 (d) 1

Answer: b

Explanation:

1.5

THEORY OF CONSUMER BEHAVIORUR

Question 5

The second glass of lemonade gives lesser satisfaction to thirsty boy. This is a clear case of

- (a) Law of Demand (b) Law of Dikrisme
(c) Law of diminishing marginal utility (d) Law of supply

Answer: c

Explanation:

The Law of Diminishing Marginal Utility states that all else equal, as consumption increases the marginal utility derived from each additional unit declines. Marginal utility is derived as the change in utility as an additional unit is consumed.

THEORY OF SUPPLY

Question 6**Supply is concept**

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

Answer: a**Explanation:**

Supply of a commodity is a flow concept. the commodity which the sellers or producers are able and willing to offer for sale at a particular price, during a certain period of time.

Question 7**When supply curves moves to right, it means;**

- (a) Supply increases (b) Supply decreases
(c) Supply remains constant (d) Supply expands

Answer: a**Explanation:**

The supply curve will move upward from left to right, which expresses the law of supply: As the price of a given commodity increases, the quantity supplied increases (all else being equal).

JULY - 2021**2.THEORY OF DEMAND****Question 1****Suppose the demand for automobile decreases due to increase in price of petrol.****Both the goods are.**

- (a) Normal (b) Substitute
(c) Perishable (d) Complementary

Answer: (d)**Explanation:**

If due to a fall in the price of good X, the demand of good Y rises, the two goods are complements because these goods complete the demand of each other.

Hence, D is the correct option.

Question 2**Goods which are inferior, with no close substitutes easily available and which occupy a substantial place in consumer's budget are called goods.**

- (a) Giffen (b) Speculative
(c) Conspicuous (d) Prestige

Answer: (a)

Explanation:

All Giffen goods are inferior. For a Giffen good, the income effect must be negative; that is a fall in income increases demand. This effect must, furthermore, be strong enough to outweigh the substitution effect whereby higher prices induce consumers to switch away from this good.

Question 3

By 'Change in demand' represents which of the following?

- (a) Shift of the demand curve to the right or left. (b) Movement upward and downwards on the same demand curve.
 (c) Change in budget line with change in income. (d) Shift in the indifference curve

Answer: (a)

Explanation:

A change in demand represents a shift in consumer desire to purchase a particular good or service, irrespective of a variation in its price. ... An increase and decrease in total market demand is represented graphically in the demand curve.

Question 4

A group of people decrease or all stop consumption of a common pro to which of the following effect?

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

Answer: (d)

Explanation:

The snob effect is a phenomenon described in microeconomics as a situation where the demand for a certain good by individuals of a higher income level is inversely related to its demand by those of a lower income level.

Question 5

Highly priced goods are consumed by status seeking rich people to satisfy their need for conspicuous consumption. This is called

- (a) Veblen effect (b) Demonstration effect
 (c) snob effect (d) Bandwagon effect

Answer: (a)

Explanation:

An important point in Veblen's analysis is the recognition that all goods have elements of serviceability and waste. Examples of conspicuous consumption are wearing fur coats and diamonds and driving expensive cars.

3.ELASTICITY OF DEMAND

Question 6

For which of the following product elasticity of demand is highly elastic.

- (a) Salt (b) Jewelry
(c) Lifesaving medicine (d) Water

Answer: (b)

Explanation:

The demand for gasoline from any single gas station, or chain of gas stations, is highly elastic. Buyers can choose between comparable products based on price. There are often many stations in a small geographic area that are equally convenient.

Question7

Assume that Wheat has (-) 0.4 as income elasticity. By this, we can say:

- (a) Wheat is a normal good (b) Wheat is an inferior good
(c) Wheat is a superior good (d) Wheat is a luxurious good

Answer: (b)

Explanation:

Looking at the demand curve we can see that it is steep therefore it has a elasticity value closer to 0. This means wheat is relatively inelastic that is elasticity ranges between 0 and 1. This implies that change in price of wheat is greater than the change in quantity. This classifies wheat as normal goods.

Question 8

The demand for a generic good like soap is the demand for Lux soap is.

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

Answer: (d)

Explanation:

Elasticity of demand for a product depends upon various factors, one of them being availability of substitutes. If we go by a particular brand of soap, then the demand is perfectly elastic since the number of substitutes (soaps from other brands) is high. When we talk about soap in general, then also substitutes to soaps are available like shower gels (though maybe considered as a luxury) and also there are natural cleansers available.

Question 9

The quantity demanded of coffee increases by 2% when price of tea increases by 8%, the cross elasticity of two goods is

- (a) -.30 (b) +.30

(c) +.25

(d) -.25

Answer: (c)**Explanation:**

We know

$$\text{Cross price elasticity} = \frac{\% \Delta Q_x}{\% \Delta P_y} = \frac{5\%}{20\%} = 0.25\%$$

Question 10

If the price of a product decrease from ₹200-₹120, and price elasticity of product is 2 & original quantity demanded is 60, calculate new quantity demanded?

(a) 48 units

(b) 100 units

(c) 120 units

(d) 108 units

Answer: (d)**Explanation:**

$$\text{Price Elasticity of Demand} = \frac{\% \text{ change in quantity}}{\% \text{ change in price}}$$

$$2 = \frac{x-60}{200-120}$$

108 Units

4. THEORY OF SUPPLY

NIL

5. THEORY OF CONSUMER BEHAVIOR**Question 11**

Marshall defined the concept of consumer surplus as the _____

a) Area covered in between the average revenue and marginal revenue curves

b) Difference between the maximum amount a person is willing to pay for a good and the amount he actually pays

c) Difference between the minimum amount

d) Difference between the minimum amount a person is willing to pay for a good and its market price

Answer: (d)**Explanation:**

Alfred Marshall, British Economist defines consumer's surplus as follows: "Excess of the price that a consumer would be willing to pay rather than go without a commodity over that which he actually pays."

Question 12

Quantity Consumed	Total Utility
0	0
1	300
2	500
3	650
4	750
5	830
6	890
7	930
8	960

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

- (a) 130 (b) 80
(c) 160 (d) 100

Answer: (b)

Explanation:

$$MU = 750 - 830 = 80$$

Question 13

What is marginal utility when consumption increases from 7 units to 8 units?

- (a) 60 (b) 100
(c) 40 (d) 30

Answer: (d)

Explanation:

$$MU = 960 - 930 = 30$$

Question 14

Indifference Curve analysis is based on which approach?

- (a) Nominal (b) Cardinal
(c) Marginal (d) Ordinal

Answer: (d)

Explanation:

It can be shown that consumer analysis with indifference curves (an ordinal approach) gives the same results as that based on cardinal utility theory — i.e., consumers will consume at the point where the marginal rate of substitution between any two goods equals the ratio of the prices of those goods

Question 15

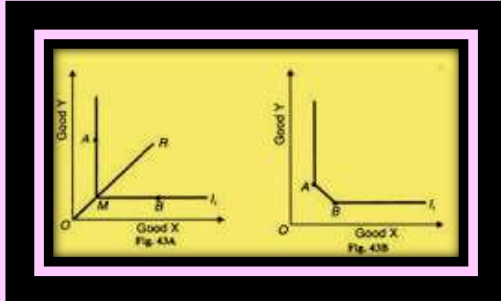
The Indifference curve for two perfect complementary goods is

- (a) Z-shaped (b) L-shaped
(c) U-shaped (d) Straight line

Answer: (b)

Explanation:

If the two goods are perfect complements the indifference curve is right-angled or L shaped, as shown in Figure 43 (A). The vertical portion of the I₁ curve reveals that no amount of reduction in good Y will lead even to a slight increase in good X.

**13 Demand Forecasting****Question 1**

Of the following, who developed the Delphi technique of demand forecasting?

- | | |
|--------------------|----------------------|
| (a) Olaf helmer | (b) David Richardson |
| (c) Michael porter | (d) J.m. keynes |

Answer: (a)

Explanation:

The Delphi method was invented by Olaf Helmer and Norman Dalkey of the Rand Corporation in the 1950s for the purpose of addressing a specific military problem. The method relies on the key assumption that forecasts from a group are generally more accurate than those from individuals.

DEC - 2021**Question 1**

Is utility a Cardinal or Ordinal concept?

- | | |
|--------------------|---------------|
| (a) Cardinal | (b) Ordinal |
| (c) It can be both | (d) Can't say |

Answer: b

Explanation:

Ordinal: The Ordinal Utility approach is based on the fact that the utility of a commodity cannot be measured in absolute quantity, but however, it will be possible for a consumer to tell subjectively whether the commodity derives more or less or equal satisfaction when compared to another

Question 2

Budget line will be effected by.

- (a) Change in demand
(c) Change in supply
- (b) Change in income
(d) None

Answer: b**Explanation:**

Change in income: When there is an increase in income, a consumer can buy more of both goods and this shows an outward i.e. rightward shift in the budget line. On the other hand, when there is a decrease in income, the consumer's consumption possibility decreases, and the budget line shifts inwards

Question 3**What is measure of utility?**

- (a) Unit
(c) Points
- (b) Utils
(d) Numbers

Answer: b**Explanation:**

Utility: Utility measures the amount of satisfaction that an individual receives from a product or service.

Question 4**Elasticity of demand vary from**

- (a) 1 and 0
(c) 0 and infinity
- (b) -1 and 1
(d) -1 and 0

Answer: c**Explanation:**

0 and infinity: The price elasticity of a straight line demand curve varies from infinity at the price axis to zero at the quantity axis

Question 5**Law of Diminishing marginal utility is derived from**

- (a) Consumer surplus
(c) Total utility
- (b) Additional utility
(d) Producer surplus

Answer: a**Explanation:**

Consumer surplus: The law of diminishing marginal utility states that all else equal, as consumption increases, the marginal utility derived from each additional unit declines. Marginal utility is the incremental increase in utility that results from the consumption of one additional unit.

Question 6

If the price of tea decrease by 25 percent, initial price is 25 rupees , the demand for coffee increase from 15 to 20 calculate marginal revenue

- (a) 0
(c) -1
- (b) 1
(d) None

Answer: a

Explanation:

There will no change, hence it will be 0

JUNE- 2022

Question 1

Elasticity measured at a given point on supply curve:

- (a) Point elasticity
(c) Cross elasticity
- (b) Arc elasticity
(d) None of the above

Answer: a

Explanation:

The point elasticity of demand is the price elasticity of demand at a particular point on the demand curve. The change in price elasticity when is infinitesimal (very negligible) we use point elasticity.

Question 2

Change in price is larger than proportionate to change in demand which type of elasticity?

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

Answer: d

Explanation:

Demand is inelastic when change in price is larger than proportionate the change in demand. Elasticity < 1
Demand curve of elasticity less than one.

Question 3

Veblen effect slopes toward:

- (a) Downward to
(c) Negative
- (b) Upward
(d) Positive

Answer: b

Explanation:

The demand curve for a veblen good is upward sloping, contrary to a normal demand curve, which is downward sloping. When price of a veblen good goes up.

Question 4

Advertising elasticity of demand is always:

- (a) Positive
(b) Negative

(c) Constant

(d) All of the above

Answer: a

Explanation:

Advertisement elasticity of demand is most of the time positive. Advertisement elasticity is typically positive. Advertisement elasticity varies between zero and infinity.

Question 5

The graph of perfect complimentary goods is:

(a) Straight line

(b) L shaped

(c) U shaped

(d) None of the above

Answer: b

Explanation:

When goods are perfect compliments, consumers consume them in fixed proportions. The indifference curve will consist of straight lines with a right angle bent, convex to origin.

Hence, it will be 'L' shaped.

Question 6

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

(a) Giffen goods

(b) Conspicuous goods

(c) White goods

(d) None of the above

Answer: c

Explanation:

White goods are heavily priced slow moving goods.

Ex- Computers, radios, washing machines etc.

Every other good example giffen goods, conspicuous goods and speculative goods are exceptions to law of demand.

Question 7

When price increases fewer units are sold which tends to lower the revenue?

(a) Income effect

(b) Price effect

(c) Quantity effect

(d) Substitution effect

Answer: c

Explanation:

Quantity effect, after a price increases, fewer units are sold which tends to lower the revenue.

If the quantity effect, which tends to reduce total revenue, is the stronger, total revenue reduces.

Question 8

The price of sugar falls from R 10,000 to? 8,000 & Quantity decrease from 2500

to 2000 find elasticity of supply

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

Answer: b

Explanation:

$$E(s) = \frac{\Delta Q}{Q} \times \frac{P}{\Delta P} = \frac{2,000}{10,000} \times \frac{2,500}{500} = 1$$

Question 9

The law of demand states that the quantity purchased _____.

- (a) Varies Inversely with price. (b) Varies directly proportional with price
(c) Varies similarly with price (d) None of the above

Answer: a

Explanation:

Varies inversely with price

Reason: The law of demand states that the quantity purchased varies inversely with price. In other words, the higher the price, the lower the quantity demanded. This occurs because of diminishing marginal utility.

Question 10

If the quantity demanded of mutton increases by 5 % when the price of chicken increase by 25% the price elasticity of demand is

- (a) 0.2 (b) -1
(c) 0 (d) 0.8

Answer: a

Explanation:

$$\text{Cross Price elasticity is} = \frac{\text{Demand of Good X}(\%)}{\text{Price of God Y}(\%)} = \frac{5\%}{25\%} = 0.2$$

Question 11

A vertical supply curve parallel to y axis implies that the elasticity of supply is -

- (a) Zero (b) Infinity
(c) More than one (d) Less than one

Answer: a

Explanation:

A vertical supply curve parallel to y axis implies that the elasticity of supply is inelastic (highly) and is zero.

∴ No change in demand when price changes

Question 12

If customer is a habitual customer then elasticity is

- (a) Relative elastic (b) Negative

(c) Zero

(d) Inelastic

Answer: d**Explanation:**

If a customer has habitual use of a commodity, no matter how much its price changes, the demand for the commodity will be inelastic. If buyer have preference demand will be inelastic.

Question 13**Consumer surplus what he is willing to pay less-**

(a) What he actually pays

(b) The price of the goods

(c) Money spent on goods

(d) All of the above

Answer: a**Explanation:**

Consumer Surplus:

= What the consumer is willing to pay - What he actually pays.

Question 14**If advertisement is increased by 25% & demand is only increased by 5%. Find advertisement elasticity.**

(a) -1

(b) 1

(c) 0.2

(d) -0.2

Answer: c**Explanation:**

$$\text{Advertisement elasticity} = \frac{\text{Increase in Demand}}{\text{Advertisement Exp.}} \rightarrow \frac{5\%}{25\%} = 0.02$$
Question 15**When demand decrease due to price increase it is?**

(a) Change in demand

(b) Increase in demand

(c) Contraction in demand

(d) Decrease in demand

Answer: c**Explanation:**

When demand decreases due to price increase it is contraction of demand.

Question 16**When demand decrease due to price increase it is?**

(a) Change in demand

(b) Increase in demand

(c) Increase in demand

(d) Decrease in demand

Answer:**Explanation:**

When demand decrease due to price increase it is contraction of demand.

Question 17

An indifference curve is L Shaped, then two goods will be.

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

Answer: c

Explanation:

When two goods are perfect complimentary goods, indifference curve will be L Shaped.

DEC - 2022

Question 1

_____ are the variables that changes after the real output changes.

- a) Leading indicators b) Lagging indicators
c) Coincident indicators d) Concurrent indicators

Answer: b

Explanation

A lagging indicator is an observable or measurable factor that changes sometime after the economic, financial, or business variable with which it is correlated changes. Some general examples of lagging economic indicators include the unemployment rate, corporate profits, and labor cost per unit of output.

Question 2

If the income elasticity of AC is 1.8, what is the nature of this commodity?

- a) conspicuous b) necessities
c) Griffin goods d) none of the above

Answer: a

Explanation

Conspicuous consumption is the act of displaying ostentatious wealth to gain status and reputation in society.

Elasticity is greater than 1

Question 3

A consumer experiences.....level of satisfaction at different point of indifference curve:

- a) equal b) different
c) higher d) none of the above

Answer: a

Explanation

An indifference curve shows a combination of two goods in various quantities that

provides equal satisfaction (utility) to an individual.

Question 4

When consumer stops consuming a goods because other people are also consuming the same goods

- a) snobs effect
- b) bandwagon effect
- c) veblen effect
- d) demonstration effect

Answer: a

Explanation

Wealthy consumers can be lured by superficial factors such as rarity, celebrity representation and brand prestige. Collectors within a specific field can suffer from snob effect, searching for the rarest and often most expensive collectibles.

Question 5

A vertical supply curve parallel to Y axis implies that elasticity of supply is..

- a) less than 1
- b) greater than 1
- c) infinity
- d) zero

Answer: d

Explanation

Elasticity of supply is zero means perfectly inelastic supply ($E_s=0$) and shape of curve will be vertical.

Question 6

Increase in real income of consumer is due to:

- a) income effect
- b) veblen effect
- c) substitution effect
- d) Bandwagon effect

Answer: a

Explanation

The income effect, in microeconomics, is the resultant change in demand for a good or service caused by an increase or decrease in a consumer's purchasing power or real income. As one's income grows, the income effect predicts that people will begin to demand more (and vice-versa).

Question 7

Supply curve when supply infinite:

- a) vertical along X axis
- b) vertical along Y axis
- c) horizontal along y axis
- d) straight line

Answer: a

Explanation

Infinite (Perfectly elastic supply), the curve (SS) is a straight line parallel to the X-

axis and vertical along y axis.

Question 8

If increase in price of X leads to increase in demand of Y:

- a) complementary goods b) normal goods
c) substitute goods d) superior goods

Answer: c

Explanation

Two goods are substitutes if the products could be used for the same purpose by the consumers. That is, a consumer perceives both goods as similar or comparable, so that having more of one good causes the consumer to desire less of the other good

Question 9

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

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

Answer: c

Explanation

$$Ed = \frac{\% \Delta \text{ in Quantity supplied}}{\% \Delta \text{ in Advertisement}}$$

$$\% \Delta = \frac{\text{Change}}{\text{Base}} \times 100$$

$$\% \Delta \text{ in Q's} = \frac{1,00,000}{2,00,000} \times 100 = 50\%$$

$$\% \Delta \text{ in Adv.} = \frac{10L}{10L} \times 100 = 100\%$$

$$Ed = \frac{100}{50} = 2$$

Option (C) is correct

Question 10

If the quantity demanded of mutton increased by 5% when the price of chicken increases by 20%, the cross-price elasticity of demand between mutton and chicken is

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

Answer: a

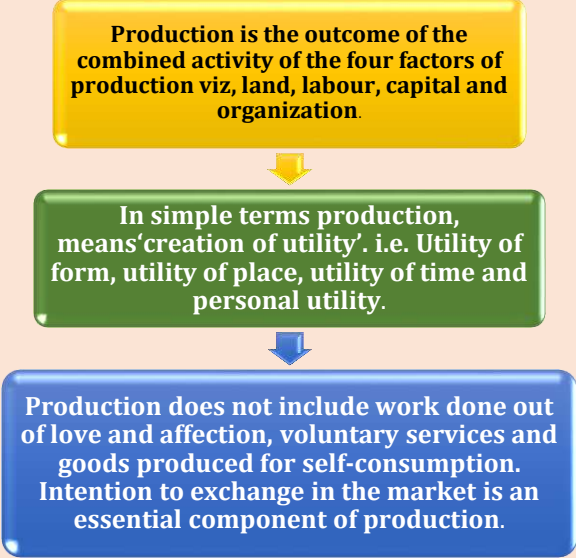
Explanation

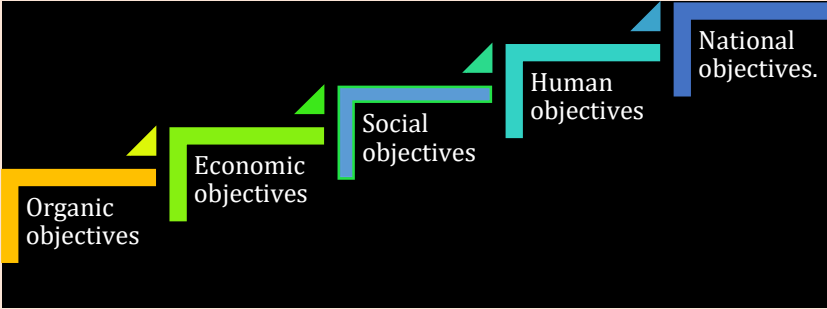
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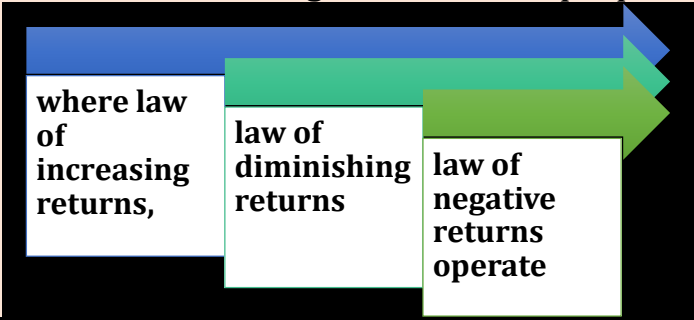
CH 3: THEORY OF PRODUCTION AND COST

UNIT: 1

THEORY OF PRODUCTION

<p>Production</p>	
<p>Land</p>	<p>Land includes all those free natural resources whose supply for the economy as a whole is fixed.</p>
<p>Labor</p>	<p>Labor is all human efforts of body or of mind undergone partly or wholly with a view to secure an income apart from the pleasure derived directly from the work</p>
<p>Capital Capital formation.</p>	<p>Capital is that part of wealth an individual or community which is used for further production of wealth capital a stock concept refers to product means of production and it comprises of man – made machines and materials which are used for further production</p> <p>Capital formation, also known as investment means a sustained increase in the stock of real capital in a country.</p>

	<p>There are mainly three stage of capital formation viz. Saving which depends on ability to save and willing to save; Mobilization of savings which depends on availability of financial Institution of product; and Investment I.e. the process whereby the real saving get covert into real capital assets</p>
<p>Entrepreneur</p>	<p>Entrepreneur is the person who organizes business; initiates production, remunerates other factor of production introduces and bear the risk and uncertainties of business.</p>
<p>The objectives of entrepreneur</p>	<p>The objectives of an enterprise may be broadly categorized under the following heads</p> 
<p>Problem face by enterprise</p>	<p>An enterprise faces a number of problems from its inception through its life time and till its closure these may relate to objective, location, size, physical facilities, finance, organization structure, and marketing. Legal formalities and industrial relations.</p>
<p>Factor of production</p>	<p>Factors of production can be divided into two categories – fixed factors are those factors whose quantity remains unchanged with changes in output within a capacity and variable factors are those the quantity of which change with a change in the level of outputs</p>
<p>Production Function</p>	<p>Production function is the technical relationship between inputs and outputs. Samuelson describes production function</p>

	as then relationship between the maximum amount of output that can be produced and the inputs required to make that output it is defined for a given state of technology
The law of diminishing returns	The law of variable proportion or the law of diminishing returns is relevant when some factor are kept fixed and other are varied it is applicable to the short – run
There are three stages of the law of variable proportion	<p>There are three stages of variables proportion</p>  <p>The diagram consists of three horizontal arrows pointing to the right, each with a text box below it. The top arrow is blue and labeled 'where law of increasing returns,'. The middle arrow is green and labeled 'law of diminishing returns'. The bottom arrow is a darker green and labeled 'law of negative returns operate'.</p>
Total product	Total product is the total output resulting from the efforts of all the factor of production combined together at any time.
Marginal product	Marginal product is the change in total product per unit change in the quantity of variable factors.
Average product	Average product is the total product per unit of the variable factors.
The law of returns to scale	The law of returns to scale describes the relationship between inputs and outputs in the long run when all inputs are changed in the same proportion. Returns to scale may be constant increasing and decreasing
Constant returns to scale	Constant returns to scale occur when the inputs increase by some proportion and the outputs also increases by the same proportion it is also called liner homogeneous production function.

Increasing returns to scale	Increasing returns to scale occur when the inputs increase by some proportion and the output increase more than proportionately
Decreasing returns to scale	Decreasing returns to scale occur when the inputs increase by some proportion and the outputs increases less than proportionately
Production indifference curve	Isoquants or product indifference curves shows all those combination of different factors of production which gives the same output to the producer.
Isocost lines	Is cost lines show various combination of two factors which the firm can buy with given expenditure or outlay
Minimize his cost of production	By combining Isoquants and isocost lines a producer can find out the combination of factors of production which is optimum i.e. the combination of factors of production which would minimize his cost of production



Question 1

___ shows the overall output generated at a given level of input:

- (a) Cost function (b) Production function
(c) ISO cost (d) Marginal rate of technical

Answer: b

Explanation:

Production function states the relationship between input and output generated.

Question 2**Define Average Product (AP)**

- (a) AP is the total product per unit of a Variable input
- (b) AP is the change in total product Consequent upon a change in Variable input
- (c) Both
- (d) None

Answer: a**Explanation:**

The quantity of total output produced per unit of a variable input holding all other Inputs fixed Average product usually abbreviated AP is found by dividing total of Product by the quantity of the variable inputs,

Question 3**What is meant by production function?**

- (a) Technological relationship of inputs and outputs
- (b) Technological relationship of output
- (c) Technological or an engineering in Relationship between inputs and Outputs
- (d) None

Answer: c**Explanation:**

A production function is a technological or an engineering relationship between inputs and out puts

A production function is usually written as:

$$Q = f(a, b, c, d, \dots)$$

Where Q is the amount of outputs; and a, b, c, d, etc are inputs though production function refers to a technological relationship the concept is useful in Economic theory ad it is related to the cost of production of a unit.

Question 4**___show all those combinations of different factor of production which give the same Output to the producer**

- (a) Isoquant
- (b) Production indifference curves
- (c) Both a and b
- (d) None

Answer: c**Explanation:**

An isoquant shows different combination of two inputs that produces a specified amount of output. On an isoquant same level of output is obtained by using different combination of two Inputs. That is why an isoquant is called production indifference curve.

Question 5**When average product falls, marginal product is**

- (a) More than average product (b) Less than average product
(c) Equal to average product (d) None

Answer: b**Explanation:**

When average product falls, marginal product is less than the average product.

Question 6**In short run the input are ___**

- (a) Vary (b) Fixed
(c) Variables (d) None

Answer: b**Explanation:**

Short run is that period when a firm cannot change all its inputs; some are held fixed. Outputs can therefore be increased by changing only variable inputs and in long period is that time period when the firm can change all its inputs including fixed inputs. In the long run all inputs are therefore.

Question 7**Isoquants are equal to:**

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

Answer: a**Explanation:**

A consist of alternative combinations of inputs to produce a given quantity of outputs. And product lines are lines representing various combination of factor of production to produce a given outputs.

Question 8**The marginal product curve is above the average product curve when the average product is:**

- (a) Increasing (b) Constant
(c) Decreasing (d) None

Answer: a**Explanation:**

Marginal product and average product are so related that when average product increase, MP increase at a faster rate and cuts AP at its Maximum and when AP falls as a faster rate so the marginal Product curve is above average product curve when AP is increasing.

Question 9**Increasing returns to scale can be explained in terms of:**

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

Answer: a**Explanation:**

Increasing returns to scale i.e. when output increase more than the increase in outputs it occurs due to external and internal economics.

Question 10**An isoquant__to an ISO cost line at equilibrium point:**

- (a) Convex (b) Tangent
(c) Concave (d) Perpendicular

Answer: b**Explanation:**

An ISO quant is tangent to an ISO cost line. This point of tangency defines the equilibrium position Of a firm a higher isoquant shows an unalterable point and a lower one show underutilized Resources Hence an isoquant with an is cost line as tangent is the equilibrium position.

Question 11**Diminishing marginal returns implies:**

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

Answer: c**Explanation:**

Keeping other things constant when marginal cost increases with a considerable increase on variable factor the marginal product decline this is the second stage of law of variable Proportion or the stage of diminishing returns.

Question12**Law of variable proportion is valid when:**

- (a) Only one inputs is fixed and all other Inputs are kept variable (b) All factor are kept constant
(c) All inputs are varied in the same Proportion (d) None of these

Answer: a**Explanation:**

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

Question 13

Increase in all inputs leading to less than proportional increase in outputs is called__

- (a) Increase returns to scale
 (b) decrease returns to scale
 (c) Constant returns to scale
 (d) Both increasing and decreasing returns to scale

Answer: b

Explanation:

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

Question 14

Consider the following combinations of inputs and outputs This production technology Satisfies

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

- (a) Increasing returns to scale
 (b) decreasing returns to scale
 (c) Constant returns to scale
 (d) both increasing and decreasing returns to scale

Answer: c

Explanation

In the given production technology, the increase in inputs is proportionate to the increase in Output With an increase of every 1 unit of labor and 2 units capital the output increases By 1 unit Hence it is the case of constant returns to scale as both fixed and variable factors Are changing (all factors are variable).

Question 15

Returns to scale will said to be in operation when quantity of:

- (a) All inputs are changed
 (b) All inputs are changed in already establish proportion
 (c) All inputs are not changed
 (d) One inputs is changed while

quantity of all other inputs remain the same.

Answer: b

Explanation:

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

Question 16

During IInd stage of law of Diminishing returns:

- (a) MP and TP is maximum (b) MP and AP decreasing
(c) AP is negative (d) TP is negative

Answer: b

Explanation:

During the second stage of Law of Diminishing returns (i.e. Law of variable proportion) Both MP and AP are decreasing because at this stage the optimum combination between Fixed and variable factors have been attained and now if the inputs is increased output starts Decreasing AT this stage total product increases at a diminishing rate i.e. MP and AP decrease.

Question 17

Consider the following table:

Labor	Total output	Marginal product
0	-	-
1	100	100
2	-	80
3	240	-

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

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

Answer: c

Explanation:

When 1 unit of labor is employed TP = 100, MP = 100 when 2ND Unit of labor

Labor is employed MP = 80 i.e. Addition made to total product is 80.

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

OR

$$MP_2 = TP_2 - TP_{2-1}$$

$$80 = TP_2 - 100$$

$$TP_2 = 80 + 100 = 180$$

Question 18

Who has given the concept of Innovates Entrepreneurship?

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

Answer: b**Explanation:**

The concept of Innovative Entrepreneurship was given by Schumpeter.

Question 19

At 10 units total cost - > RS 200

20 Units total cost - > RS. 600

Marginal Cost?

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

Answer: c**Explanation:**

Given Original total cost = 200

Original quantity produced = 10 units

New total cost = 600 New quantity produced = 20 units

Marginal cost is the addition made to the total cost by production of an Additional quantity product

= 20 units - 10 units

= 10 units

= $\frac{400}{10} = \text{Rs. } 40$

Question20

Average Fixed Cost = 20

Quantity produced = 10 units

What will be the Average Fixed Cost of 20th unit?

- (a) 10 (b) 20
(c) 5 (d) None

Answer: a**Explanation:**

Average Fixed cost (AFC) is the total cost divided by the number of

Units produced i.e. $AFC = \frac{TFC}{Q}$

Where Q is the number of units produced

$TFC = 20 \times 10 \text{ UNITS}$

= 200

Q = 10 Units

$AFC = \frac{200}{20}$

= 10

Since AFC steadily falls as outputs increase hence for 20th unit AFC is 10.

Question 21

Production activity in the short run is analyzed by,

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

Answer: c

Explanation:

Short run is a time period when only one factor is fixed and rest all are variable Law of Variable proportion operates in the short run therefore in short run production activity Is analyzed by this Law,

Question 22

Law of diminishing returns of application

- (a) Only manufacturing industries (b) Only agriculture
(c) Neither in agriculture nor in industries (d) In all economic activities after a limit

Answer: d

Explanation:

Law of diminishing returns states that as more and more factors of production are employed the .The total product first increases and then eventually declines. This law to all economics activities after limits.

Question 23

Law of diminishing returns to:

- (a) Manufacturing industries (b) Agriculture
(c) Any economic activity at a point of time (d) None

Answer: d

Explanation:

Law of diminishing return states that as more and more factors of production are employed the total production first increase and then eventually decline. This law applies to all economic activities after a limit.

Question 24

Law of increasing returns is applicable of_____

- (a) Indivisibility of factors. (b) Specialization
(c) Economics of scale (d) both (a) & (b) above

Answer: d

Explanation:

The two causes of Law of Increasing Returns are:

- Indivisibility of factors.
- Division of labor and specialization

Hence both option A and B

Question 25

In the first of law of variable proportions total product increase at the_____

- (a) Decreasing rate (b) Constant rate
(c) Increasing rate (d) Both a and b

Answer: c

Explanation:

The law of Variables proportion states as we increase the quantity of one input which is combined with other fixed inputs three stages (law) are:

- Law of increasing returns
- Law of decreasing returns
- Law of negative returns

Question 26

Which statement is correct about product marketing?

- (a) The average product is at its maximum
When product is equal to average Product.
(c) Economics of scale arise only because of Indivisibilities of factor proportion
- (b) The law of increasing returns to scale relates To the effect of change in factor Proportions.
(d) Internal economics of scale can accrue on to the exporting sector

Answer: a

Explanation:

The average product is at maximum when marginal product is equal to average product.

Question 27

Factor of Product does not Includes:-

- (a) Land (b) Labor
(c) Capital (d) Machine

Answer: d

Explanation:

Factor of Production:

- Land

- Labor
- Capital
- Entrepreneur

Question 28

State the statement with reason “labor has poor bargaining power”:-

- (a) True (b) False
(c) Either a or b (d) None

Answer: a

Explanation:

Labor has poor bargaining power: Labor has a weak bargaining power. Labor has no reserve Price. Since labor cannot be stored, the laborer is compelled to work at the employers.

Question 29

The “law of diminishing returns” applies to:

- (a) The short run, but not the long run. (b) The long run, but not the short run.
(c) Both the short run and the long run (d) Neither the short run nor the long run

Answer: a

Explanation:

The law of diminishing returns applies in the short run because only some factors are fixed.

Question 30

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

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

Answer: a

Explanation:

A long run average cost curve is known as a planning curve. This is because a firm Plans to produce an output in the long run by choosing a plant on the long run average cost curve corresponding to the output.

Question 31

Increasing return to scale to.

- (a) Output increase in a greater proportion Than the increase in inputs (b) Input increases in a greater proportion than the increase in outputs
(c) Both (d) None

Answer: a

Explanation:

Increasing returns to scale means that output increases in a greater proportion than the increase in inputs when a firm expands; increasing returns to scale are obtained in the beginning.

Question 32

The objectives of enterprise include.

- (a) Economics objectives (b) National objectives
(c) Human objective (d) All of the above

Answer: d

Explanation:

The objective of an enterprise may too broadly categorize under the following heads:

- (i) Organic objective (ii) Economic objectives (iii) Social objective (iv) Human objective (v) National objective

Question 33

“Returns to scale may be constant”. State this statement with reason.

- (a) True (b) False
(c) Can't say (d) None

Answer: a

Explanation:

Returns to scale may be constant, increasing and decreasing

Question 34

Production also includes voluntary services & goods produces for self-consumption.

- (a) True (b) false
(c) Can't say (d) None

Answer: b

Explanation:

Production does not include work done out of love and action, voluntary services and goods produced for self-consumption Intention to exchange in the market is an essential component of production.

Question 35

Capital refers to physical goods is known as:

- (a) Tangible capital (b) Circulating capital
(c) Real capital (d) None

Answer: c

Explanation:

Real capital refers to physical goods such as building, plant, machines, etc

Question 36

Capital formation involves production more:-

- (a) Capital goods (b) Necessary goods
(c) Agriculture goods (d) None

Answer: a

Explanation:

Capital formation involves production of more capital goods like, machines, tools, factories, Transport, equipment, electricity etc. which are used for further production of goods

Question 37

A fixed input is defined as:

- (a) That input whose quantity can be quickly changed in the short run in response to the desire of the company to change its production
(b) That input whose quantity cannot be to quickly changed in the shot, run in Responses change its production.
(c) That input whose quantities can be easily changed in response to the desire to increase or reduce the level of production
(d) That input whose demand can be easily changed in response to the desire to increase or reduce the level of Production.

Answer: b

Explanation:

That input whose quantity cannot be quickly in the short run, in response to the desire of the company to change its production is known as fixed inputs

Question 38

Which of the following statement is correct?

- (a) Fixed costs vary with change in output
(b) If we add total variable cost and total Fixed cost we Get the average cost.
(c) Marginal cost is the result of total cost Divided by number of units produced
(d) Total cost is obtained by adding up the fixed cost and total variable cost

Answer: d

Explanation:

Total cost (ATC) can be found by adding average fixed costs (AFC) and average variable costs (AVC)

Question 39**Which of the following statements is true?**

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

Answer: a**Explanation:**

In economics Services provided by doctor is also consider as production therefore the option A is true.

UNIT: 2
THEORY OF COST

Cost	Cost analysis refers to the study of behavior of cost in relation to one or more production criteria. It is concerned with the financial aspect of production
Accounting cost	Accounting costs are explicit costs and includes all the payments and charges made by the entrepreneur to the supplier of various productive factor
Economic costs	Economics costs take in to account explicit costs as well a simplicity costs. A firms has to cover its economics cost if it wants to earn normal profit
Outlay cost	Outlay costs involve actual expenditure of founds.
Opportunity coat	Opportunity cost is concerned with the cost of the next best alternative opportunity which was fore go one in order to pursue a certain action.
Direct cost	Direct cost is those which have direct relationship with a component of operation. They are readily identified and are trace able to a particular product operation or plant

Indirect cost	Indirect cost is those which cannot be easily and definitely identifiable in relation to a plant, product, process or department they not visibly traceable to any specific goods, service process, departments or operation
Incremental cost	Incremental cost refers to the additional cost incurred by a firm as a result of a business decision
Sunk costs	Sunk costs are already incurred once and for all, and cannot be recovered
Historical costs	Historical cost refers to the cost incurred in the past on the acquisition of a productive assets
Replacement cost	Replacement cost is the money expenditure that has to be incurred for replacing an old asset.
Private cost	Private costs are costs actually incurred or provided for by firms and are either explicit or implicit.
Social cost,	Social cost, on the other hand, refers to the total cost borne by the society on account of a business activity and included private cost and external cost.
Cost function	The cost function refers to the mathematical relation between cost and the various determinate of cost; it expresses the relationship between cost and outputs. Economists are generally interested in two types of cost function; the short run cost function and the long run cost function.

(c) 400

(d) 600

Answer: b**Explanation:**

It helps to know your definitions. Answer. Marginal cost of 7th = TC of 6th – TC of 7th = 600 – 450 = 150

Question 1.4**Variable cost per unit****The variable cost per unit when 4 units are made is:**

(a) 20

(b) 58

(c) 40

(d) 30

Answer: d**Explanation:**

VC per unit = TVC / output From the table AVC is at output 3 = 20, 4 = 30, 5 = 40, 6 = 58. Now read off the answer. It is 30

Question 1.5**The firm exhibits diminishing returns to the variable factor from the:**(a) 2nd unit made(b) 3rd unit made(c) 5th unit made(d) 5th unit made**Answer: b****Explanation:**

Diminishing returns = rising AVC. AVC is: at output 1 = 20, 2 = 20, 3 = 30, 4 = 30, 5 = 40, 6 = 58, 7 = 71. Constant returns up until 3 units and then diminishing.

Question 2**Which cost increase continuously?**

(a) Fixed cost

(b) Total Cost

(c) Variable cost

(d) None of them

Answer: c**Explanation:**

A variable cost is corporate expense that changes in proportion with production outputs. Variable costs increase or decrease depending on a company's production volume: they rise as production increases and fall as production decreases.

Question 3**Opportunity cost is:-**

(a) Direct cost

(b) Accounting cost

(c) Total cost

(d) Cost of foregone opportunity

Answer: d**Explanation:**

Opportunity cost is the cost of the next best alternative foregone. It's the cost of foregone decrease.

Question 4**As output increases, average fixed cost:**

(a) Remains constant

(b) Accounting cost

(c) Starts falling

(d) None

Answer: a**Explanation:****Average fixed cost is expressed as:**

$$AFC = \frac{\text{Fixed cost}}{\text{NO.OF unit product}}$$

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

Question 5**If LAC curve fall as output expands, this is due to_:**

(a) Law of diminishing returns

(b) Economics of scale

(c) Law of variable proportion

(d) Diseconomies of scale

Answer: b**Explanation:**

In the long run, when output expands total increase then becomes constant and finally decreases. When output expands, and cost curve falls it is the first stage of returns to scale which occurs due to economics.

Question 6**Average fixed cost can be obtained through:**(a) $AFC = TFC/TC$ (b) $AFC = TFC /TS$ (c) $AFC = TC/TC$ (d) $AFC = TFC/TU$ **Answer: d****Explanation:**

$$\text{Average fixed cost} = \frac{\text{FIXED COST}}{\text{NO.Of unit produced}}$$

In given Question,

AFC = Average fixed cost TFC = Total fixed cost

TU = Total no. of units produced.

Question 7**AFC curve is:**

- (a) Convex & downward slopping (b) Convex & upward slopping
 (c) Concave & downward slopping (d) Concave & upward rising

Answer: a**Explanation:**

Average fixed cost always decrease with an increase in output so the AFC curve is Convex and downward slopping.

Question 8

A firm's average fixed cost 20 at 6 units of output what will it be at 4 units of outputs

- (a) 60 (d) 40
 (c) 30 (b) 20

Answer: c**Explanation:**

$$\text{Average fixed cost} = \frac{\text{FIXED COST}}{\text{NO.of unit produced}}$$

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

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

So Average fixed cost of unit of 4 units of outputs

$$AFC = \frac{TFC}{\text{NO.Of unit}}$$

$$AFC = \frac{120}{4}$$

$$= \text{Rs. } 30$$

Question 9

U - Shaped average cost curve is based on: __

- (a) Law of increasing cost (b) Law of decreasing cost
 (c) Law of constant returns to scale (d) Law of variable proportions

Answer: d**Explanation:**

Average cost curve is U shaped due to Law of variable proportion in the first stage To increase so AC decreases then to becomes constant and finally T.P Becomes constant and finally T.P becomes to Constant and finally T.P decrease and Ac increase. Hence, it gives U shape to the average cost curve

Question 10

Economics cost excludes which of the following:

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

Answer: a

Explanation:

Economics cost takes into accounting (explicit) cost and in addition to this it also includes amount of money the entrepreneur could have earned if he had investment his money and sold his service and other factors in the next best alternative use in a nutshell -

Economics Cost = Implicit cost + Explicit cost

Or = Accounting cost + Implicit cost

Or = Accounting cost + opportunity cost

Question 11

Which of the following cost curves is never `U` shaped

- (a) Average total cost (b) Marginal cost curve
 (c) Total cost curve (d) Total fixed cost curve

Answer: d

Explanation:

Total fixed cost refers to the cost which remains same even if the production total increases fixed cost has no effect with an increase or decrease in production Example of such cost are rent of facto electricity charges etc. Since fixed coat always remains constant so the fixed cost curve is not U shaped but a straight line.

Question 12

Suppose the total cost of production of commodity X is 1, 25,000 out of this cost are 35,000 and normal profits are 25, 000 what will be the explicit cost of commodity X?

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

Answer: b

Explanation:

Total cost = 1, 25, 000

Implicit cost = 35,000

Normal profit = 25000

Explicit cost = ?

Total cost = Explicit cost + Implicit cost + Normal profit

1, 25000 = Explicit cost + 35000 + 25000

Explicit cost = 65000

Question 13

What is the total of production of 20 units if fixed cost Rs. 5,000 and variables Cost is 2/-?

- (a) 5, 400 (b) 4, 980
(c) 5, 040 (d) 5' 020

Answer: c

Explanation:

Total Cost = Fixed + Variable cost

$$5'000 + 20 \times 2 = Tc$$

$$5, 040 = Tc$$

Question 14

External economics accrue due to__

- (a) Increasing returns to scale (b) Increasing returns to factor
(c) Law of variable proportion (d) Low cost

Answer: a

Explanation:

External economics accrue to firms as a result of expansion of output of whole industry increasing returns to scale accrues due to external economics.

Question 15

At which point does the marginal cost intersect the average variable cost curve and short run average total cost curve?

- (a) At equilibrium point (b) At their lowest point
(c) At their optimum point (d) They don't intersect at all

Answer: b

Explanation:

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

Question 16

As output increases, opportunity cost:-

- (a) Remains constant (b) Start rising
(c) Starts falling (d) None

Answer: b

Explanation:

As you increase the production of one good, the opportunity cost to produce the additional good will increase.

Question 17

Outlay cost involves:-

- (a) Nominal Expenditure (b) Fixed Expenditure
(c) Actual expenditure (d) None

Answer: c**Explanation:**

Outlay costs involve actual expenditure of funds on say wages, materials, rent, interest, etc.

Question 18

Cost which are already incurred once and for all and cannot be recovered:-

- (a) Non- Traceable costs (b) Sunk cost
(c) Opportunity costs (d) None

Answer: b**Explanation:**

Sunk costs refer to those costs which are already incurred once and for all and cannot be recovered.

Question 19

Rent, property taxes, interest on loans and depreciation is example of which cost.

- (a) Fixed (b) Variable
(c) Opportunity (d) None

Answer: a**Explanation:**

Fixed or constant costs are not a function of output they do not vary with output up to a certain level of activity. These costs require a fixed expenditure of funds irrespective of the level of output, e.g. Rent, property taxes, interest on loans and depreciation.

Question 20

Increase in scale, beyond the optimum level, result in

- (a) Diseconomies of scale (b) Economics of scale
(c) Can't say (d) None

Answer: a**Explanation:**

Increase in scale, beyond the optimum level result in diseconomies of scale.

Question 21

If a firm moves on point on a production isoquant to another, which of the following will not happen.

- (a) A change in the ratio in which the inputs Are combined to produce outputs
 (b) A change in the ratio of marginal products of the inputs
 (c) A change in the marginal rate of technical substitution
 (d) A change in the level of outputs

Answer: d

Explanation:

If a firm moves from one point on a production isoquant to another there is no change in the level of output.

Question 22

Marginal cost change due to changes in -----

- (a) Total Cost
 (b) Average Cost
 (c) Variable Cost
 (d) Quantity of output

Answer: c

Explanation:

Marginal cost changes due to changes in Variable cost

Question 23

Economics costs of production differ from accounting costs of production because

- (a) Economic costs include expenditure For hired resources while accounting Cost do not
 (b) Accounting costs in includes opportunity costs which are deducted later to find paid out cost.
 (c) Accounting cost include expenditure For hired resources while economic Costs don't.
 (d) Economic cost adds the opportunity cost of a firm which uses its own resources.

Answer: d

Explanation:

Economic cost of production differs from accounting costs of production because Economic costs add the opportunity cost of a firm which uses its own resources

Question 24

The average product of labor is maximized of Labor when marginal product of labor:

- (a) Equals the average product of labor
 (b) Equals zero.
 (c) Is maximized
 (d) None of the above

Answer: a

Explanation:

The average product of labor is maximized when marginal product of labor equals the average product of labor

Question 25

Implicit can be defined as:-

- | | |
|---|---|
| <p>(a) Money payments made to the non-owners of the firm for the self-owned factor employed in the business and therefore not entered into books of accounts.</p> <p>(c) Money payment which the self-owned and employed resources could have earned in their next best alternative employment and therefore entered into books of accounts</p> | <p>(b) Money not paid out to the owners of the firm for the self-owned factor employed in a Business and therefore not entered into Books of account.</p> <p>(d) Money payment which the self-owned and employed resources earn their best use and therefore, entered into book of accounts.</p> |
|---|---|

Answer: b

Explanation:

Money not paid out to the owners of the firms for the self-owned factors employed in a business and therefore not entered into books of accounts is known as implicit cost.

Question 26

Which function refers to the mathematical relation between cost of a product and the various determinate?

- | | |
|---------------------------------|--|
| <p>(a) Cost</p> <p>(c) Both</p> | <p>(b) Income</p> <p>(d) None of the above</p> |
|---------------------------------|--|

Answer: a

Explanation:

Cost function refers to the mathematical relation between costs of a product and the various determinates.

Past Examination Question

MAY - 2018

Question 1

Cobb Douglas function is given by $Q = K L^a C^b$

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

Answer: b

Explanation:

Cobb – Douglas function is given by Paul H. Douglas and C.W. Cobb of “U.S.A Studied the production of American Manufacturing industries they describe that output is manufacturing and inputs are labor and capital. It is manufacturing and input are labor and capital. It is given by $Q = K L^a C^{(1-a)}$ IF, $a = 1$, Increasing returns to scale.

Question 2

Production is defined as:

- (a) Creation of matter (b) Creation of utility in matter
 (c) Creation of infrastructural facilities (d) None of these

Answer: a

Explanation:

Man cannot create matter: Man can create only utility in matter: production should not be taken as creation of matter but it is taken as creation.

Question 3

The conclusion drawn from Cobb Douglas production function is that labor contributed about and of the increase in the manufacturing production

- (a) $\frac{3}{4}$, $\frac{1}{4}$ (b) $\frac{1}{2}$, $\frac{1}{2}$
 (c) $\frac{1}{4}$, $\frac{3}{4}$ (d) None of these

Answer: a

Explanation:

As Cobb Douglas Function is given below:

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

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

Question 4

At point of inflexion the marginal product is:

- (a) Increasing
(c) Maximum
- (b) Decreasing
(d) Revenue lines

Answer: c

Explanation:

Point of inflexion is a point where marginal is at maximum first marginal product utility increase then reach at maximum which is point of inflexion and then decrease. Marginal product is negative.

Question 5

Isoquant`s are equal to:

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

Answer: a

Explanation:

Isoquants are similar to indifference curve of theory of consumer behavior. An isoquants Represents all that combination which is capable of producing same level of output Product indifference curve is another name of isoquants as it represents product lines.

Question 6

Increasing returns to scale can be explained in terms of:

- (a) External and internal economics
(c) External economics and internal diseconomies
- (b) External and internal diseconomies
(d) All of these

Answer: a

Explanation:

Increasing returns to scale means increase in output is greater than Increase in inputs and Increasing returns to scale cause due to external and internal economies while decreasing returns to scale causes due to external and internal diseconomies.

Question 7

The stages “ law of diminishing returns “ are:

- (a) Increasing Returns
(c) Both a & b
- (b) Diminishing Returns
(d) None of these

Answer: c

Explanation:

The stages of diminishing returns:-

Stage 1: Increasing returns.

Stage 2: Diminishing returns.

Stage 3: Negative returns.

Question 8**Linear homogenous production function is based on:-**

- (a) Increasing returns to scale (b) Decreasing returns to scale
 (c) Constant returns to scale (d) None of the above

Answer: c**Explanation:**

Linear homogenous production is based on constant return to scale because output increase in the same way as increase in input or we can say that increase in output is equal to increase in inputs sole proprietorship production is based on constant to Sale for lifetime.

Question 9**Which of the following curve is not U shaped?**

- (a) AFC (b) MC
 (c) AVG (d) TC

Answer: a**Explanation:**

AFC is the cost obtained total fixed cost by the number of units of output.

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

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

Question 10

Unit	0	1	2
TC	580	1200	1500

Calculated AFC at 2nd unit of output

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

Answer: b**Explanation:**

Here: 580 is a fixed cost because it will be incurred whether firm produces or not so, it is fixed cost,

We know

$$AFC = TFC/Q$$

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

So,

$$AFC = 580/2 = 290$$

Question 11**Which of the following curves never touch any axis but is downward?**

- (a) Marginal cost curve (b) Total cost curve

(c) Average fixed cost curve

(d) Average variable cost curve

Answer: c**Explanation:**

Average fixed cost is a curve cannot touch any axis so, it can never be zero when total Production increases then average fixed cost steadily falls but never touch axis

Question 12**External economies accrue due to - __**

(a) Increasing returns to scale

(b) Increasing returns to factor

(c) Law of variable proportions

(d) Low cost

Answer: a**Explanation:**

Increase returns to scale means when there is a increase in output is more than Increase in input or in other words increase in output is less than increase in input and there Are some factor or external economics which tends to increasing returns to scale.

Question 13**A firm's average fixed cost is 20 at 6 units of output what will be at 3 units of outputs?**

(a) 60

(b) - 30

(c) 40

(d) 20

Answer: c**Explanation:**

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

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

$$20 = \frac{fc}{6} = 120$$

$$\frac{120}{3}$$

$$= 40$$

Question 14**Which of the following is correct?**(a) $AFC = AVC = ATC$ (b) $ATC = AFC - AVC$ (c) $VC = AFC + ATC$ (d) $AFC = ATC - AVC$ **Answer: d****Explanation:****Average fixed can be obtained in two ways:**

$$AFC = \frac{TFC \text{ total Fixed Cost}}{Q}$$

$$AFC = ATC - AVC$$

Where, ATC = Average total cost and AVC= Average variable cost.
When two goods are perfect complementary goods, the indifference curve will consist of two straight lines with a right angle bent which is convex to the origin or in other words, it will be L shaped.

Question 15

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

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

Answer: c

Explanation:

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

Question 16

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

- | | |
|--------------------------------|--------------------------|
| (a) Variable cost | (b) Semi – variable cost |
| (c) Stair – step variable cost | (d) Jumping cost |

Answer: c

Explanation:

There are so many types of variable cost and these are:

- ❖ Variable cost or pure Variable Cost
- ❖ Semi – variable or mixture of fixed and variable cost
- ❖ Stair – step variable cost which means the cost which remain fixed for a long time but suddenly jumped to a new higher level when production goes beyond a given limit.

NOV - 2018

Question 1

According to the Cobb Douglas production function will get__ return to scale:-

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

Answer: a

Explanation:

As Cobb – Douglas function is given below.

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

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

Question 2

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

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

Answer: d

Explanation:

Characteristics of land are:

- ❖ Land is a free gift of nature
- ❖ Supply of land is fixed
- ❖ Land is permanent and has indestructible power
- ❖ Passive factor
- ❖ Land in Immobile

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

Question 3

The slope of Average fixed cost curve is?

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

Answer: a

Explanation:

Shape of Average fixed Cost is hyperbola in shape it falls from left to right but does not touch x axis.

Question 4

Price of a commodity is best expressed as:-

- (a) Exchange value
 (b) Cost of goods sold
 (c) Parallel to x- axis
 (d) Parallel to y - axis

Answer: a

Explanation:

Price of commodity is expressed as its exchange value as it is the price at which it will be sold or purchased

Question 5

Accounting cost is ___ Economics cost.

- (a) Equal to
 (b) less than
 (c) More than
 (d) Not included

Answer: b

Explanation:

Accounting cost is explicit cost and economic cost is Explicit Cost + National cost therefore, accounting cost is less than economics cost.

Question 6

When AC Curve is at minimum then MC Curve is__?

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

Answer: b

Explanation:

When average cost is minimum, MC is equal to the AC in other word MC curve cuts AC curve at its minimum point.

Question 7

Which of the following equation represents profit maximization condition?

- (a) $MC = MR$
 (b) Equals to AC Curve
 (c) Above AC Curve
 (d) Less than AC Curve

Answer: a

Explanation:

Profit will be at maximum level when marginal revenue is equal to marginal cost therefore it is able to cover its cost and survive in economy.

Question 8

MC curve of a firm in a perfectly competitive industry depicts?

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

Answer: b

Explanation:

MC curve is rising upward in a competitive market therefore, it depicts supply curve

Question 9

Issues requiring decision making in the context of business are:

- (a) How much should be the optimum Output at what price should the firm sell
 (b) How will the product be placed in the Market?
 (c) How to combat the risks at Uncertainties Involved?
 (d) All of the above

Answer: d

Explanation:

The entire given are required for making business decision in context of business therefore Answer will be (d) all of the above.

Question 10

Law of production does not include?

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

Answer: d

Explanation:

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

MAY - 2019

Question 1

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

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

Answer: d

Explanation:

Land is perishable statement about factor of production is not true.

Question 2

Accounting cost will beeconomic cost.

- (a) Greater than
(b) less than
(c) Equal to
(d) None of these

Answer: b

Explanation:

Accounting cost will be less than economics cost.

Question 3

Cobb - Douglas production function represents.....returns to scale.

- (a) Constant
(b) Increase
(c) Decrease
(d) None of these

Answer: a

Explanation:

Cobb - Douglas production function represents constant to scale.

Question 4

If Average cost of s firm is minimum, then Marginal cost will be.....

- (a) Greater than average cost
(b) Equal to average cost
(c) Less than average cost
(d) None one of these

Answer: b

Explanation:

If Average coat of a firm is minimum, then marginal cost will be equal to average cost.

Question 5

Marginal Cost curve is :-

- (a) Downward sloping
(b) Upward sloping
(c) Straight line
(d) None of these

Answer: b

Explanation:

The marginal cost curve is upward-sloping, because diminishing marginal returns implies that additional units are more costly to produce.

Question 6

On the basis of law of variable proportion, average product is at its maximum, when average product is..... marginal product.

- (a) Greater than (b) Less than
(c) Equal to (d) None of these

Answer: c

Explanation:

On the basis of law of variable proportion average product is at its maximum when average product is equal to marginal product

Question 7

The relation of price of a commodity with its demand is:

- (a) Direct (b) Negative
(c) Inverse (d) None of these

Answer: c

Explanation:

The law of demand—the inverse relationship between prices and quantity demanded.

DEC - 2020

Question 1

Use the table and answer for the following questions

Output	0	1	2	3	4	5	6
Total Cost in Rs.	100	180	250	310	360	420	490

The average fixed cost of 4 units of output is

- (a) 80 (b) 90
(c) 25 (d) 350

Answer: c

Explanation:

$$AFC = \frac{\text{Total Fixed Cost}}{\text{Output (Q)}} = \frac{100}{4} = 25$$

Question 35

The average variable cost of 5 units of output

- (a) 84 (b) 64
(c) 420 (d) 104

Answer: b

Explanation:

$$\frac{420 - 100}{5} = 64$$

Question 2

The marginal cost of 5th unit of output is

- | | |
|---------|--------|
| (a) 60 | (b) 70 |
| (c) 540 | (d) 90 |

Answer: a

Explanation:

$$420 - 360 = 60$$

Question 3

The total cost is Rs.4200 and fixed cost is Rs.1200 then find the variable cost

- | | |
|----------|----------|
| (a) 5450 | (b) 1200 |
| (c) 4200 | (d) 3000 |

Answer: d

Explanation:

$$\begin{aligned} \text{Variable cost} &= \text{Total cost} - \text{Fixed Cost} \\ &= 4200 - 1200 = 3000 \end{aligned}$$

Question 4

When output increases more than the increase in input, it occurs due to

- | | |
|--|--|
| (a) External and internal diseconomies | (b) External and internal economies |
| (c) External diseconomies and internal economies | (d) External economies and internal diseconomies |

Answer: b

Explanation:

When output increases more than the increase in input, it occurs due to external and internal economies

Question 5

A functional relationship between inputs and output is called ____

- | | |
|--------------------------|-------------------------|
| (a) Cost function | (b) Revenue function |
| (c) Consumption function | (d) Production function |

Answer: d

Explanation:

The production function is a technical relationship between the amount of inputs that a firm uses and the maximum level of output that can be obtained. As such, it is not based on any important behavioral assumption imposed on producers.

Question 6

Among the following statements which is incorrect in relation to isoquant

- (a) Isoquant are negatively sloped (b) Isoquant are concave to origin
(c) Isoquant are not intersecting (d) Isoquant are convex to origin

Answer: b

Explanation:

Characteristics of Isoquants

- The slope of an isoquant is convex in nature and this follows directly from the assumption of diminishing marginal rate of substitution. This implies that lesser is amount of the factor is used by the firm, the lesser willing it is to give up a unit of that factor to obtain an additional unit of the other factor. The opportunity cost of each extra unit is increasing.
- Isoquants can never cross each other as this will violate the fundamental rule that a higher isoquant yield higher utility. Isoquants that cross each other imply that isoquant of different levels are capable of providing the same satisfaction at a point. This however is not possible.
- The isoquant has a negative slope in order to imply that resources are scarce and in order to employ more of a particular resource the employer must employ less of the other factor.

Question 7

External economies can be achieved through:

- (a) Technological external economies (b) External assistance
(c) Development of unskilled labor (d) Superior managerial efficiency

Answer: a

Explanation:

External economies of scale occur when a whole industry grows larger and firms benefit from lower long-run average costs. External economies of scale can also be referred to as positive external benefits of industrial expansion.

Question 8

Marginal product will be ____ at the point of inflexion is

- (a) Maximum (b) Minimum
(c) Negative (d) Zero

Answer: a

Explanation:

Maximum after the product decreases to point of inflexion.

Question 43

The concept of “ innovative entrepreneurship” was given by

- (a) Marshall (b) Schumpeter

(c) J K Mehta

(d) Adam smith

Answer: b**Explanation:**

The innovative theory is one of the most famous theories of entrepreneurship used all around the world. The theory was advanced by one famous scholar, Schumpeter, in 1991.

Question 9**Which activity is the base of all production activities :**

(a) Production

(b) Exchange

(c) Investment

(d) Consumption

Answer:c**Explanation:**

Investment activity is the base of all activities.

JAN - 2021**Unit: 1Production****Question 1****Production may be defined as an act of_____**

(a) Creating utility

(b) Destroying

(c) Earning profit in best way

(d) Providing services professionally

Answer: a**Explanation:**

Production is the act of creating an output, a good or service which has value and contributes to the utility of individuals.

Production Analysis**Question 2****Which of the following is correct in relation to Marginal product?**

(a) What is produced units when all Factors of production are employed at Optimum efficiency

(b) The extra output obtained from employing an additional unit of a factor

(c) The left revenue to the entrepreneur

(d) None of the above

after he has incurred all expenses

Answer: b**Explanation:**

The marginal product or of an input (factor of production) is the change in output resulting from employing one more unit of a particular input.

Question 3

According to cob-Douglas production function, labour contribution in increasing manufacturing production is

- (a) $2/3$ (b) $3/4$
(c) $1/4$ (d) $1/2$

Answer: b

Explanation:

The production function solved by Cobb-Douglas had $1/4$ contribution of capital to the increase in manufacturing industry and $3/4$ of labour.

Question 4

When Average product fails, marginal product is _____ the Average product.

- (a) Less than (b) More than
(c) Equal to (d) Maximum

Answer: a

Explanation:

Marginal product (MP) pulls the average product (AP) up or down. So, AP falls when MP is less than AP.

Question 5

How many kinds are of Economies of scale?

- (a) 5 (b) 3
(c) 2 (d) 1

Answer: c

Explanation:

There are two different types of economies of scale. Internal economies are borne from within the company. External ones are based on external factors. Internal economies of scale happen when a company cuts costs internally, so they're unique to that particular firm.

Question 6

In short run, type of law of variable proportions is also known as

- (a) Law of increasing returns (b) Law of diminishing returns
(c) Law of decreasing return (d) Law of constant return

Answer: b

Explanation:

In the short run, the law of variable proportions states that as we add more units of a variable input to fixed amounts of land and capital, the change in total output will at first rise and then fall. It is also known as Law of variable proportion.

Question 7

The law of returns to scale is:

- (a) Short run (b) Long run

(c) Short and long run

(d) Medium run

Answer: b**Explanation:**

In the long run, output can be increased by increasing all factors in the same proportion. Generally, laws of returns to scale refer to an increase in output due to increase in all factors in the same proportion. Such an increase is called returns to scale.

Unit: 2 Theory of Cost**Question 8**

A firm producing 7 units of output has an average total cost of Rs. 150 and has to pay Rs. 350 to its fixed factors of production whether it produces or not? How much of the average total cost is made up of variable costs?

(a) 200

(b) 50

(c) 300

(d) 100

Answer: d**Explanation:**

TC = 150

FC = 350

TC is less than fc.

Question 9

A firm has a variable cost of Rs. 2,000 at 5 units of output. If fixed costs are Rs. 800, what will be the average total cost at 5 units of output?

(a) 560

(b) 120

(c) 240

(d) 2,800

Answer: a**Explanation:**

$$\frac{2000+800}{5} = 560$$

Question 10

Which of the following statements is false?

(a) Economics costs include the opportunity costs of the resources owned by the firm

(b) Accounting costs include only explicit costs

(c) Economic profit will always less than accounting profit if resources owned and used by the firm have any opportunity costs

(d) Accounting profit is equal to total revenue less implicit costs

Answer: d

Explanation:

Accounting profit includes explicit costs, such as raw materials and wages. Economic profit includes explicit and implicit costs, which are implied or imputed costs.

Question 11

Average cost curve is

- (a) 'U' shaped (b) Positively sloped
(c) Negatively sloped (d) Rectangular hyperbola

Answer: a

Explanation:

Average cost curves are typically U-shaped, Average total cost starts off relatively high, because at low levels of output total costs are dominated by the fixed cost.

JULY - 2021

Question 1

Which one of the following is not a necessary function of an entrepreneur?

- (a) Risk and uncertainty bearing. (b) Initiating a business enterprise.
(c) Innovations. (d) Supervision of day-to-day production activities.

Answer: d

Explanation:

While, an entrepreneur needs to be innovative while planning and deciding upon business activities as to fulfill the public demand but, it is not his duty to innovate new technology or products. Thus, innovation is not a function to be performed rather an essential characteristic of a successful entrepreneur.

Question 2

Which of the following is not a passive factor of production?

- (a) Land (b) Building
(c) Labour (d) Machine

Answer: c

Explanation:

- Land itself does not produce anything alone. It is a passive factor of production. It needs help of labour, capital, entrepreneur, etc., in order to obtain yields from it.
- Capital is also a passive factor of production. This is so because it becomes ineffective without co-operation of labour.

Unit: 2 Theory of Cost

Question 1

Zero economic profit emerges due to which of the following condition

- (a) MR is just equal to ATC
 (b) AR is just equal to MC
 (c) MR is just equal to MC
 (d) AR is just equal to AC

Answer: d

Explanation:

In economic competition theory, the zero-profit condition is the condition that occurs when an industry or type of business has an extremely low (near-zero) cost of entry to or exit from the industry.

Question 2

The difference between TFC and TC is equal to

- (a) Zero
 (b) TVC
 (c) MC
 (d) AFC

Answer: b

Explanation:

The TC curve is inverted-S shaped. This is because of the TVC curve. Since the TFC curve is horizontal, the difference between the TC and TVC curve is the same at each level of output and equals TFC. ... The TFC curve is parallel to the horizontal axis while the TVC curve is inverted-S shaped.

Thus, the difference between TVC and TC is equal to the amount of TFC. The law of variable proportion explains the change in output when one factor is kept.

Question 3

Use table below to answer questions 20-22

Output	0	1	2	3	4	5	6
Total Cost	360	495	615	720	810	915	1035

The average fixed cost of 3 units of output is

- (a) 1180
 (b) 1225
 (c) 1120
 (d) 1134

Answer: (c)

Explanation:

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

Question 4

The marginal cost of the 5th output is

- (a) 1174
 (b) 1225
 (c) 1675
 (d) 1105

Answer: d

Explanation:

Marginal Cost = (Change in Costs) / (Change in Quantity)

Question 5

Diminishing marginal returns starts to occurs between ___ units

- (a) 4 to 5 (b) 3 to 4
(c) 5 to 6 (d) 1 to 2

Answer: a

Explanation:

Diminishing marginal returns starts to occurs between 4 to 5 units

DEC - 2021**Question 1**

Marginal revenue have _ slope and Marginal cost have _ slope

- (a) Downward, upward (b) Downward, Downward
(c) upward ,downward (d) upward, upward

Answer: a

Explanation:

Downward, upward: If MC sloped downward (which can happen, if the firm has economies of scale) and MR sloped upward (which would be unusual, but can happen for some demand functions), the point of intersection would be a profit-minimizing point.

Question 2

Average revenue also known as -

- (a) Mid Revenue (b) Total revenue
(c) class revenue (d) demand revenue

Answer: d

Explanation:

The average revenue formula is simple. This is essentially the revenue that is earned for each unit of the output. In other words, it's the price of 1 unit of output. The expression for the average revenue is as follows: $AR=TR/Q$

JUNE - 2022**Unit :1 Theory of production****Question 1**

Land is heterogeneous because of:

- (a) Lands are alike (b) Lands are not alike
(c) Lands are fixed (d) Lands are mobile

Answer: b

Explanation:

Land is heterogeneous because no two lands are alike they differ in size, fertility and situation.

Land is a free gift of nature, fixed in supply, passive, and immobile.

Question 2

When TP is decreasing, MP becomes?

- | | |
|---------------|--------------|
| (a) Positive | (b) Zero |
| (c) Undefined | (d) Negative |

Answer: d

Explanation:

When TP is increasing, MP is increasing, MP is when zero, TP is maximum, when- MP is negative and average revenue is diminishing, TP is decreasing/diminishing.

Question 3

Profit is an income from:

- | | |
|--------------|----------------|
| (a) Land | (b) Investment |
| (c) Business | (d) Labor |

Answer: c

Explanation:

Profit is an income from business.

Profit is the revenue that remains after expenses in a business.

The main aim of business is the acquisition of profits.

Question 4

If the output has to max then:

- | | |
|---------------|---------------|
| (a) $MR < MC$ | (b) $MR = MC$ |
| (c) $MR > MC$ | (d) $MR > MC$ |

Answer: b

Explanation:

If the output is to be maximum level then the Marginal revenue should be equal Marginal cost.

When MR, MC, a firm has maximum output produced with additional products/ outputs for maximum revenue.

Question 5

Marginal cost changes due to change in _____ cost.

- | | |
|-------------|--------------|
| (a) Total | (b) Fixed |
| (c) Average | (d) Variable |

Answer:

Explanation:

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

Question 6

Which cost increases continuously with the increase in production?

- | | |
|----------------|-------------------|
| (a) Fixed cost | (b) Variable cost |
| (c) Total Cost | (d) Average cost |

Answer:

Explanation:

Variable cost increases as production increases as every additional unit of output increases the variable cost.

Fixed cost remains the same.

Question 7

The market where small quantities of goods sold

- | | |
|------------------|-----------------------|
| (a) Wholesale | (b) Retail |
| (c) Manufactures | (d) None of the above |

Answer: b

Explanation:

The market where the small quantities of goods sold are retail markets.

Question 8

The Law of variable proportion is associated with.

- | | |
|-------------------------------|-----------------------------------|
| (a) Short Period | (b) Long Period |
| (c) Both Short & Long Periods | (d) Neither Short nor Long Period |

Answer:

Explanation:

Law of variable proportion is applicable to short run period. Law of variable proportion exhibits the relationship between the changes of output in respect do the change in only one variable factor, only in short run economy.

Unit: 2 Theory of Cost

Question 9

Total economic cost = implicit cost + explicit cost

- | | |
|---------------------|-----------------------|
| (a) Normal Profit | (b) Abnormal cost |
| (c) Economic Profit | (d) None of the above |

Answer:

Explanation:

Total Economic cost = Implicit Cost+ Explicit Cost + Normal Cost

- revenue
c) diminishing marginal utility
d) all of the above

Answer: a

Explanation

The slope of total revenue is determined by the marginal revenue

Question 8

Economic costs includes:

- a) implicit and explicit costs
b) accounting cost
c) implicit - explicit costs
d) none of the above

Answer: a

Explanation

Economic costs include both implicit costs and explicit costs. Implicit costs are the opportunity cost of engaging in business activity. Its is the return forgone by using the owned resource in productive activity.

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<p>OF MARKET</p>	<ul style="list-style-type: none"> • Time • Nature of transaction • Regulation • Volume of business • Type of competition 																																								
<p>DISTINGUISHING FEATURES OF MAJOR TYPES OF MARKETS</p>	<table border="1"> <thead> <tr> <th></th> <th>Monopoly</th> <th>Oligopoly</th> <th>Monopolistic Competition</th> <th>Perfect Competition</th> </tr> </thead> <tbody> <tr> <td><i>No. of firms</i></td> <td>One</td> <td>Few</td> <td>Many</td> <td>Almost infinite</td> </tr> <tr> <td><i>Barriers to entry</i></td> <td>Significant</td> <td>Significant</td> <td>Few</td> <td>None</td> </tr> <tr> <td><i>Pricing decisions</i></td> <td>MC = MR</td> <td>Strategic pricing</td> <td>MC = MR</td> <td>MC = MR = P</td> </tr> <tr> <td><i>Output decisions</i></td> <td>Most output restriction</td> <td>Output restricted</td> <td>Output restricted, product differentiation</td> <td>No output restriction</td> </tr> <tr> <td><i>Interdependence</i></td> <td>No competitors</td> <td>Interdependent decisions</td> <td>Each firm independent</td> <td>Each firm independent</td> </tr> <tr> <td><i>LR profit</i></td> <td>Possible</td> <td>Possible</td> <td>None</td> <td>None</td> </tr> <tr> <td><i>P and MC</i></td> <td>$P > MC$</td> <td>$P > MC$</td> <td>$P > MC$</td> <td>$P = MC$</td> </tr> </tbody> </table>		Monopoly	Oligopoly	Monopolistic Competition	Perfect Competition	<i>No. of firms</i>	One	Few	Many	Almost infinite	<i>Barriers to entry</i>	Significant	Significant	Few	None	<i>Pricing decisions</i>	MC = MR	Strategic pricing	MC = MR	MC = MR = P	<i>Output decisions</i>	Most output restriction	Output restricted	Output restricted, product differentiation	No output restriction	<i>Interdependence</i>	No competitors	Interdependent decisions	Each firm independent	Each firm independent	<i>LR profit</i>	Possible	Possible	None	None	<i>P and MC</i>	$P > MC$	$P > MC$	$P > MC$	$P = MC$
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<p>TOTAL REVENUE</p>	<p>Total revenue refers to the amount of money which a firm realization by selling certain units of a commodity</p>																																								
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<p>RELATIONSHIP</p>	<p>Marginal revenue, average revenue and price elasticity of</p>																																								

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<p>BETWEENAR, MR, TR AND PRICE ELASTICITY OF DEMAND</p>	<p>demand are uniquely related to one another</p> <div style="border: 1px solid black; padding: 5px; margin: 10px auto; width: fit-content;"> <p>$MR = AR \times e^{-1}$ Where e = price</p> </div>
<p>BEHAVIOURAL PRINCIPLE</p>	<p>If a firm`s total revenues are not enough to make good even the total variable cost it is better for the firm to shut down in order words a competitive firm should shut down if the price is below AVC</p> <p>At the point of equally between marginal revenue and marginal cost a firm will earn maximum profits</p>

UNIT: 2

DETERMINATION OF PRICES

<p>MEANING</p>	<p>Prices of goods express their exchange value. Prices are also used for expressing the value of various services rendered by different factors of production such as land, labor, capital and organization in the form of rent, wages, interest and profit.</p>
<p>EQUILIBRIUM PRICE</p>	<p>Equilibrium price or market clearing price is the price at which the quantity demanded of a commodity equals the quantity supplied of the commodity there is no unsold stock or no unsupplied demand.</p>

CHANGES IN DEMAND AND SUPPLY

If demand increases without any corresponding increase in supply, there will be increase in equilibrium price, as a result of which the quantity sold and purchased also increases

If demand decreases without any change in supply, there will be decrease in the equilibrium price and quantity demanded and supplied.

If there is an increase in supply without any change in demand, the equilibrium price will go down and the quantity demanded will go up.

If there is a decrease in supply without any change in demand, the equilibrium price will go up but the amount sold and purchased will go down.

SIMULTANEOUS CHANGES IN DEMAND AND SUPPLY

There can be simultaneous changes in both demand and supply and the equilibrium price will change according to the proportionate change in demand and supply.

When both demand and supply increase, the equilibrium quantity increases but the change in equilibrium price is uncertain.

When demand increases and supply decreases, the equilibrium price rises but nothing certain can be said about the change in equilibrium quantity.

When both demand and supply decrease, the equilibrium quantity decreases but the change in equilibrium price is uncertain.

When demand decreases and supply increases, the equilibrium price falls but nothing certain can be said about the change in equilibrium quantity

UNIT - 3:
PRICE-OUTPUT DETERMINATION UNDER DIFFERENT MARKET FORMS



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Form of Market Structure	Number of Firms	Nature of Product	Price Elasticity of Demand	Degree of control over price
Perfect competition	A large number of firms	Homogeneous Product	Infinite	None
Monopolistic	A large number of firms	Differentiated product	Large	Some
Pure Oligopoly	Few firms	Homogeneous product	Small	Some
Monopoly	One	Unique product	Very small	Very large

Perfect Competition

A market is said to be perfectly competitive if it has large number of buyers and sellers, homogeneous product, free entry and exit, perfect mobility of factors of production, perfect knowledge about the market conditions, in significant transaction costs, no government interference and absence of collusion.

The firm is in equilibrium when it's $MC=MR$ & MC curve cuts the MR curve from below.

In the short run, firms may be earning normal profits, supernormal profits or making losses at the equilibrium price.

In the long run all the supernormal profits or losses get wiped away with entry or exit of firms from the industry and all firms earn only normal profit.

In the long run, in perfect competition, the market mechanism leads to an optimal allocation of resources.

Monopoly is an extreme form of imperfect competition with a single seller of a product which has no close substitute.

Since the monopolist firm is the only producer of a particular product, its demand curve is identical with the market demand curve for the product.

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<p>Monopoly</p>	<p>Since a monopoly firm has market power it has the ability to charge a price above marginal cost and earns a positive economic profit. The fundamental cause of monopoly is barriers to entry; in effect other firms cannot enter the market.</p> <p>In the long-run, the supernormal profit will be continued because entry is restricted.</p> <p>One of the important features of monopoly is price discrimination, i.e. charging different prices for the same product from different buyers.</p> <p>Price charged will be higher in the market where the demand is less elastic and lower in the market where the demand is more elastic.</p> <p>Under the <u>first degree</u> price discrimination, the monopolist separates the market into each individual consumer and charges them the price they are willing and able to pay and thereby extract the entire consumer surplus.</p> <p>Under the <u>second degree price discrimination</u> different prices are charged for different quantities of sold.</p> <p>Under the third degree price discrimination, price varies by attributes such as location or by customer segment.</p> <p>In the absence of competition, the monopolist need not produce at the optimal level.</p> <p>Since monopolies are exploitative and generate undesirable outcomes in the economy, a number of steps are taken by governments to regulate and to prevent the formation of monopolies.</p> <p>In real life, pure monopolies are not common because monopolies are either regulated or prohibited altogether.</p>
<p>Imperfect Competition</p>	<p>Imperfect competition is an important category wherein the individual firm exercises control over the price to a smaller or larger degree depending upon the degree of imperfection present.</p>
<p>Monopolistic Competition</p>	<p>It refers to the market situation in which many producers produce goods which are close substitutes of one another.</p> <p>The essential feature of monopolistic competition is the existence of large number of firms, product differentiation, non-price competition, high selling costs and freedom of entry and exit of firms.</p>

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**Oligopolistic
Competition**

In monopolistic competition, the features of monopoly and perfect competition are partially present.

Demand curve is highly elastic and a firm enjoys some control over the price.

Firms in monopolistic competition are not of optimum size and there exists excess capacity with each firm.

Oligopoly is also referred to as 'competition among the few' as a few big firms produce and compete in this market

There are different types of oligopoly like pure and differentiated oligopoly, open and closed oligopoly, collusive and competitive oligopoly, partial and full oligopoly and syndicated and organized oligopoly.

The main characteristics of oligopoly are strategic interdependence, importance of advertising and selling costs and group behavior. Different oligopoly settings give rise to different optimal strategies and diverse outcomes.

Price-leadership can be by dominant firm, a low cost firm or it can be barometric price leadership.

A group of firms that explicitly agree (collude) to coordinate their activities is called a cartel.

Paul A. Sweeney propounded the kinked demand curve model of oligopoly. The price will be kept unchanged for a long time due to fear of retaliation and price tend to be sticky and inflexible

Other important market forms are: Duopoly, Monopoly, Oligopoly and Bilateral monopoly.

**Question 1**

On the basis of nature of transaction, a market may be classified into:

- (a) Spot market and future market (b) Regulated market unregulated market
(c) Wholesale market and retail market (d) Local market and national market

Answer: a

Explanation:

On the basis of nature of transaction market may be classified into: - SPOT Market: it Refers to those market where goods are physically transaction on the spot. Future Market it is related to those transactions which involves contract of a future date.

Question 2

For a firm to become profit it should expand output whenever:

- (a) Marginal revenue is equal to marginalcost (b) Marginal revenue is less than marginal cost
(c) Marginal revenue is greater than marginCost. (d) Average revenue is greater than average cost

Answer: c

Explanation:

It will be profitable for the firm to expand output whenever marginal revenue is greater than the marginal cost and to keep on expanding output until marginal revenue equals marginal cost Not only marginal cost should be equal to marginal its curve should cut marginal revenue curve from below:

Question 3

Under perfect competition firm is described as:

- (a) Price taker and not maker (b) price maker and not price taker
(c) Neither price maker nor price taker (d) None of the above

Answer: a

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Explanation:

Under perfect competition firms is described as price taker and not price maker. This is because there are large numbers of firms in the market who are producing identical or homogenous product As such these firms cannot influence the price in their individual capacities. They have to accept the price fixed (through interaction of total demand and total supply) by the industry as a whole.

Question 4

Under which of the following forms of market structure does a firm have no control over the Price of its product:

- (a) Monopoly (b) Monopoly Competition
(c) Oligopoly (d) Perfect Competition

Answer: d

Explanation:

Under perfect competition a firm no control over the price if its product. Firm have to accept the price as given and as such they are price taker rather than price maker. They cannot increase the price individually because of the fear of losing the customer to other firms. Thus option (d) is correct

Question 5

Which is not characteristic of monopoly?

- (a) The firm is price taker (b) There is a single firm
(c) The firm produces a unique product (d) The existence of some advertising.

Answer: a

Explanation:

A monopoly is not a price taker but a price maker.

Question 6

Average revenue curve is also known as:

- (a) Profit Curve (b) Demand Curve
(c) Average Cost Curve (d) Indifference Curve

Answer: d

Explanation: Average revenue curve is also known as Indifference Curve

Question 7

Price discrimination is profitable only when:

- (a) Different markets are kept separate (b) Distance between the consumer and the Market is more
(c) Elasticity of demand in different (d) The consumers are segregated on

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Markets is different

thebasis of their purpose of use of the commodity

Answer: c

Explanation:

Price discrimination is profitable only when elasticity of demand in different market is Different.

Question 8

When the industry is dominated by one large firm which is considered as the leader of the group the market is described as:

- (a) Open oligopoly (b) Perfect oligopoly
(c) Partial oligopoly (d) Organized oligopoly

Answer: c

Explanation:

Oligopoly is partial when the industry is dominated by one large firm which is considered or looked upon as the leader of the group. The dominating firm will be the price leader in full oligopoly. The market will be conspicuous by the absence of price leadership

Question 9

Which amongst the following is not an objective of price discrimination?

- (a) To hold the extra stocks (b) To enjoy economics of scale
(c) To earn maximum profits (d) To secure equity through pricing

Answer: a

Explanation:

The objective of price discrimination is here under:

- ❖ To earn maximum profit
- ❖ To dispose of surplus stock
- ❖ To enjoy economics of scale
- ❖ To capture foreign market
- ❖ To secure equity through pricing. Thus option (a) is the correct answer:

Question 10

Which of the following statement is not correct?

- (a) Under monopoly there is no difference between a firm and industry (b) A monopoly may restrict the output and rises the price
(c) Commodities offered for sale under a perfect competition will be heterogeneous (d) Product differentiation is peculiar to monopolistic competition

Answer: c

Explanation:

Commodities offered for sale under a perfect competition will be homogenous. There are large number of buyer and seller who compete among themselves and their number is so large that no buyer or seller is in a position to influence the demand and supply in the market being the commodity dealt in it is homogenous in the sense that the goods produced by different firms are identical in nature.

Question 11

Which of the following is not incorrect?

- (a) Even monopolistic can earn losses (b) Firm in perfect competitive market is price taker
 (c) It is always beneficial for a firm in a perfectly competitive market to discriminate price (d) kind demand curve is related to an oligopolistic market

Answer: c

Explanation:

It is always beneficial for a firm in a price competitive market to discriminate prices. This statement is incorrect.

Question 12

The market for ultimate consumer is known as:

- (a) Wholesale market (b) Regulated market
 (c) Unregulated market (d) Retail market

Answer: d

Explanation:

The market for ultimate consumer is known as Retail market.

Question 13

If a firm under monopoly wants to sell more its average revenue curve will be a line

- (a) Horizontal (b) Vertical
 (c) Downward slopping (d) Upward slopping

Answer: c

Explanation:

If a firm under monopoly wants to sell more, its average revenue will be a downward slopping line the seller charges a single price for all units he sells average revenue per unit is identical with price and thus the, market demand curve is the average revenue curve for the monopolist.

Question 14

A discrimination monopolist will charge a higher price in the market in which the demand for its product is ___

- (a) Relatively elastic (b) Highly elastic
(c) Perfectly elastic (d) None

Answer: b

Explanation:

A discriminating monopolist charge a higher price in a market which has relatively in elastic Demand the market which is highly responsive to price charge less on the whole the monopolist Benefits from such discrimination.

Question 15

The reason for the kinked demand curve is that:

- (a) The oligopolist believe that competitors will follow output increases but not output reduction
(b) The oligopolist believe that competitors will follow price increases but not output reductions
(c) The oligopolist believe that competitors will follow price cuts but not price rises
(d) The oligopolist believe that the price increases but not output increases

Answer: c

Explanation:

The reason for the kinked demand curve is that the oligopolist believe that competitors will follow price cuts but not price rises this kink is formed at a prevailing price level this is because the segment of the demand curve above the prevailing price level is highly elastic and the segment Of the demand curve below the prevailing price level is inelastic.

Question 16

Which is the first order condition for the firm to maximize the profit?

- (a) $AC = MR$ (b) $MC = MR$
(c) $AC = AR$ (d) $MR = AR$

Answer: b

Explanation:

The first order condition for the firm to maximize the profit is when marginal cost is equal to the marginal revenue

Question 17

The price elasticity of demand for a product is infinite under:

- (a) Perfect competition (b) Monopoly
(c) Monopolistic competition (d) Oligopoly.

Answer: a

Explanation:

The price elasticity of demand for a product is infinite under perfect competition as there number of buyers and seller who compete among themselves and their number are so large that no buyer or seller is in a position to influence the demand or supply in the market.

Question 18

If the price of a commodity is fixed then every increase in its sold quantity the total will__and marginal revenue will----

- (a) Increase also increase (b) increase, decline
(c) Increase, remain unchanged (d) remain fixed , increase

Answer: c

Explanation:

If the price of the commodity is fixed then with the every increase in its sold quantity the total revenue will increase and the marginal revenue will remain unchanged As marginal revenue is the change in total revenue resulting from the sale of an a additional unit of the commodity.

Question 19

Which one of the following expressions is correct for Marginal Revenue?

- (a) $MR = AR \frac{1-e}{e}$ (b) $MR = \frac{\Delta TR}{\Delta Q}$
(c) $MR = \frac{TR}{Q}$ (d) None

Answer: b

Explanation:

Marginal revenue is the rate change in total revenue resulting from the sale of an additional unit.

$$MR = \frac{\Delta TR}{\Delta Q}$$

Where MR is marginal revenue

TR is total revenue

Q is quantity of commodity sold

Δ Stand for small change.

Question 20

Where of the following is the most competitive market structure?

- (a) Perfectly competition (b) Monopolistic competition

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(c) Oligopoly

(d) Monopoly

Answer: a

Explanation:

A perfectly competitive market is a hypothetical market where competition is at its greatest possible level. No – classical economics argued that perfect competition would produce the best possible outcomes for consumers, and society.

Question 21

An industry with significant barriers to entry and a single supplier.

(a) Perfect competition

(b) Monopolistic competition

(c) Oligopoly

(d) Monopoly

Answer: d

Explanation:

A monopoly is the exact opposite form of the market system as perfect competition. In a pure monopoly there is only one producer of a particular good or service and generally no reasonable substitute. In such a market system the monopolist is able to charge whatever price they wish due to the absence of competition but their overall revenue will be limited by the ability or willingness of customer to pay their price.

Question 22

A highly concentrated market with just a few interdependent firms

(a) Perfect competition

(b) Monopolistic competition

(c) Oligopoly

(d) Monopoly

Answer: c

Explanation:

An oligopoly is similar in many ways to a monopoly. The primary difference is that rather than having only one producer of goods or service there are a handful of producers or at least a handful of produce that make up a dominant majority of the production in the market system while oligopolists do not have the same pricing power as monopolists it is possible without diligent government regulation that oligopolists will collude with one another to set prices in the same way a monopolist would.

Question 23

A highly competitive market where firm is price taker:

(a) Perfect competition

(b) Monopolistic competition

(c) Oligopoly

(d) Monopoly

Answer: a

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Explanation:

Perfect competition is a market system characterized by many different buyers and seller in the classic theoretical definition of perfect competition there are an infinite number of buyer and seller with so many market player it is possible for any one participant to alter the prevailing Price in the market player it is possible for any one participant to alter the prevailing price in the market.

Question 24

In which form of market structure would price be the key factor when competing?

- (a) Monopoly (b) Oligopoly
(c) Monopolistic competition (d) Perfect competition

Answer: d

Explanation:

All products appear the same which means price become a crucial factor in competition in perfect competition there are many firms selling homogenous product. Prices are driven to the same level.

Question 25

Which of the following is NOT a feature of monopolistic competition?

- (a) Numerous seller (b) Product differentiation
(c) Numerous buyers (d) Homogenous products

Answer: b

Explanation:

This is not a feature – products are assumed to be differentiated. Although the firms are competing against each other. In monopolistic competition there is sufficient differentiation so as to view each firm as almost a monopoly for their own product.

Question 26

Assume that when price is 20 the quantity demanded is 9 units and when price is 19 the quantity demanded is 10 units based on this information what is the marginal revenue resulting from an increase in output from 9 unit to 10 units?

- (a) 20 (b) 19
(c) 10 (d) 1

Answer: c

Explanation:

Marginal revenue is the rate of change in total revenue resulting from the sale of an additional unit.

$$MR = \frac{\Delta TR}{\Delta Q}$$

Where MR is marginal revenue

TR is total revenue

Q is quantity of commodity sold $\frac{(199 \times 10) - (20 \times 9)}{10 - 9} = 10$

Δ Stand for small change

Question 27

Which of the following statement is incorrect?

- | | |
|--|---|
| (a) Under monopoly there is no difference Between the firm and industry. | (b) A monopolist may restrict the output and rises The price |
| (c) Commodities offered for sale under a Perfect competition will be heterogeneous | (d) Product differentiation is peculiar to monopolistic competition |

Answer: c

Explanation:

Commodities offered for sale under a perfect competition will be homogeneous.

Question 28

Which of the following statement is correct?

- | | |
|---|--|
| (a) Price rigidity is an important feature of monopoly | (b) Selling costs are possible under perfect competition |
| (c) Under perfect competition factors of Production do not move freely as there Are legal restriction | (d) An industry consists of many firms. |

Answer: d

Explanation:

An industry consists of four firms' i.e.

- Monopoly
- Oligopoly
- Monopolistic Competition
- Perfect competition

Question 29

Under which Market situation demand curve is linear and parallel to X axis:

- | | |
|------------------------------|---------------------------------------|
| (a) Perfect competition | (b) Oligopoly |
| (c) Monopolistic competition | (d) An industry consist of many firms |

Answer: a

Explanation:

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Under perfect competition demand curve is linear and parallel to X axis because there are huge of buyer selling the same commodity at a particular price and as result each buyer and seller makes transaction in the market at a prevailing price

Question 30

MR Curve = AR = Demand Curve is a feature of which kind of market?

- (a) Perfect competition (b) Oligopoly
(c) Monopolistic competition (d) Monopoly

Answer: a

Explanation:

In perfect competition all the goods are sold at a single price by which average revenue (AR) equals marginal revenue (MR) This price is determining by the industry through the forces of demand and supply and this price is adopted by the firm all the goods are sold at a prevailing price in the market by which AR at each level of quantity sold

Question 31

Which of the following statement is true for both monopolistically competitive and Oligopolistic industries?

- (a) It is impossible for new firm to entre the industries (b) Collusion and the creation of cartels is common
(c) Producers cannot benefit from - knowing other firms plans (d) Firms have some degree of control over prices

Answer: d

Explanation:

Both monopolistically competitive and oligopolistic have some degree of control over prices they are expert in price control

Question 32

Which of the following best describe an oligopoly?

- (a) Many monopolistically competitive firms (b) A few sharing monopoly power
(c) A former monopoly that has been broken up by the government (d) A government granted franchise or monopoly

Answer: b

Explanation:

An oligopoly is a market structure in which a few firms dominate. When a market is shared between a few firms, it is said to be highly concentrated although only a few firm dominate It is possible that many small firms may also operate in the market.

Question 33**Collusion most frequently occurs in industries that are**

- | | |
|-------------------|----------------------------------|
| (a) Oligopolistic | (b) Monopolistically competitive |
| (c) Monopolistic | (d) Perfectly competitive |

Answer: a**Explanation:****Types of Oligopoly: -**

- Pure or perfect
- Differentiated or Imperfect
- Open and closed
- Collusive and competitive
- Collusive – this occurs when few firms come to an understanding with respect to the Price and output of the product

Question 34**The following are key feature of a monopoly EXCEPT**

- | | |
|---------------------------|--------------------------|
| (a) Diseconomies of scale | (b) No close substitutes |
| (c) Influence over price | (d) Barriers to entry |

Answer: a**Explanation:**

The advantages monopolies can have is that when economies of scale exist monopolies are The best able to take advantage because a monopoly firms is obviously more scaled as a business Than having multiple firms therefore diseconomies of scale is not a characteristics of monopoly.

Question 35**Monopolists are able to practice discrimination because**

- | | |
|--------------------------------------|--|
| (a) They have constant marginal cost | (b) of differing price elasticity of supply |
| (c) They have constant average cost | (d) of differing average willingness to pay among customer |

Answer: d**Explanation:**

Monopolists are able to practice price discrimination because of differing average willingness to – pay among consumers.

Question 36**When the government grants an exclusive patent to one firm that firms enjoy**

- | | |
|---------------------------|--------------------------|
| (a) Productive efficiency | (b) Antitrust regulation |
| (c) Monopoly power | (d) Collusive prices |

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Answer: c

Explanation:

When government grants and exclusive patent to one firm that firms enjoy is Monopoly power

Question 37

Consumer surplus is largest for

- (a) A single – price monopoly
(b) A perfect competitive industry
(c) Any price – discriminating monopoly
(d) A perfectly price – discriminating monopoly

Answer: b

Explanation:

There is always one price of the commodity available in the market under perfect competition therefore consumer surplus is largest in this competition.

Question 38

Markets refers to those markets where goods are exchanged for money payable either immediately or within a short span of time

- (a) Spot Market
(b) Retail market
(c) Wholesale market
(d) None

Answer: a

Explanation:

Spot or cash market spot transactions or spot markets refers to those markets where are exchanged for money payable either immediately or within a short span of time.

Question 39

In which market there is single seller

- (a) Oligopoly
(b) Monopoly
(c) Perfect competition
(d) None

Answer: b

Explanation:

A market structure characterized by a single seller, selling a unique product in the market. In a monopoly market.

Question 40

If $e > 1$,

- (a) MR will be negative
(b) MR will be highly negative
(c) MR will be positive
(d) MR will be highly positive

Answer: c

Explanation:

And if $e > 1$, MR will be positive

And if $e > 1$ MR will be negative

Question 41

Where firms earn normal profit

(a) $MR = AR$

(b) $MC = MR$

(c) $AC = AR$

(d) NONE

Answer: c

Explanation:

Firms earn only normal profit i.e. $AC = AR$

Question 42

If the average cost is higher than the average revenue, then the firm incurs

(a) Normal profit

(b) Abnormal profit

(c) Loss

(d) No profit no loss

Answer: c

Explanation:

If the average cost is higher than the average revenue, then the firms incurs loss in the case

Question 43

No close - substitution is characteristic of

(a) Monopoly

(b) Oligopoly

(c) Pure competition

(d) None

Answer: a

Explanation:

A monopoly firms has full control over the market supply of a product or service A monopoly is a price maker and not a price taker, the monopolist generally sells a product Which has no close substitutes.

Question 44

Suppose the single monopoly price is ` 30 and the elasticity of demand in markets A and B are respectively 2 and 5 then marginal revenues of both market.

(a) 20, 40

(b) 10, 15

(c) 15, 24

(d) 13, 28

Answer: c

Explanation:

15, 24

Question 45

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No consumer exploitation is done in

- (a) Perfect competition (b) Monopoly
(c) Monopolistic (d) Oligopoly

Answer: a

Explanation:

First and foremost, advantage of perfect competition is that chances of consumer Exploitation is very low.

Question 46

Which types of Oligopoly occurs when the product is homogeneous in nature

- (a) Open (b) Pure
(c) Full (d) None

Answer: b

Explanation:

Pure oligopoly or perfect oligopoly occurs when the product is homogeneous in nature e.g. Aluminum industry.

Question 47

A firms is in equilibrium when

- (a) MC curve cuts the MR curve from below (b) MC curve the MR curve from above
(c) MC curve cuts the MR curve from middle (d) None

Answer: a

Explanation:

A firm is in equilibrium when it's $MR = MC$ cuts the curve from below.

Question 48

Which of the following is not essential condition of pure competition?

- (a) Large number of buyers And seller (b) Homogeneous product
(c) Freedom of entry (d) Absence transport cost

Answer: d

Explanation:

- Large number of buyer and seller
- Homogeneous product
- Freedom of entry
- All three are important characteristics of pure competition therefore absence

Transport cost is correct answer

Question 49

Which market consists of Unique Product and seller has no competition?

- (a) Perfect competition (b) Oligopoly
(c) Monopoly (d) None

Answer: c

Explanation:

A market structure characterized by a single seller, selling a unique product in the market. In a monopoly market, the seller faces no competition.

Question 50

The condition for the long run equilibrium of the firm is

- (a) $LMC = LAC = P$ (b) $LMC > LAC = P$
(c) $LMC < LAC = P$ (d) None

Answer: a

Explanation:

The condition for the long run equilibrium of the firm is that the marginal cost should be Equal to the price and the long run average cost i.e. $LMC = LAC = P$.

Question 51

Under monopolist's revenue curves which revenue cannot be zero.

- (a) MR (b) AR
(c) NR (d) None

Answer: b

Explanation:

AR cannot be zero but MR can be zero or even negative

Question 52

The objective of price discrimination is

- (a) To earn maximum profit (b) To dispose of surplus stock
(c) To enjoy economics of scale (d) All of the above

Answer: d

Explanation:

Objective of price discrimination includes:

- (a) To earn maximum profit
(b) To dispose of surplus stock
(c) To enjoy economies of scale
(d) To capture foreign market
(e) To secure equity through pricing

Question 53

When the commodities are sold in small quantities is called

- (a) Local Market (b) Regional Market

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(c) Retail market

(d) Wholesale market

Answer: c**Explanation:**

When the commodities sold in small quantities it is called Retail market. This is the Market for ultimate consumer.

Question 54**Large price elasticity of demand available in**

(a) Monopoly

(b) Perfect competition

(c) Monopolistic Competition.

(d) Oligopoly

Answer: c**Explanation:**

Under monopolistic competition the firm has some freedom to fix the price due to this the firm in question has high elasticity of demand.

Question 55**When both demand and supply increase the equilibrium quantity increases but the Change in equilibrium price is uncertain**(a) Both demand & supply curve shift
In right(b) both demand & supply curve shift
in left(c) both demand & supply curve
shifts In same direction

(d) None

Answer: c**Explanation:**

When the supply and demand curves shift in the same direction as follows: When both Demand and supply increase the equilibrium quantity increase but the change in equilibrium Price is uncertain when both demand and supply decrease the equilibrium quantity decrease but the change in equilibrium price is uncertain

Question 56**Verify this statement, average revenue is the revenue earned per unit of output.**

(a) True

(b) False

(c) Can't say

(d) None

Answer: a**Explanation:**

Average revenue is the revenue earned per unit of output it is nothing but price of one Unit of output because price is always per unit of a commodity.

Question 57**A firm should not produce at all if it's total.....costs are not met**

(a) Variable

(b) Fixed

(c) Both

(d) None

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Answer: a

Explanation:

If firm's total revenues are not enough to make good even the total variable costs it is better for the firms to shut down. In other words a competitive should shut down if the Price is below AVC.

Question 58

Market are generally classified into

- (a) Product & price (b) Price & competition
(c) Product & factors (d) Price & factor.

Answer: c

Explanation:

Markets are generally classified into product market and factor market.

Question 59

Total revenue will be maximum where elasticity is equal to

- (a) 1 (b) 0
(c) Infinite (d) None

Answer: a

Explanation:

Total revenue will be maximum where elasticity is equal to one

Question 60

State weather the following statement is true or false given reason when equilibrium Price of a good is less than its market price there will be competition among the seller

- (a) True (b) False
(c) Can't say (d) None

Answer: a

Explanation:

True, when equilibrium price of goods is less than its market price there will be competition among the seller at a price lower than market price there will be excess supply i.e. Supply will be more than demand.

Question 61

Demand Increase by 10% supply decrease by 80 % what will be the effect of equilibrium Price

- (a) Increase (b) Decrease
(c) Remain the same (d) Cannot be determine

Answer: a

Explanation:

An increase in demand and a decrease in supply will cause in equilibrium price but the effect on equilibrium.

Question 62

The following table gives the daily supply and demand for hot dogs at a sporting event;

Price Rs.	Quantity demanded	Quantity supplied
2.10	800	7,200
1.80	1,600	4,800
1.60	2,400	2,400
1.40	3,200	800
1.20	4,100	200

What is the equilibrium price of hot dogs?

- (a) 1.8 (b) 1.40
(c) 1.60 (d) 1.20

Answer: c

Explanation:

According to the definition the equilibrium price is the price at which quantity supplied equals quantity demanded from the table we can see that at \$ 1.60 $Q_s = Q_d = 2,400$ therefore \$ 1.60 is the equilibrium price

(I) if the organizer of the sporting event decides to set the price at 1.80, how many Hot dogs will be sold

- (a) 800 (b) 1600
(c) 2400 (d) 3200

Answer: b

Explanation:

At \$ 1.80, 4,800 hot dogs will be offered for sale but only 1,600 will be demanded therefore Only 1,600 hot dogs will be sold.

Question 63

Suppose wage rate of coal miners increases and price of natural gas decrease (coal and Natural gas are substitutes) what point in figure 1 is most likely to be the new equilibrium

Price and quantity?

- (a) Point 6 (b) Point 4
(c) Point 3 (d) Point 2

Answer: b

Question 64

Assume that consumer income has increased given that Y is an inferior good, which point in figure most likely to be the new equilibrium price and quantity?

- (a) Point 4 (b) Point 6
(c) Point 3 (d) Point 2

Answer: b

Question 65

Assume that the government has just removed the 10% excise duty on good x what Point in figure 1 id most likely to be new equilibrium price and quantity?

- (a) Point 6 (b) Point 4
(c) Point 7 (d) Point 8

Answer: d

Question 66

A government research agency has published outcome of studies which say that the Consumption of good X could causes: In addition assume that a powerful lobby has Persuaded the government to give subsidy to the manufacture of goods X what Point in figure is most likely to be the new equilibrium price and quantity.

- (a) Point 6 (b) Point 5
(c) Point 7 (d) Point 9

Answer: d

Question 67

An increase in demand and an increase in supply will:

- (a) Affect equilibrium quantity in an Indeterminate way and price will decrease (b) Affect price in an indeterminate way and quantity will decrease
(c) Affect price in an indeterminate way and Quantity will increase (d) Affect equilibrium quantity in an indeterminate way and price will increase

Answer: d

Question 68

In the table below what will be equilibrium market price?

Table 2

Price	Demand tones	Supply tones
-------	--------------	--------------

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1	1000	400
2	900	500
3	800	600
4	700	700
5	600	800
6	500	900
7	400	1000
8	300	1100

(a) Rs. 2

(b) Rs. 3

(c) Rs. 4

(d) Rs.5

Answer: c**Explanation:**

Demand and supply diagram in figure 1. D_1 and S_1 are the original demand and supply curves D_2, D_3, S_2 and S_3 are possible new demand and supply curves starting from initial equilibrium point (1) what point on the graph is most to result from each change

Question 69

Assume X is normal good. Holding everything else constant assume that the Income rises and the price of a factor of production also increase what point in figure 1 is most likely to be the new equilibrium price and quantity?

(a) Point 9

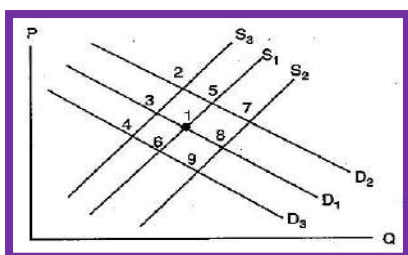
(b) Point 5

(c) Point 3

(d) Point 2

Answer: d**Explanation:**

Point 2. As there is increase in income the demand it implies that the demand will increase from D_1 to D_2 i.e., towards right and because the price of factors of production have increases there will be decrease in supply and it will move towards the left from S_1 to S_3 . The point of equilibrium for curve D_2 and S_3 is Point 2 being the new equilibrium point

**Question 70**

We are analyzing the market for good Z. the price of a complement good, goods Y Decline At the same time there is a technological advance in the

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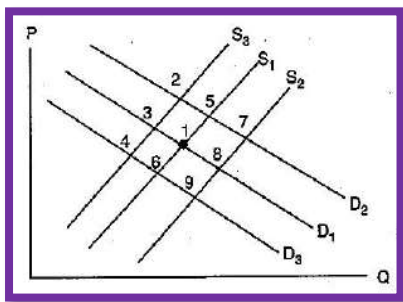
production of good Z What point figure 1 is most likely to be the new equilibrium price and quantity?

- (a) Point 4 (b) Point 5
(c) Point 7 (d) Point 8

Answer: c

Explanation:

Point 7. As there is a decline in the price of the complementary goods demand will increase for good Z as well as Good Y and therefore the demand curve for good Z shifts to the right from D_1 to D_2 . Technological advancement helps to reduce the cost of production and thereby increasing the supply of Good Z. The supply curve will shift towards the right from S_1 to S_2 . The new equilibrium of curves D_2 and S_2 is Point 7.



Question 71

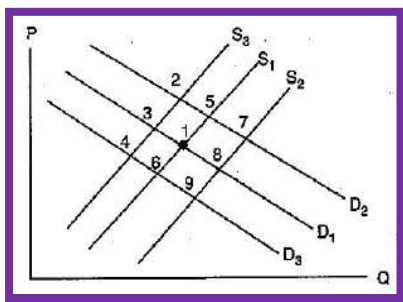
Heavy rain in Maharashtra during 2005 and 2006 caused havoc with the rice crop. What point in figure 1 is most likely to be the new equilibrium price and quantity?

- (a) Point 6 (b) Point 3
(c) Point 7 (d) Point 8

Answer: b

Explanation:

Point 3. Due to heavy rains in Maharashtra the supply for rice crops will reduce and the supply curve will shift towards the left from S_1 to S_3 but the demand will remain unchanged at D_1 because people will demand same regardless. The equilibrium point for S_3 and D_1 is point 3. In this case the price will increase and quantity will reduce.



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Question 72

Assume that consumers expect the price on new cars to significantly increase next year. What point in figure 1 is most likely to be the new equilibrium price and quantity?

- (a) Point 6 (b) Point 5
(c) Point 3 (d) Point

Answer: b

Explanation:

If consumers expect the prices of new cars to significantly increase next year the demand for the cars will increase this year from D1 to D2. A future expectation of consumers is one of the determinants of demand. The supply will remain the same at S1. The new equilibrium point for curve D2 and S1 is point 5.

Question 73

What combination of changes would most likely decrease the equilibrium quantity?

- (a) When supply but demand remains same (b) Supply changes but price remains same
(c) When supply increases and demand Increase (d) When supply decreases and demand decreases

Answer: d

Explanation:

When demand decreases and supply decreases simultaneously the demand curve as well as the supply curve shifts to the left. Due to the left ward shift the equilibrium quantity decreases but there is no change price.

Past Examination Question

MAY - 2018

Question 1

In very short period market

- (a) Supply changes but demand remains same (b) Supply changes but price remain some
(c) Supply remains fixed (d) Supply and demand both change

Answer: c

Explanation:

In very short period market it is not possible and easy to increase the supply as it is very Difficult to install new machinery or increase more labor so, in this market supply is fixed This leads to only profits commodities like vegetables flower, fish, egg, fruit,

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milk etc. which are of perishable nature are example of very short period market.

Question 2

A firm will close down in the short period if its AR is less than:

- | | |
|--------|-----------------------|
| (a) AC | (b) AVC |
| (c) MC | (d) None of the above |

Answer: b

Explanation:

In the short run fixed cost is fixed and variable cost is not fixed and if average revenue is less than its average variable cost or total variable cost then firm has to close down its business because no one wants to suffer loss by increase cost than revenue

Question 3

Condition for equilibrium of firm:

- | | |
|---------------------------------------|----------------------|
| (a) $MR = MC$ | (b) $AE = AC$ |
| (c) MC curve cuts MR curve from below | (d) Both (a) and (c) |

Answer: d

Explanation:

Condition for equilibrium of firm are:

1. Marginal revenue should be equal to marginal cost i.e. $MR = MC$
2. MC curve should cut MR curve from below i.e. MC should have positive Slope. Hence both condition.

Question 4

what is / are feature (s) of oligopoly

- | | |
|-----------------------------------|----------------------------------|
| (a) Kinked Demand curve | (b) Cartel |
| (c) Downward sloping demand curve | (d) Both (a) and (b) are correct |

Answer: d

Explanation:

Oligopoly is type of market in which there are only few buyers and seller (generally 2 to 10) And it was so many feature also and these are follow:

- ❖ Cartel
- ❖ Kinked Demand dependence
- ❖ Inter dependence
- ❖ Group behavior
- ❖ Important of advertising and selling costs

Question 5

Monopoly is undesirable due to follow:-

- | | |
|-------------------------------|----------------------------------|
| (a) It has prices higher than | (b) It produces less output than |
|-------------------------------|----------------------------------|

competitive firms

(c) It discriminates on prices

competitive firm

(d) All of the above

Answer: d

Explanation:

Monopoly means where only one seller exist and take all the profits it has some feature From his point of view & view & undesirable also from public point of view these are:

- ❖ Price Discrimination
- ❖ Product less output than competitive firms
- ❖ Prices higher than competitive

Question 6

In long run equilibrium undue perfect competition is / are satisfied by which condition

(a) $MC = MR$

(b) $AC = AR$

(c) $LMC = LAC = P$

(d) All of the above

Answer: d

Explanation:

Equilibrium point is judged in long run when there is / are following condition given:

- ❖ Marginal Cost = Marginal Revenue or $MC = MR$
- ❖ Average Cost = Average Revenue or $AC = AR$
- ❖ Long run Marginal Cost = Long run Average Cost = Price or $LMC = LAC = P$

Question 7

In the long Run, monopolist

(a) Incur

(b) Want to short down

(c) Must earn super normal profit

(d) Earns only normal profits

Answer: c

Explanation:

Monopoly means one seller and many buyers Monopoly is kind of market in which seller is known As monopolist and as his business gross for long time then he not only earns normal profits but also Abnormal profits and which is known as super profits. So the must earn super normal profits in long run.

Question 8

The demand curve of the firm and industry will be same in which form of market

(a) Monopolistic

(b) Perfect competition

(c) Monopoly

(d) Oligopoly

Answer: c

Explanation:

Demand curve of firms and industry will same in monopoly markets as price set by industry And firms have to choose that level of output which yields maximum profits.

Question 9

Which of these is the best example of oligopoly?

- (a) OPEC (b) SAARC
(c) WTO (d) GATI

Answer: a

Explanation:

Oligopoly market is type of market in which there is only 2 to 10 seller For Ex: OPEC, cold - drink seller, water supplier etc.

Question 10

In a perfectly competitive market if MR is greater than MC then a firm should

- (a) Increase its production (b) Decrease its production
(c) Decrease its sale (d) Increase its sale

Answer: a

Explanation:

In a perfect competition market when firm increase its output or production then the Reason is its Marginal Revenue / Average Revenue is greater than Marginal Cost / Average Cost

Question 11

Equilibrium price for an industry in perfect competition is fixed through

- (a) Input and output (b) Market demand and market supply
(c) Market demand and firms supply (d) None of these

Answer: b

Explanation:

Equilibrium is that price at which both demand and supply are equal and therefore no buyer who wanted to buy at that price goes dissatisfied and none of these dissatisfied that he could not sell his goods at that price Equilibrium price in perfect competition is fixed through Market supply and Market Demand.

Question 12

Market forms in which there is only one buyer and one seller is:

- (a) Oligopoly (b) Duopoly
(c) Bilateral Monopoly (d) Monopoly

Answer: d

Explanation:

Monopoly is type of market in which there are only seller and one buyer.

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NOV - 2018**Question 1**

The structure of the Toothpaste industry in India is best described as:

- (a) Perfectly competitive (b) Monopolistic
(c) Monopoly (d) Oligopolistic

Answer: b

Explanation:

Monopolistic market has differentiated products with close substitution just like toothpaste Industries.

Question 2

Product differentiation is the main features of which market?

- (a) Oligopoly (b) Monopolistic
(c) Discriminating Monopoly (d) Perfect competition

Answer: b

Explanation:

In monopolistic competitive market there are large number of buyer and seller each selling differentiated product.

Question 3

Which market is having a single seller and single buyer?

- (a) Duopoly (b) Monopoly
(c) Bilateral Monopoly (d) One of the above

Answer: c

Explanation:

Bilateral Monopoly is a market structure in which there is only a single buyer and a single I.e.

Question 4

In long run, perfect competitive market incurs

- (a) Normal profit (b) Super normal profit
(c) Losses (d) Constant returns

Answer: a

Explanation:

In long run firms will just be earning normal profit because if in short run they earning supernormal profit new firms will be attracted and supply will rise which leads to fall in prices and vice versa.

Question 5

Which one of the following is not feature of Oligopoly?

- (a) Interdependency (b) selling cost

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(c) Free entry

(d) group behavior

Answer: c**Explanation:****Feature of oligopoly are:**

- ❖ Strategic interdependent
- ❖ Important of advertising and selling cost
- ❖ Group behavior
- ❖ Therefore free entry is not a feature of oligopoly

Question 6**Price leadership is the characteristic of**

(a) Oligopoly

(b) Monopoly

(c) Perfect competition

(d) Discriminating Monopoly

Answer: a**Explanation:**

Price leadership can be done by dominant firm a low cost firms or it can be barometric price leadership

Question 7**MR Curve in perfect competition is**

(a) Parallel to X – axis

(b) Parallel to Y - axis

(c) Fall from left to right

(d) Rise from left to right

Answer: a**Explanation:**

MR curve in perfect competition is parallel to x – axis a perfectly competitive firm is a price taker and faces a horizontal demand curve its Mc curve is also horizontal And coincides with its AC curve.

Question 8**Which of the following is correct?**(a) $MR = AR (e - 1) / e$ (b) $MR = AR (e + 1) / e$ (c) $MR = AR (1 - e) / e$

(d) None

Answer: a**Explanation:**

MR, AR and price elasticity of demand are uniquely related to one another through the **Formula**, $MR = AR \times e - 1/e$ therefore a is correct option_

MAY - 2019**Question 1**

Issues requiring decision making in the context of business are:

- (a) How much should be the optimum at what price should the firms sell
(b) How will the product be placed in the Market?
(c) How to combat the risk and Uncertainties involved?
(d) All of the above

Answer: d**Explanation:**

Issue requiring decision making in the context of business are :-

- How much should be the optimum at what price should the firms sell
- How will the product be placed in the Market?
- How to combat the risk and Uncertainties involved?

Question 2**Product differentiation is an important feature of :**

- (a) Monopoly
(b) imperfect competition
(c) Perfect competition
(d) Discriminating monopoly

Answer: b**Explanation:**

Product differentiation is an important feature of imperfect competition.

Question 3**Price leadership is used to explain firm`s behavior under:**

- (a) Monopoly
(b) Oligopoly
(c) Perfect competition
(d) Discriminating monopoly

Answer: b**Explanation:**

Price leadership is used to explain firms behavior under Oligopoly

Question 4**A market which has single buyer and single seller is called.....**

- (a) Monopoly
(b) Bilateral monopoly
(c) Duopoly
(d) Monopoly

Answer: b**Explanation:**

A market which has single seller is called bilateral monopoly

Question 5

Which one of the following is not a feature of oligopoly?

- (a) Inter dependence (b) Selling cost
(c) Group behavior (d) Free entry

Answer: d

Explanation:

An oligopoly is a market form where in a market or industry is dominated by a small number of large sellers. Oligopolies can result from various forms of collusion which reduce competition and leads to higher prices for consumers. Oligopolies have their own market structure.

Question 6

If the supply of a commodity does not change then with every increase in demand Rise will

- (a) Remain same (b) Increase
(c) Decrease (d) Becomes zero

Answer: b

Explanation:

If the supply of a commodity does not change then with every increase in demand price will increase.

Question 7

If there is an increase in supply without any change in demand, equilibrium price will.....

- (a) Increase (b) Decrease
(c) Remain unchanged (d) Becomes zero

Answer: b

Explanation:

If there is an increase in supply without any change in demand, equilibrium price will decrease.

Question 8

The structure of tooth paste industry in India is best described as amarket

- (a) Perfectly competitive (b) Monopoly
(c) Monopolistically competitive (d) Oligopolistic

Answer: c

Explanation:

The structure of tooth paste industry in India is best described as a monopolistically competitive market.

Question 9

Under the first degree of price discrimination the monopolist charges different

- (a) Price, From different persons (b) For different quantity sold

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(c) At different markets

(d) In all of the above situations

Answer: a

Explanation:

Under the first degree of price discrimination the monopolist charges different price from different persons.

Question 10

In a monopoly market which of the following is not found?

(a) Single seller

(b) barriers to entry

(c) Close substitutes

(d) All of these

Answer: c

Explanation:

A monopoly exists when a specific person or enterprise is the only supplier of a particular commodity. This contrasts with a monopoly which relates to a single entity's control of a market to purchase a good or services and with oligopoly which consists of a few seller dominating a market.

Question 11

In long run a perfectly competitive firms earns

(a) Normal Profits

(b) Abnormal Profits

(c) Super normal profits

(d) Neither profits nor losses

Answer: a

Explanation:

In long run a perfectly competitive firms earns Normal Profits

Question 12

Under perfect competition demand curve for individual firms is:

(a) In elastic

(b) Unitary elastic

(c) Perfectly elastic

(d) Perfectly um elastic

Answer: c

Explanation:

Under perfect competition demand curve for individual firm is perfectly elastic

Question 13

Which of the following is not a feature of perfect competition?

(a) Homogenous

(b) Large number of buyer & seller

(c) Free entry

(d) Selling cost

Answer: d

Explanation:

Selling expenses are the cost associated with distributing marketing and selling a product or Services Marketing costs such as advertising websites maintenance and spending on social Media selling costs such as wages commissions and out - of -

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pocket expenses Hence ,selling cost is not a feature of perfect competition.

Question 14

Marginal revenue curve of a firm under perfect competition:

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

Answer: d

Explanation:

Marginal revenue curve of a firm under perfect competition parallel to x- axis.

DEC - 2020

Question 1

If a seller obtains Rs.6,000 after selling 50 units and Rs.6,204 after selling 53 units, then marginal revenue will be:

- (a) Rs.204 (b) 68
(c) 120 (d) 118

Answer: b

Explanation:

UNIT	TR
50	6000
53	6204

$$MR = \frac{\Delta TR}{\Delta Q}$$

$$\frac{6204-6000}{53-50} = 68$$

Question 2

On the basis of nature of transaction, a market may be classified into

- (a) Regulated and unregulated market (b) Wholesale and retail market
(c) Spot market and Future market (d) National and international market

Answer :c

Explanation:

Generally, wholesalers buy secondary products and sell them to retailers. In this type of market, retailers sell products to final consumers. On the basis of nature of transaction, market can be classified into spot market and future market.

Question 3

When a firm produces 7 units of production and the TR is Rs.42 after raising the production to 8 units TR reached Rs.46. marginal revenue will be

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- (a) Rs.6 (b) Rs.4
(c) Rs. 5 (d) Rs.8

Answer: b

Explanation:

According to the MR-MC approach, the firm (or producer) will attain its equilibrium, where the following two necessary and sufficient conditions are fulfilled:

1. MR=MC
2. MC must be rising after the equilibrium level of output.

Thus, by looking at the question given above, we can say that the firm is in equilibrium at output equal to 4 units. When the output is 4 units, MR=MC (thus, the first condition is satisfied) and MC increases after the 4th unit of output (thus, the second condition is satisfied).

At output less than 4 units, if the firm produces slightly lesser level of output than 4 units, then the firm is facing price that exceeds the MC. This implies that higher profits can be achieved by increasing the level of output to 4 units. On the other hand, if the firm produces slightly higher level of output than 4 units, then the firm is facing price that falls short of the MC. This implies that higher profits can be achieved by reducing the output level to 4 units. Thus, only at 4 units of output, the producer will be in equilibrium and the profit maximizing output level, where Price(P)=MC and also MC curve is rising.

Question 4

A market where goods are exchanged for money payable either immediately or within short span of time

- (a) Forwarded market (b) Regulated market
(c) Spot market (d) Wholesale market

Answer: c

Explanation:

The spot market or cash market is a public financial market in which financial instruments or commodities are traded for immediate delivery. It contrasts with a futures market, in which delivery is due at a later date.

Question 5

ABC Ltd realizes total revenue of Rs. 6,000 by the sale of 120 units and Rs. 6050 by the sale of 121 units. What is the average revenue when ABC Ltd sells 121 units

- (a) 6000 (b) 6050
(c) 50 (d) 100

Answer: c

Explanation:

$$\text{Average Revenue (AR)} = \frac{TR}{Q}$$

as per question $6000/120 = 50$ & $6050/121 = 50$
Hence, Answer is 50

Question 6

When ABC Ltd sells 130 units then total revenue will be

- (a) 18550 (b) 12050
(c) 6000 (d) 6500

Answer : d

Explanation: $AR = 50$ $TR = AR \times Q = 50 \times 130 = 6500$

Question 7

Answer the following questions

Output	0	1	2	3	4	5	6
Total Revenue	100	180	250	310	360	400	430

Find the marginal revenue at 5th unit is

- (a) 60 (b) 55
(c) 45 (d) 40

Answer : d

Explanation:

Marginal Revenue = $\frac{\text{Change in Revenue}}{\text{Change in Quantity}}$

$$\frac{400 - 360}{1} = 40$$

Question 8

kinked demand hypothesis is designed to explain the ___ under oligopolistic market

- (a) Collusion between firms (b) price and output determination
(c) Rigidity of price (d) Price leadership

Answer : c

Explanation:

In the context of oligopoly, the kinked demand curve hypothesis is designed to explain Price rigidity. The curve is more elastic above the kink and less elastic below it. This means that the response to a price increase is less than the response to a price decrease.

Question 9

_____ is the best example of oligopoly

- (a) SAARC (b) WTO
(c) GATT (d) OPEC

Answer : d

Explanation:

The Organization of Petroleum Exporting Countries (OPEC) is an example of an oligopoly

Question 10

Aluminum industry is the example of which type of oligopoly

- (a) Open oligopoly (b) Full oligopoly
(c) Pure oligopoly (d) Syndicated oligopoly

Answer: c

Explanation:

Examples of pure oligopolies industries are cement, steel and copper and aluminum industry because these all falls in the same categories which are related to construction.

Question 11

In which market prices are determined by the market forces of demand and supply?

- (a) Monopoly (b) Perfect Competition
(c) Monopolistic Competition (d) Oligopoly

Answer : b

Explanation :

Pure or perfect competition is a theoretical market structure in which the following criteria are met:

- All firms sell an identical product (the product is a "commodity" or "homogeneous").
- All firms are price takers (they cannot influence the market price of their product).
- Market share has no influence on prices

Question 12

Railways charges comparatively cheaper fares from senior citizens. This is an example of

- (a) Price discrimination (b) Market analysis
(c) Profit discrimination (d) Demand forecasting

Answer : a

Explanation:

Price discrimination is a selling strategy that charges customers different prices for the same product or service based on what the seller thinks they can get the customer to agree to. In pure price discrimination, the seller charges each customer the maximum price he or she will pay.

Question 13

Smart phones market is an example of

- (a) Monopoly (b) Monopolistic competition
(c) Oligopoly (d) Perfect competition

Answer : c**Explanation:**

Oligopoly is a market structure with a small number of firms, none of which can keep the others from having significant influence. The concentration ratio measures the market share of the largest firms. A monopoly is one firm, a duopoly is two firms and an oligopoly is two or more firms

Question 14**Collusion is impossible if an industry has**

- (a) Large number of firms (b) Only few number of firms
(c) Only two firms (d) Limited number of firms

Answer: a**Explanation:**

Collusion is impossible if an industry has large number of firms - Firms in any industry could achieve the maximum profit attainable if they all agreed to select the monopoly price and output and to share the profits. One approach to the analysis of oligopoly is to assume that firms in the industry collude, selecting the monopoly solution.

Question 15**When the industry is dominated by one large firm it is called :**

- (a) Partial oligopoly (b) Full oligopoly
(c) Organized oligopoly (d) Closed oligopoly

Answer : a**Explanation:**

Partial oligopoly refers to that market situation where the industry is dominated by one large firm (known as the leader) and the other firms (known as the followers) of the industry follow the price policy determined by their leader.

Question 16**Choose the incorrect statement regarding the barometric price leadership**

- (a) Live and let live philosophy is followed (b) Old and experienced firm acts as a leader
(c) Price decided by assessing market conditions (d) Price decided by leader is generally accepted by the rest of all

Answer : a**Explanation:**

The barometric price leadership model occurs when a particular firm is more adept

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than others at identifying shifts in applicable market forces, such as a change in production costs. This allows the firm to respond to market forces more efficiently. For instance, the firm may initiate a price change.

Question 17

“Competition among few” is described in

- | | |
|--------------|---------------|
| (a) Monopoly | (b) Oligopoly |
| (c) Duopoly | (d) Monophony |

Answer : b

Explanation:

Oligopoly is a market structure with a small number of firms, none of which can keep the others from having significant influence. The concentration ratio measures the market share of the largest firms. A monopoly is one firm, a duopoly is two firms and an oligopoly is two or more firms

JAN - 2021

MARKETS

Question 1

Which one is not a part of the elements of market?

- | | |
|----------------------------|---------------------------|
| (a) Buyers and sellers | (b) A product of services |
| (c) Bargaining for a price | (d) Volume of a business |

Answer: d

Explanation:

Elements of Market:

The essentials of a market are

- Presence of Products and services to be exchanged.
- Existence of one or more buyers and sellers.
- Buyers and sellers have bargaining power for the concerned goods.

Question 2

In the market structure, demand curve is also known as:

- | | |
|----------------------------|----------------------------|
| (a) Marginal cost curve | (b) Average revenue curve |
| (c) Total production curve | (d) Marginal utility curve |

Answer: b

Explanation:

Average revenue curve is often called the demand curve due to its representation of the product's demand in the market. The average revenue is also the curve which represents the price of a product.

Question 3

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Secular period is also known as

- (a) Very short period (b) Very long period
(c) Short period (d) Long period

Answer: b**Explanation:**

A secular market trend is a market trend that lasts upto 5 to 25 years and consists of series of primary trends. Hence, secular period is also known as very long period.

Question 4**Total revenue curve initially increases at a diminishing rate due to ____**

- (a) Diminishing average revenue curve (b) Diminishing marginal revenue curve
(c) Diminishing average fixed revenue curve (d) Diminishing cost curve

Answer: b**Explanation:**

The marginal revenue is the slope of the total-revenue curve at any one level of output. If the demand curve is linear, it is obvious that in order to sell an additional unit of x its price must fall.

Question 5**Total revenue curve is**

- (a) Positively sloped (b) Negatively sloped
(c) Downward sloping (d) Vertical to X axis

Answer: a**Explanation:**

Total revenue curve is a positively sloped straight line when price remains same at all levels of output. It happens because in case of constant prices, total revenue increases at a constant rate.

PRICE AND OUTPUT DETERMINATION UNDER DIFFERENT MARKETS**Question 6****Which of the following is not a condition of perfect competition?**

- (a) A large number of firms (b) Perfect mobility of factors
(c) Informative advertising to ensure that consumers have good information (d) Freedom of entry and exit into and out of the market.

Answer: c**Explanation:**

The four key characteristics of perfect competition are:

- + A large number of firms,

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- + Identical products sold by all firms,
- + Perfect resource mobility or the freedom of entry into and exit out of the industry, and
- + Perfect knowledge of prices and technology.

Question 7

Oligopoly industries are characterized by

- | | |
|--|--|
| (a) A few dominant firms and substantial barriers to entry | (b) A few large firms and no entry barriers |
| (c) A large number of small firms and no entry barriers | (d) One dominant firm and low entry barriers |

Answer: a

Explanation:

CHARACTERISTICS OF OLIGOPOLY:-

- + A Few Firms with Large Market Share.
- + High Barriers to Entry.
- + Interdependence.
- + Each Firm Has Little Market Power In Its Own Right.

Question 8

The long run equilibrium outcomes in monopolistic competition and perfect competition are similar, because in both market structures:

- | | |
|---|---|
| (a) The efficient output level will be produced | (b) Firms will be producing at minimum average cost |
| (c) Firms realize all economies of scale | (d) Firms will only earn normal profit |

Answer: d

Explanation:

Both market structures will only earn a normal profit in long run, due to free many and exist of firms under both markets.

Question 9

Pure oligopoly is based on the _____ production

- | | |
|-----------------|------------------|
| (a) Homogeneous | (b) Differential |
| (c) Unrelated | (d) Related |

Answer: a

Explanation:

Oligopoly market sells homogeneous or differentiated products but pure oligopoly market is based on the homogeneous products

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Question 10

In the competitions of oligopoly, the kinked demand curve hypothesis is designed to explain.

- (a) Price rigidity
(c) Price leadership
- (b) Price and output determination
(d) Collusion among rivals

Answer: a

Explanation:

The kinked-demand curve model (also called Sweezy model) posits that price rigidity exists in an oligopoly because an oligopolistic firm faces a kinked demand curve.

JULY - 2021

MARKET

Question 1

Which of the following is the price at which the quantity demanded of a commodity is equal to the quantity supplied of the commodity and there is no unsold stock or no unsupplied demand?

- (a) Selling price
(c) Asking price
- (b) Market clearing price
(d) Future price

Answer: b

Explanation:

The equilibrium is the only price where quantity demanded is equal to quantity supplied. At a price above equilibrium, like 1.8 dollars, quantity supplied exceeds the quantity demanded, so there is excess supply.

Question 2

Which of the following is not an element of market?

- (a) Knowledge about market price
(c) Product or service
- (b) No bargaining for price
(d) Buyers and sellers

Answer: b

Explanation:

Target market is not an element of the marketing mix. A target market refers to a group of potential customers to whom a company wants to sell its products and services

Question 3

On the basis of nature of transaction market can be classified as.

- (a) Wholesale market
(b) Future Market and Spot market

(c) Regulated market and unregulated market (d) Money market and Future market

Answer: b

Explanation:

In this type of market, retailers sell products to final consumers. On the basis of nature of transaction, market can be classified into spot market and future market.

Question 4

The equilibrium quantity increases but the change in equilibrium price is uncertain, when

- (a) Both demand and supply decrease (b) Both demand increase and supply decrease
(c) Both demand and supply increase (d) Demand decrease and supply increase

Answer: c

Explanation:

The equilibrium price is the price at which the quantity demanded equals the quantity supplied. ... An increase in demand, all other things unchanged, will cause the equilibrium price to rise; quantity supplied will increase. A decrease in demand will cause the equilibrium price to fall; quantity supplied will decrease.

Question 5

Marginal revenue will be positive where price elasticity of demand is

- (a) Zero (b) More than one
(c) Less than one (d) Equal to one

Answer: b

Explanation

Marginal revenue will be positive if elasticity of demand is more than one

Question 6

A seller realizes ₹25000/- after selling 15 units and he realizes ₹35000/- after selling 25 units, what is the marginal revenue here?

- (a) ₹2500/- (b) ₹100/-
(c) ₹1000/- (d) ₹3500/-

Answer: (c)

Explanation:

$$MR = \frac{\Delta TR}{\Delta Q} = 1000$$

Question 7

This is the market where the commodities are bought and sold in bulk or large quantities. Transactions generally take place between trades,

- (a) Wholesale market (b) Regulated market

(c) Local market

(d) Retail market

Answer: (a)

Explanation:

A wholesale market is one in which commodities are bought and sold in large lots or in bulk. Transactions in these markets take place mainly between traders.

PRICE AND OUTPUT DETERMINATION IN DIFERENT MARKETS

Question 8

Which of the following is an example of monopolistic competition?

(a) DeBeers and diamonds

(b) Hotel and pubs

(c) Microsoft and windows

(d) Dell and Lenovo

Answer: b

Explanation:

Textbook examples of industries with market structures similar to monopolistic competition include restaurants, cereal, clothing, shoes, and service industries in large cities. Clothing: The clothing industry is monopolistically competitive because firms have differentiated products and market power.

Question 9

Which of the feature is not a feature of monopoly market?

(a) large seller of the product

(b) No close substitutes

(c) Market power

(d) Single seller of the product

Answer: (b)

Explanation:

A monopoly and an oligopoly are market structures that exist when there is imperfect competition. A monopoly is when a single company produces goods with no close substitute, while an oligopoly is when a small number of relatively large companies produce similar, but slightly different goods.

Question 10

Who propounded price rigidity kinked demand curve model of oligopoly

(a) Adam Smith

(b) Karl max

(c) Keynes

(d) Paul A. Sweezy.

Answer: (d)

Explanation:

The kinked demand curve of oligopoly was developed by Paul M. Sweezy in 1939. Instead of laying emphasis on price-output determination, the model explains the behavior of oligopolistic organizations

Question 11

A firm, to attain the equilibrium position under perfect competition has to

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satisfy which of the following conditions?

- | | |
|---|--|
| (a) $MR > MC$ | (b) $MR = MC$ |
| (c) MR curve should cut MC curve from below | (d) MC curve should cut MR curve from below. |

Answer: d

Explanation

Perfect competition will achieve equilibrium, when all firms make only normal profit in the long run, i.e., $TC = TR$. Each firm will produce at the profit maximizing level of output which is attained when $MC = MR$ and the MC curve should intersect the MR curve from below for maximizing profit in absolute terms. Also, since firms are price takers, $MR = AR = P$.

Question 12

Which one of the following is not a characteristic of Oligopoly?

- | | |
|--------------------------------|---|
| (a) Strategic interdependence | (b) large number of firms selling close substitutes |
| (c) Importance of selling cost | (d) Group behavior |

Answer: b

Explanation:

Few large producers (3-4 firms) (alongside possibly a very large number of small firms but the few large firms produce most of the output).

Question 13

A group of firms that explicitly agree (collude) to coordinate their activities is called a / an _

- | | |
|---------------|-------------|
| (a) Oligopoly | (b) Duopoly |
| (c) Monopsony | (d) Cartel |

Answer: d

Explanation:

A cartel is an agreement among competing firms to collude in order to attain higher profits.

Question 14

Electricity companies sell electricity as a cheaper rate for power consumption in rural areas than for industrial consumptions. This is an example of

- | | |
|----------------------------|-------------------------|
| (a) Product discrimination | (b) Perfect competition |
| (c) Price discrimination | (d) Price taker |

Answer: c

Explanation:

Price discrimination is a microeconomic pricing strategy where identical or largely similar goods or services are sold at different prices by the same provider in different markets.

An example of price discrimination would be the cost of movie tickets. Prices at one

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theater are different for children, adults, and seniors. The prices of each ticket can also vary based on the day and chosen show time. Ticket prices also vary depending on the portion of the country as well.

Question 15

Non-price competition is observed in type of following market?

- | | |
|--------------|------------------------------|
| (a) Monopoly | (b) Monopolistic Competition |
| (c) Duopoly | (d) Oligopoly |

Answer: b

Explanation:

Monopolistic market structures also engage in non-price competition because they are not price takers. Due to having rather fixed market prices, leading to inelastic demand, they engage in product differentiation.

DEC – 2021

Question 1

Perfect competition firm cannot earn in the long form

- | | |
|-------------------------|---------------------|
| (a) Supernormal profits | (b) abnormal profit |
| (c) both | (d) none |

Answer: c

Explanation:

Supernormal profits and abnormal profit: Under perfect competition, no firm can earn abnormal profits in the long run. This is because if any firm in the long run earns abnormal profits (that is price > minimum of average cost curve), then new firms are attracted into the market.

Question 2

When the industry is dominated by one large firm it is called -

- | | |
|-----------------------|---------------------|
| (a) Full oligopoly | (b) major oligopoly |
| (c) partial oligopoly | (d) none |

Answer: c

Explanation:

Partial oligopoly: Partial oligopoly is a market situation where one large firm dominates the market and is locked upon by the price leader. Hence, in oligopoly, when the industry is dominated by one large firm which is considered as leader of the group. This is called partial oligopoly.

Question 3

Which market is having a single seller and single buyer -

- (a) bilateral monopoly (b) cartoonist monopoly
(c) Lateral monopoly (d) semi- lateral monopoly

Answer: a

Explanation:

Bilateral monopoly: A bilateral monopoly exists when a market has only one supplier and one buyer. The one supplier will tend to act as a monopoly power and look to charge high prices to the one buyer. The lone buyer will look towards paying a price that is as low as possible.

Question 4

Automobile company is an example of

- (a) monopoly (b) monopolistic
(c) oligopoly (d) None

Answer: c

Explanation:

Oligopoly: The automobile industry is an example of an monopolistically competitive market because it an oligopoly for legal reasons.

Question 5

Price discrimination refers to practices of changing ____ prices for ___ units of the ____ commodity

- (a) different, different, same (b) different, same, same
(c) same, different, same (d) different, different, different

Answer: b

Explanation:

Price discrimination is a competitive pricing strategy used by businesses and sellers. Price discrimination involves the use of different prices charged to various customers for the same product or service. It is commonly used by larger, established businesses to profit from differences in supply and demand from consumers.

JUNE -2022

Unit :1 - Meaning and Types of Market

Question 1

Demand Curve is also Known as:

- (a) MR Curve (b) AR Curve
(c) MC Curve (d) MR Reserve

Answer: a

Explanation:

Demand curve is also known as Marginal revenue curve in a market.

For more Info Visit [www. KITest.in](http://www.KITest.in)

Question 2**Prices in monopoly are higher than price under:**

- (a) Oligopoly (b) Duopoly
(c) Monopoly (d) Perfect Competition

Answer: d**Explanation:**

Prices in monopoly are most high as compared to prices in perfect competition. Monopolies being price makers and charging prices to increase their revenues more as compared to other market forms.

Question 3**In Oligopoly upper part shows which elasticity:**

- (a) Less than (b) Greater than
(c) Zero (d) Negative

Answer: b**Explanation:**

In oligopoly the kinked demand curve has two parts the upper part being relatively more elastic and the lower part being less elastic than the upper part.

Question 4**Which of the following is closely related to perfect competition?**

- (a) Mobiles (b) Cars
(c) Utensils (d) Agricultural Products

Answer: d**Explanation:**

Agricultural products are not highly perfect competitive market but are closely related to perfect competitive market.

Question 5

If the price of good is ₹ 100 per unit & quantity demanded is 900 units. If the price decreased to ₹ 90 per unit then the demand increases to 1000 units calculate marginal revenue.

- (a) 0 (b) Rs 10
(c) Rs 90 (d) Rs 100

Answer: a**Explanation:**

Price	Quantity	Total Revenue	Marginal Revenue
100	900	90,000	-
90	1000	90,000	0

Marginal Revenue is 0

$$\left[\begin{array}{l} \text{Total Revenue} = \text{Price} \times \text{Quantity} \\ \text{Marginal Revenue} = \text{TR}_n \times \text{TR}_{n-1} \end{array} \right]$$

Question 6

No substitution are found in which form of Market:

- | | |
|-------------------------|------------------------------|
| (a) Perfect competition | (b) Oligopoly |
| (c) Monopoly | (d) Monopolistic Competition |

Answer: c

Explanation:

No substitutes are found in monopoly form of market. Oligopoly has less substitutes as compared to monopoly, but in perfect competition every product is a substitute of each other.

Question 7

The market is the direct relationship between-

- | | |
|-------------------------------|-------------------------------|
| (a) Buyer and seller | (b) Whole seller and retailer |
| (c) Consumer and manufactures | (d) None of the above |

Answer: a

Explanation:

The market is the direct relationship between a buyer and seller. Where the buyer and seller are the essential elements of market and they influence the price.

Question 8

Which commodity is best for the short term period market?

- | | |
|---------------------------|----------------------|
| (a) Fruits and Vegetables | (b) Automobiles |
| (c) Electronic goods | (d) All of the above |

Answer: a

Explanation:

For short term period market is best for perishable goods like fruits and vegetables that are needed in day to day life.

Question 9

Demand for a firm's product when express as in percentage of an industry demand it signifies the _____ of firm.

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

Answer: b

Explanation:

Demand for a firms product when express as in percentage of an industry demand it signifies the market share of the firm.

Question 10

Which of the following is true?

- (a) Perfect competition sells heterogeneous product
- (b) Oligopolistic incurs a good amount of selling cost.
- (c) Monopolist always earns super normal profit
- (d) Oligopolistic economy do not get hike in their normal profit.

Answer: b**Explanation:**

In an oligopolistic market, advertising & selling and have great importance. Therefore, oligopolistic incurs a good amount of selling cost.

Question 11**Which of the following is correct?**

- (a) Total revenue is equal to price \times Quantity
- (b) Sum of Average Revenue
- (c) Sum of Quantity sold \times marginal revenue
- (d) All of the above

Answer: a**Explanation:**

The Formula for the total revenue (TR) is

$TR = P \times Q$, where P is price and Q is quantity sold.

Unit :2 - Determination of Prices**Question 12****In monopoly MR is ___AR**

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

Answer: a**Explanation:**

In monopoly MR is always less than AR, as AR i.e. prices are always greater than marginal revenue to earn economic profit.

Question 13**Non- Price competition typically occurs within:**

- (a) Monopoly
- (b) Perfect Competition
- (c) Monopolistic
- (d) Oligopoly

Answer: c**Explanation:**

A monopolistic competition has non-price competition. In non- price competition all firms are safe and they don't need to reduce the profit margins.

Sellers attempt to provide and promote their products not by cutting prices but by incurring expenditure on publicity and advertisement.

Question 14

On the upper side of kinked demand curve what is elasticity of demand-

- (a) Less elastic (b) Inelastic
(c) Relatively elastic (d) Infinite

Answer: c

Explanation:

On the upper side of kinked demand curve elasticity of demand is relatively more elastic than elasticity on the lower side of demand curve.

Question 15

Price rigidity is a concept of -

- (a) Perfect competition (b) Monopoly
(c) Monopolistic (d) Oligopoly

Answer: d

Explanation:

Price rigidity is feature of oligopoly as price does not change easily in response to change in demand. If an firm raises price others keep constant. Hence, it is not rational to keep prices increases, so prices are rigid.

Question 16

A firm should produce till MC _____ MR

- (a) Greater (b) Less
(c) Equal (d) All of the above

Answer: c

Explanation:

According to the economic theory, a firm should expand production until the point where marginal cost is equal to marginal revenue.

DEC -2022**Question 1**

Which of the following statement is correct?

- a) Price rigidity is an important feature of monopoly. b) Selling costs are possible under perfect condition
c) Under perfect competition factors of production do not move freely as there are legal restrictions d) An Industry consists of many firms.

Answer: d

Explanation

An Industry consists of many firms.

Question 2

If the change in supply is more than the demand curve, what will be the effect on price

- | | |
|--------------|----------------------|
| a) uncertain | b) decrease |
| c) increase | d) none of the above |

Answer: a

Explanation

The direction of change is not specified so the price change is uncertain.

Question 3

Not a condition for perfect competition

- | | |
|----------------------------|--|
| a) A large number of firms | b) Perfect mobility of factors |
| c) downward sloping curve | d) Freedom of entry and exit into and out of the market. |

Answer: C

Explanation

The four key characteristics of perfect competition are:

- A large number of firms,
- Identical products sold by all firms,
- Perfect resource mobility or the freedom of entry into and exit out of the industry, and
- Perfect knowledge of prices and technology

Question 4

Oligopolist will try to maximize profits by:

- | | |
|---|-----------------------------------|
| a) by charging more than perfect competition | b) by charging less than monopoly |
| c) by charging more than perfect competition & less than monopoly | d) none of the above |

Answer: c

Explanation

Oligopolist will try to maximize profits by charging more than perfect competition & less than monopoly

Question 5

Oligopoly is also known as

- a) group oligopoly
- b) duopoly
- c) cartal
- d) all of the above

Answer: a**Explanation**

An oligopoly is a market characterized by a small number of firms who realize they are interdependent in their pricing and output policies. The number of firms is small enough to give each firm some market power.

Question 6**Kinked demand model is also known as**

- a) hypothesis model
- b) Keynes model
- c) sweezy model
- d) none of the above

Answer: c**Explanation**

American economist Sweezy came up with the kinked demand curve hypothesis to explain the reason behind this price rigidity under oligopoly. According to the kinked demand curve hypothesis, the demand curve facing an oligopolist has a kink at the level of the prevailing price.

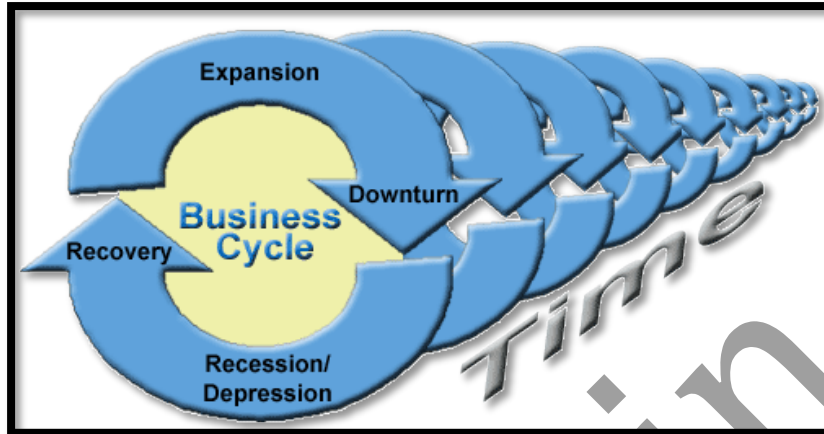
Question 7**In kinked demand curve, the upper part has which type of elasticity?**

- a) Less than 1
- b) zero
- c) greater than 1
- d) none of the above

Answer: c**Explanation**

In kinked demand curve, the upper part has elasticity is greater than 1

CH:5- BUSINESS CYCLE

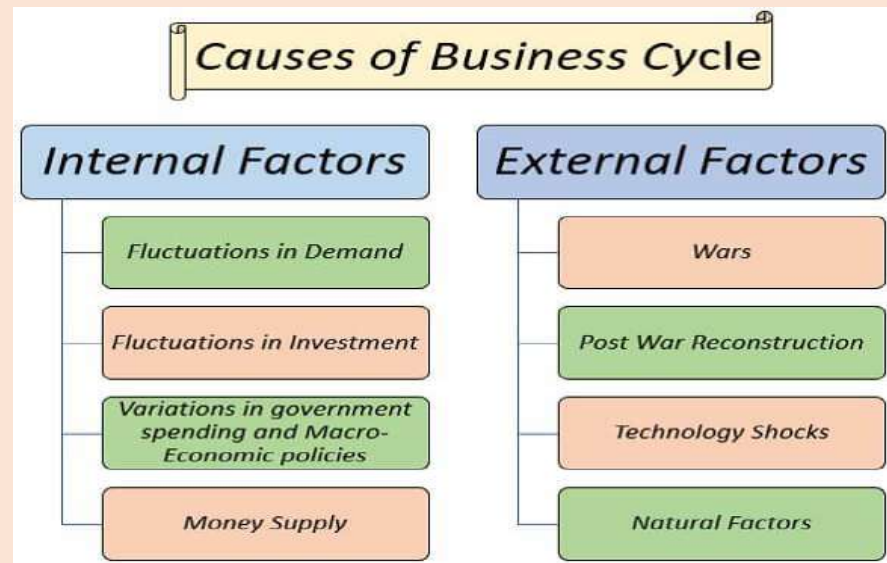


Meaning	<p>The rhythmic fluctuation in aggregate economics activity than an economy experiences over a period of time are called business cycle or trade cycle and are manifested in fluctuation in measures of aggregate economics activity such as gross national product, employment and income.</p>
Phase	<div style="background-color: #FFD700; padding: 5px; border: 1px solid black; margin-bottom: 5px;"> <p>#1 Expansion (also called boom or upswing) characterized by increase in national output and all other economic variables.</p> </div> <div style="background-color: #006400; color: white; padding: 5px; border: 1px solid black; margin-bottom: 5px;"> <p>#2 Peak of boom or prosperity refers to the top or the highest point of the business cycle</p> </div> <div style="background-color: #483D8B; color: white; padding: 5px; border: 1px solid black; margin-bottom: 5px;"> <p>#3 Contraction (also called downs-wing or recession) when there is fall in the levels of investment, employment.</p> </div> <div style="background-color: #191970; color: white; padding: 5px; border: 1px solid black;"> <p>4 Trough or depression occurs when the process of recession is complete and there is severe contraction in the economic activities</p> </div> <p>A typical business cycle has four distinct phases namely</p>
Features	<p>Business cycle occurs periodically although they do not exhibit the same regularity. Business cycle generally originates in free market economics.</p>

Introduction

Although all sector are adversely affected by business cycle Some sectors such as capital goods industries durable consumer goods industry etc’ Business cycles are exceedingly complex phenomena they do not have uniform characteristic and causes they are caused by varying factors. Repercussions of business cycle get simultaneously felt on nearly all economics variable viz. output, employment, investment, consumption, interest, trade, and price level

Causes



Relevance of business cycle decision making.

Business cycle have tremendous influence on business decision the stage of the business cycle is crucial while making managerial decision regarding expansion or downsizing business have to advantageously respond to the need to alter production levels relative to demand different phases of the cycle require fluctuating levels of input uses especially labor input.



Question 1

Last stage of recession is called:-

- (a) Depression (b) Slowdown
(c) Recovery (d) All

Answer: a

Explanation:

Depression is the server from of recession and is characterized by extremely sluggish economic activities during these phases of the business cycle growth rate become negative and the level of national income and expenditure decline rapidly.

Question 2

Match the following:

Feature	Stage of business Cycle
i. Rising employment and real wages	a) Recession
ii. Fall in the rate of growth	b) Boom
iii. Fall in the level of real national output	c) Slowdown
iv. Setting in of the rising trend of national output	d) Recovery

- (a) (i) (b), (ii) (c), (iii) (a) , (iv) (d) (b) (i) (a), (ii) (b), (iii) (c), (iv) (d)
(c)(i) (d), (ii) (c), (iii) (c), (iv) (a) (d) None

Answer: a

Explanation:

Boom: - It means rising employment and real wages Boom occurs when national output is rising strongly at a rate faster than the trend rate of growth.

Slowdown: It means fall in rate of growth A slowdown occurs when the rate of growth decelerates but national output is still rising.

Recession: It means fall in the level of real national output. A national output decline leading to contraction in employment incomes and profit.

Recovery: It means setting in of the rising trends of national output A recovery occurs when real national output picks up from trough reached at the low point of recession

Question 3

In which of the following stage of economic cycle both employed and output expand and level of aggregate demand for goods and service is high?

- (a) Economic boom (b) Economic Slowdown
(c) Economics Recovery (d) Economics Recession

Answer: a

Explanation:

Boom occurs when national is rising strongly at a faster rate than the trend rate of growth in boom condition output and employment are both expanding and the level of aggregate demand for goods and services is very high

Question 4

During the slowdown of economy:

- (a) GDP is decreasing (b) GDP is increasing
(c) GDP is increasing at a slower (d) None of the above

Answer: c

Explanation:

Slowdown occurs when the rate of growth decelerates but national output is still rising the economy continues to grow at a slower rate without falling into outright recession so in slowdown GDP is increasing at a slower rate.

Question 5

A recession is a period of:

- (a) Decline in aggregate output (b) decline in unemployment
(c) Both (a) and (b) (d) None of the above

Answer: a

Explanation:

A recession means a fall in the level of real national output i. e. a period when the rate of Economic growth is negative National output decline leading to a contraction in employment Income and profits.

Question 6

What is another name for soft lending?

- (a) Recession (b) Economic Slowdown
(c) Revival (d) None of the above

Answer: b

Explanation:

A slowdown occurs when the rate of growth decelerates but national output is still rising if the economy continues to grow without falling into outright recession that is known as soft – landing.

Question 7

Boom is characterized by:

- (a) Inc in growth rate & Dec in output (b) Dec in growth rate & Inc in output
 (c) Inc in growth rate & Inc in output (d) Dec in growth rate & Dec in output

Answer: c

Explanation:

A boom refers to a period of increased commercial activity within a business, market industry, or economy as whole for an individual company a boom means rapid and significant sales growth while a boom for a country is marked by significant GDP growth in the stock market. Hence option (c) is correct.

Question 8

From the following CAUSES OF BUSINESS CYCLE which is not correct:-

- (a) Internal (b) External
 (c) Inferior (d) Both a & b

Answer: c

Explanation:

Business Cycle may occur due to external causes or internal causes or a combination of both.

Question 9

The low point in the business cycle is referred to as the:-

- (a) Expansion (b) Boom
 (c) Trough (d) Peak

Answer: c

Explanation:

Trough. The lowest point of real GDP reached during the business cycle is known as the trough. Troughs can be for varying amounts of time. A typical feature of trough is the interest rate with lower of interest, people's for Demand holding liquid money increase.

Question 10

According - __ trade cycle is a purely monetary phenomenon:-

- (a) Hawtrey (b) ADAM Smith
 (c) J M Keynes (d) Schumpeter

Answer: a

Explanation:

According to Hawtrey trade cycle is a purely monetary phenomenon unplanned changes in the supply of money causes business fluctuation in an economy.

Question 11

Which of the following is not a characteristic of business cycle?

- | | |
|--|--|
| (a) Business cycle have serious consequence On the well-being of the society | (b) Business cycle occur periodically although they do not exhibit the same regularity |
| (c) Business cycle has uniform Characteristic and causes. | (d) Business cycle are contagious and unpredictable |

Answer: c

Explanation:

Business cycle are exceedingly complex phenomena they do not have uniform characteristics and causes they are caused by varying factors therefore it is difficult to make an accurate prediction of trade cycles before their occurrence.

Question 12

Peaks and troughs of the business cycle are known collectively as:

- | | |
|------------------------|--------------------------------|
| (a) Volatility | (b) Turning points, |
| (c) Equilibrium points | (d) Real business cycle events |

Answer: b

Explanation:

The term peak refers to the top or the highest point of the business cycle at the depth Of depression all economics activities touch the bottom and the phase of trough is reached Hence peaks and trough of the business cycle are known collectively as turning points.

Question 13

According to Pigou modern business activities are bases on the

- | | |
|-------------------|------------------------|
| (a) Anticipations | (b) Monetary phenomena |
| (c) Perception | (d) None |

Answer: b

Explanation:

According to Pigou modern business activities are bases on the anticipations of business Community and are affected by waves of optimism or pessimism.

Question 14

The tendency of many different economic variables to have regular and predictable patterns across industries over the business Cycle is called

- (a) Persistence (b) Co-movement
(c) Periodicity (d) Recurrence

Answer: b

Explanation:

Coincident economics indicates also Co-movement or occur simultaneously with the business – cycle movement.

Question 15

The tendency for declines in economic activity to be followed by further decline and for growth in economic activity to be followed by more growth is called

- (a) Persistence (b) Co movement
(c) Periodicity (d) Recurrence

Answer: a

Explanation:

Decline in aggregate economic activity are followed by further declines growth in Aggregate economics activity is followed by more growth because of persistence Forecasting turning points is quite important.

Question 16

Economics use changes in a variety of activities to measure the business cycle is called

- (a) Indicators (b) Co-movement
(c) Periodicity (d) Recurrence

Answer: a

Explanation:

Economics use changes in a variety of activities to measure the business cycle and to predict where the economy is headed toward. These are called indicators

Question 17

Variable that changes after real output changes are called_____

- (a) Indicators (b) Co movement
(c) Lagging Indicator (d) Recurrence

Answer: c

Explanation:

A lagging indicator is a measurable economics factor that changes only after the economy has begun to follow a particular pattern or trend it is often a technical

indicator that trails the price Action of an underlying assets and traders use it to generate transaction signals or confirms the Strength of a given trend.

Question 18

A variable that tends to move later than aggregate economic activity is called

- (a) A leading variable (b) A lagging variable
(c) A coincident variable (d) An cyclical variable

Answer: b

Explanation:

A lagging is a measurable economic factor that changes only after the economy has begun to follow a particular pattern or trend it is often a technical indicator that trails the price action of an underlying assets and traders use it to generate transaction or confirm the strength of s given trends.

Question 19

Industries that are extremely sensitive to the business cycle are the

- (a) Durable goods and service sectors (b) Non-durable goods and service sectors
(c) Capital goods and nondurable goods (d) Capital goods and durable goods sectors

Answer: d

Explanation:

A capital good is any good deployed to help increase future production. Consumer goods Are any goods that are not capital goods they are goods used by consumers and have no Future productive use.

Question 20

The term business refers to

- (a) The ups and downs in productions of period of time (b) The fluctuating levels of economic activity over commodities
(c) Decline in economics activities over prolonged of time (d) Increasing unemployment and diminishing rate of saving

Answer: b

Explanation:

Business cycle refers to alternative expansion and contraction of overall business activity as manifested in fluctuation in measures of aggregate economics activity such as gross national product employed and income.

Question 21

Which of the following are internal Causes?

- (a) Psychological factors (b) Population growth
(c) Natural factors (d) Wars

Answer: a**Explanation:**

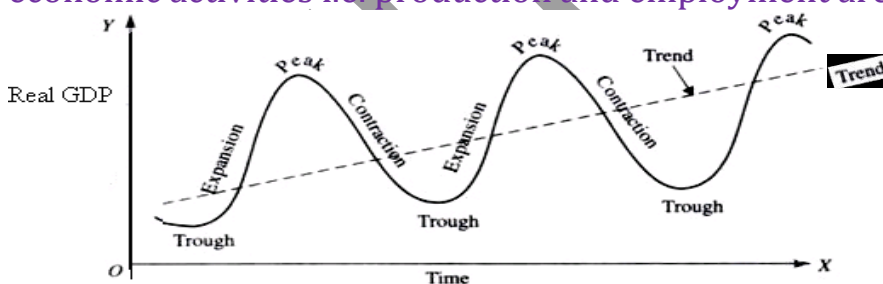
1. Fluctuations in effective demand
2. Fluctuation in investment
3. Variation in government spending
4. Macroeconomic policies
5. Money supply
6. Psychotically factors

Question 22**The four phases of the business cycle are:**

- (a) Peak recession trough and boom (b) Peak, depression, trough and boom
(c) Peak, recession, trough, and recovery (d) Peak, depression, bust and boom

Answer: c**Explanation:**

The four phases of business cycle are shown in above figure the broken line (marked 'trend') Represent the steady growth line or the growth of the economy when there are no business. Cycle the figure starts with 'trough' when the overall economic activities i.e. production and employment are not the lowest level

**Question 23****During recession the unemployment rate ___ and output ___.**

- (a) Rises falls (b) Rises; rises
(c) Fall; rises (d) Falls; falls

Answer: a**Explanation:**

Contraction (also called - wing or recession) when there is fall in the level of investment employment and rise in unemployment.

Question 24**What are two main components of business cycle theories?**

- (a) A description of shocks and a model of How economy variables responds.
- (b) A model of how people decide to spend and a description of the govt. role in the theory
- (c) A model of how equilibrium is reached and description of the govt. in the economy
- (d) A description of shock and a description Of the govt. role in the economy.

Answer: a**Explanation:**

The two main components of any theory of the business cycle are (1) a specification of the types of shocks or disturbances that are believed to be the most important in affecting the economy and (2) a model of the macro economy that describes how key variables respond to these economic shocks.

Question 25**Which indicators confirm long-term trends, but they do not predict them**

- (a) Lagging indicators
- (b) Concurrent indicators
- (c) Both
- (d) None

Answer: a**Explanation:**

A lagging indicator is a financial sign that becomes apparent only after a large shift has taken place. Therefore, lagging indicators confirm long-term trends, but they do not predict them.

PAST EXAMINATION QUESTION**MAY 2018****Question 1****Rampant unemployment is found in:**

- (a) Boom
- (b) Concurred indicators
- (c) Both
- (d) None

Answer: d**Explanation:**

Because very much unemployment is seen in depression.

Question 2

According to which economist trade cycle is a purely monetary for phenomenon

- (a) Schumpeter (b) Hawtrey
(c) Pigou (d) Marshall

Answer: b

Explanation:

Trade cycle is purely Monetary phenomenon is said by one and only HAWTREY

Question 3

Greatest depression suffered by economy in which year.

- (a) 1924 (b) 1930
(c) 2008 (d) 2009

Answer: b

Explanation:

1930 is a year in which greatest depression suffered by economy

Question 4

Third stage of business cycle is called :-

- (a) Contraction (b) Recovery
(c) Peak (d) All

Answer: a

Explanation:

Contraction is the third stage of business cycle and not Peak and recovery.

Question 5

In the long Run, a reduction in labor supply would cause output to ____ and the aggregate Price level to ____.

- (a) Fall; rise (b) Fall, fall
(c) Rise, fall (d) Rise, rise

Answer: a

Explanation:

If firm in long run, reduce supply of labor then it will cause fall in output whereas Rise in aggregate price.

Question 6

Which of the following macroeconomic variables would you include in an index Of leading economic indicators?

- (a) Employment (b) Inflation
(c) Real interest rates (d) Residential investment

Answer: d

Explanation:

The variables that change before the real output changes are called leading indicators'. They often change prior to large economic adjustment it will include residential

investment as one of its Variable.

Question 7

Internal factors of business Cycle are

- (a) Fluctuations in Demand (b) Money Supply
(c) Fluctuations in Investment (d) All of these

Answer: d

Explanation:

Internal factors of business Cycle

- Fluctuations in Demand
- Fluctuations in Investment
- Money Supply

Question 8

An economics variable that moves in the opposite direction as aggregate economic activity down in expansions up in contractions is called

- (a) Pro-cyclical (b) Counter cyclical
(c) A cyclical (d) A leading variable

Answer: b

Explanation:

An economic variable that moves in the opposite direction as aggregate economic activity (down in expansion and up in contraction) is called counter cyclical.

NOV - 2018

Question 1

How many phases are their business cycles?

- (a) 4 (b) 5
(c) 1 (d) Many

Answer: a

Explanation:

Business cycle has 4 phases; expansion, peak, contraction, trough.

Question 2

Business cycle is contagious and___in character.

- (a) Local (b) Regional
(c)International (d) National

Answer: c

Explanation:

Business cycle is International in character as it effects over the world.

Question 3

Which External factor affects the business cycle?

- (a) Population growth (b) Variation in government spending
(c) Money supply (d) Macro- economic policies

Answer: a**Explanation:**

Population growth is the factor which affects business cycle.

Question 4**Which internal factor affect the business cycle**

- (a) Fluctuations in investment (b) Natural factors
(c) Technology shocks (d) Population Growth

Answer: a**Explanation:**

Fluctuation in Investment is the internal factor which affect business cycle

Question 5**When one peak is reached increase in demand is halted then __phase begins?**

- (a) Contraction (b) Expansion
(c) Trend (d) Trough

Answer: a**Explanation:**

One peak is reached, increase in demand is halted and start decreasing in certain sector and therefore, phase of contraction begins.

Question 6**Fashion Retailer is business of?**

- (a) Cyclical business (b) Sun rise business
(c) Sluggish business (d) None of these

Answer: a**Explanation:**

Business whose Fortune are closely by related to the rates of economic growth are referred to as cyclical business.

MAY - 2019**Question 1****A typical business cycle has..factors**

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

Answer: b**Explanation:**

A typical business cycle has 2factors; internal- external.

Question 2**Business cycle also known as_____**

- (a) Coincident Indicators (b) lagging Indicators
(c) Business Environment (d) Trade Cycle

Answer: d**Explanation:**

The business cycle, also known as the economic cycle or trade cycle, are the fluctuations of gross domestic product (GDP) around its long-term growth trend.

Question 3**Which of the following is not correctly matched?**

- (a) Keynes: Fluctuation in aggregate effective demand (b) Hawtrey: Purely monetary phenomena
(c) Schumpeter: Innovations (d) Pigou: Fluctuation in investment

Answer: d**Explanation:**

Pigou : Fluctuation in investment is not correctly matched

Question 4**The world economy suffered the longest, deepest, and the most widespread Depression of the 20th century during**

- (a) 1930 (b) 1934
(c) 1996 (d) 1936

Answer: a**Explanation:**

The world economy suffered the longest, deepest and the most widespread depression of the 20th century during 1930.

Question 5**Which one of the following is an important character of business cycle according to Pigou**

- (a) Psychological factors (b) Natural factors
(c) Demographic (d) Monetary factors

Answer: a**Explanation:**

Psychological factors are an important character of business cycle according to Pigou.

Question 6**According to theory of business cycle once a contraction is reachedbegins in the economy**

- (a) Expansion (b) Contraction

(c) Depression

(d) Recovery

Answer: c

Explanation:

According to the theory of business cycle once a Contraction is reached Depression begins in the economy.

Question 7

Which of the following is the interest cause of business cycle?

(a) Fluctuation in investment

(b) Natural factors

(c) Technology shocks

(d) Population growth

Answer: a

Explanation:

Fluctuations in investment is the internal cause of business cycle

Question 8

Which of the following are the external causes of business cause of business cycle?

(a) Population growth

(b) Variations in government spending

(c) Money supply

(d) Macroeconomic policies

Answer: a

Explanation:

Population growth is external cause of business cycle

Question 9

Feature of business cycle are:

(a) Occurs periodically

(b) Have four different phases

(c) Generally originate in a free market

(d) All of these

economy

Answer: d

Explanation:

Business cycles periodically though do not show same regularity, they have same distinct Phases such as expansion, peak, contraction or depression and trough.

Question 10

Change in fashion retailing is an example of:

(a) Sluggish fluctuation

(b) Sunrise fluctuation

(c) Cycle fluctuation

(d) Seasonal fluctuation

Answer: d

Explanation:

Change in fashion retailing is an example of seasonal fluctuation.

Question 11

Which of the following is not characteristic of an economic activity?

- (a) Economics activities are productive
(b) Economics activities are income generating
(c) Economics activities are sentimental
(d) All of the above

Answer: c

Explanation:

Economics activities are sentimental is not characteristic of an economic activity.

DEC- 2020**Question 1**

Which of the following phase occurs after trough and before peak?

- (a) Expansion
(b) Depression
(c) Boom
(d) Recession

Answer:a

Explanation:

Expansion describes the phase of a business cycle that occurs after a trough and before a peak.

Question 2

Which indicators coincide or occur simultaneously with the business cycle movements?

- (a) Lagging
(b) Leading
(c) Concurrent
(d) Legal

Answer : c

Explanation:

An economic indicator that provides information on the current state of the economy. ... For example, coincident indicators move up when GDP is growing and down when GDP is shrinking. A common example is personal income. It is also called a concurrent indicator..

Question 3

What is the most visible sign of recession in an economy

- (a) Fall in the level of employment
(b) Rise in the inventory cost
(c) Fall in price level
(d) Weakening stock market

Answer : c

Explanation:

GDP declines and unemployment rates rise because companies lay off workers to reduce costs. At the microeconomic level, firms experience declining margins during

a recession. Hence, fall in price level.

Question 4

Taxation policy of government is the part of

- (a) Monetary policy (b) Fiscal policy
(c) EXIM policy (d) Industry policy

Answer: b

Explanation:

Fiscal policy refers to the use of government spending and tax policies to influence economic conditions, especially macroeconomic conditions, including aggregate demand for goods and services, employment, inflation, and economic growth. Hence, Taxation policy of government is the part of fiscal policy

Question 5

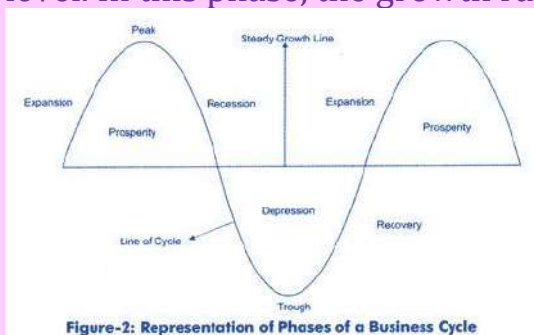
During the phase of trough of business cycle, the growth rate became ___

- (a) High (b) Low
(c) Negative (d) Zero

Answer: c

Explanation:

During the trough phase, the economic activities of a country decline below the normal level. In this phase, the growth rate of an economy becomes negative.



Question 6

___ is measurable economics factor that changes before economy starts to follow a particular pattern of trend

- (a) Lagging indicators (b) Coincident indicators
(c) Leading indicators (d) Concurrent indicator

Answer: c

Explanation:

In economics a leading indicator is defined as a measurable economic factor that changes before the economy starts to follow a particular pattern or trend. Leading indicators are used to predict changes in the economy, but are not always accurate.

Question 7

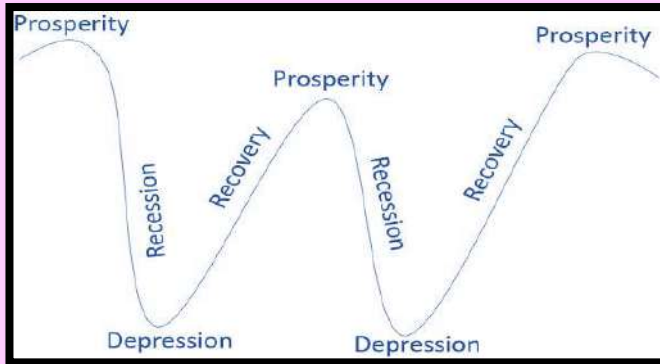
Which of the following is an internal cause of business cycles

- (a) Wars
(b) Natural factors
(c) Fluctuations in the effective demand
(d) Population growth

Answer : c

Explanation:

Cause of business cycles



Question 8

Phases of business cycles are

- (a) Peak, recession, expansion and trough
(b) Bottom, recession, trough and boom
(c) Peak, depression, trough and boom
(d) Peak, depression, bust and boom

Answer: a

Explanation:

The four stages of the economic cycle are also referred to as the business cycle.

These four stages are expansion, peak, contraction, and trough. During the expansion phase, the economy experiences relatively rapid growth, interest rates tend to be low, production increases, and inflationary pressures build.

Question 9

Which is not an example of coincident indicator :-

- (a) Inflation
(b) GDP
(c) Interest rate
(d) Financial market trend

Answer : c

Explanation:

A coincident indicator is an economic statistical indicator that changes (more or less) simultaneously with general economic conditions and therefore reflects the current status of the economy. Hence, Interest rate is only one which is not example of coincident indicator.

Question 10

During ___ there is fall in level of investment and employment

- (a) Contraction (b) Depression
(c) Boom (d) Recovery

Answer : a

Explanation:

During contraction there is fall in level of investment and employment.

Question 11

The feature of business cycles ___

- (a) Pervasive nature (b) Regular length
(c) Periodic intensity (d) None

Answer:a

Explanation:

Business cycles are not limited to one firm or one industry. They originate in the free economy and are pervasive in nature.

JAN- 2021

Question 12

Feature of _____ is fall in interest rates and people's demand for holding liquid money.

- (a) Contraction (b) Peak
(c) Trough & Depression (d) Recovery

Answer: c

Explanation:

Interest rates tend to go down during a recession as governments take action to mitigate the decline in the economy and stimulate growth. Low interest rates can stimulate growth by making it cheaper to borrow money, and less advantageous to save it.

Question 13

Business that are more vulnerable to changes in business cycle and whose fortunes are closely linked to rate of economic growth are called as___

- (a) Vulnerable Business (b) Cyclical Business
(c) Trough & Depression (d) Recovery

Answer: b

Explanation:

A cyclical industry is a type of industry that is sensitive to the business cycle, such that revenues generally are higher in periods of economic prosperity and expansion and are lower in periods of economic downturn and contraction.

Question 14

Optimistic and Pessimistic mood of business community also affects the economic activities is view of _____

- (a) Haw trey (b) Schumpeter
(c) Pigou (d) Marshall

Answer: c

Explanation:

As per Pigou, "Optimistic and Pessimistic mood of business community also affects the economic activities".

Question 15

According to Haw trey, which of the following is correct?

- (a) Trade cycle occurs as a result of innovation (b) Trade cycle is purely monetary phenomenon
(c) Fluctuation in economy activity is due to Fluctuation in demand fluctuation isdemand (d) Fluctuation in government expenditure.

Answer: b

Explanation:

Hawtreys describes the trade cycle as a purely monetary phenomenon, in this sense that all changes in the level of economic activity are nothing but reflections of changes in the flow of money.

Question 16

The term business cycle refers to

- (a) The ups and downs in production of commodities (b) The fluctuating levels of economic Activity over a period of time.
(c) Decline in economic activities over Prolonged period of time. (d) Increasing unemployment rate and diminishing rate of savings

Answer: b

Explanation:

The business cycle is defined as the real fluctuations in economic activity and GDP over a period of time, or in the long-run.

Question 17

During recession the unemployment rate _____ and output _____

- (a) Rises; Falls (b) Rises; Rises
(c) Falls; Rises (d) Falls; falls

Answer: a

Explanation:

In a recession, the current unemployment rate is higher than the natural rate, & actual economic output drops below its potential, which creates a negative output gap.

Question 18**Which of the following is not a characteristic of business cycle?**

- | | |
|---|--|
| (a) Business cycles have serious consequences on the wellbeing of the society | (b) Business cycles occur periodically, although they do not exhibit the same regularity |
| (c) Business cycles have uniform Characteristics and causes. | (d) Business cycles are contagious and Unpredictable. |

Answer: c**Explanation:****Important characteristics of a business:**

- Economic activity:
- Buying and Selling:
- Continuous process:
- Profit Motive:
- Risk and Uncertainties:
- Creative and Dynamic:
- Customer satisfaction:
- Social Activity

Question 19**According to _____ trade cycles occur due to onset of innovations**

- | | |
|-----------------|----------------|
| (a) Hawtrey | (b) Adam smith |
| (c) J.M. Keynes | (d) Schumpeter |

Answer: d**Explanation:**

Schumpeter considered trade cycles to be the result of innovation activity of the entrepreneurs in a competitive economy.

Question 20**A measurable economic factor that changes before the economy starts follows Particulars pattern/trend is**

- | | |
|---------------------------|-----------------------|
| (a) Leading factor | (b) Lagging Factor |
| (c) Coincident indicators | (d) Concurrent Factor |

Answer: a**Explanation:**

Economic leading indicators can help to predict and forecast future events and trends in business, markets, and the economy.

Question 21**Coincident indicators are also known as _____**

- | | |
|------------------------|---------------------------|
| (a) Logging indicators | (b) Concurrent indicators |
|------------------------|---------------------------|

(c) Effective indicators

(d) Leading indicators

Answer: b

Explanation:

Coincident indicators move up when GDP is growing and down when GDP is shrinking. It is also called a concurrent indicator.

JULY - 2021

Question 1

Which phase of Business Cycle in increase in national output, employment, aggregates demand, capital and consumer expenditure, sales, profit etc.?

(a) Depression

(b) Contraction

(c) Trough

(d) Expansion

Answer: d

Explanation:

The first stage in the business cycle is expansion. In this stage, there is an increase in positive economic indicators such as employment, income, output, wages, profits, demand, and supply of goods and services

Question 2

Coincident economic indicators are also called as

(a) Leading Indicators

(b) Concurrent Indicators

(c) Headed Indicators

(d) Capacity Indicators

Answer: b

Explanation:

A coincident indicator is an economic statistical indicator that changes (more or less) simultaneously with general economic conditions and therefore reflects the current status of the economy. Typical examples of coincident indicators are industrial production or turnover.

Question 3

According to whom "Business fluctuations are the outcome of some psychological states of mind of business community".

(a) Marshall

(b) A.C. Pigou

(c) J.K Hicks

(d) Schumpeter

Answer: b

Explanation:

Psychological factors: According to Pigou, modern business activities are based on the anticipations of business community and are affected by waves of optimism or pessimism. Business fluctuations are the outcome of these psychological states of mind of businessmen.

Question 4

Which of the following is not a characteristic of business cycles

- | | |
|---|--|
| (a) Business cycles are contagious and are international in character. | (b) Business cycles have uniform Characteristics and causes. |
| (c) Business cycles have serious consequences on the well-being of the society. | (d) Business cycles generally originate in free market economics |

Answer: b

Explanation:

- A business cycle has many fluctuations and it depends on the economic condition of a country.
- The business cycle consists of recessions and expansions.
- Due to fluctuation in economic activities, the business cycle occurs repeatedly.
- The sequences of changes that take place in the business cycle occurs again and again but are not periodic in nature.

Question 5

Variables that change before real output changes are called as:

- | | |
|-----------------------|-----------------------|
| (a) Trade Cycle | (b) Business Cycle |
| (c) Leading Indicator | (d) Lagging Indicator |

Answer: d

Explanation:

A lagging indicator is a key performance indicator that reflects some measure of output or past performance that can be seen in operational data or financial statements and reflects the impact of management decisions or business strategy.

Question 6

In which of the following phases of business cycle, "actual demand stagnates".

- | | |
|-----------------|--------------|
| (a) Expansion | (b) Peak |
| (c) Contraction | (d) Recovery |

Answer: b

Explanation:

In the expansionary phase, the economy experiences growth over two or more consecutive quarters. Typically, interest rates are lower, employment rates are rising, and consumer confidence strengthens. The peak phase occurs when the economy has reached its maximum productive output, signaling the end of the expansion.

Question 7

In typical business cycle, which of the following phases "supply exceeds demand".

- (a) Expansion. (b) Peak
(c) Contraction (d) Recovery

Answer: b

Explanation:

The first stage in the business cycle is expansion. In this stage, there is an increase in positive economic indicators such as employment, income, output, wages, profits, demand, and supply of goods and services

Question 8

The-Rhythmic fluctuations in aggregate economic activity that an economy experiences over a period of time is called,

- (a) Business cycle (b) Recession
(c) Contraction (d) Recovery

Answer: a

Explanation:

Business cycles are intervals of expansion followed by recession in economic activity. They have implications for the welfare of the broad population as well as for private institutions.

Question 9

Variables that change after real output changes are known as

- (a) Leading Indicators (b) Cyclical Indicators
(c) Lagging Indicators (d) Coincident Indicators

Answer: c

Explanation:

Question 10

Internal causes of business cycle is -

- (a) Fluctuation on investment (b) Natural factors
(c) Technology shock (d) Population growth

Answer: a

Explanation:

Just as fluctuations in demand, a fluctuation in investment is one of the main causes of business cycles. The investments will fluctuate on the basis of a lot of factors such as the rate of interest in the economy, entrepreneurial interest, profit expectation, etc.

Question 11

Which business cycle phases are known as Turning Points?

- (a) Trough and Depression (b) Peak and Trough
(c) Expansion and Contraction (d) Peak and Boom

Answer: b

Explanation:

Turning points are called **peaks** the period immediately preceding a decline in real activity, or recession and **troughs** the period immediately preceding an upturn, or expansion.

Question 12

Variable that change before the real output change are called as -

- (a) leading indicators (b) misleading indicators
(c) both (d) none

Answer: a

Explanation:

Leading indicators: Leading, coincident, and lagging indicators are economic variables that change before, at the same time as, and after changes in real GDP, respectively.

DEC - 2021

Question 1

_____ is when economic activity is increasing?

- (a) Contraction (b) peak
(c) expansion (d) Depression

Answer: a

Explanation:

The economy is moving out of recession money is cheap to borrow, business build up inventories again and consumers start spending. GDP rises, per capita income grows, unemployment declines and equity markets generally perform well

Question 2

Highest point of business cycle is known as -

- (a) Contraction (b) peak
(c) trough (d) none

Answer: b

Explanation:

Peak: An economic cycle, which is also referred to as a business cycle, has four stages: expansion, peak, contraction, and trough. **A peak is the highest point** of a business cycle and is followed by a contraction and eventual trough. Peaks are called after the fact once economic indicators have confirmed that contraction has set in and isn't simply noise.

Question 3

Which of the following is not the characteristics of business cycle

- (a) It is sporadic in nature (b) It is contagious
(c) It is complex phenomenon (d) peak

Answer: d

Explanation:

A trough in the business cycle occurs when a recession ends and economic recovery or expansion begins. A recession's depth is determined by the magnitude of the peak-to-trough decline in the broad measures of output, employment, income, and sales.

Question 4

Phase is characterized by increase in national output, employment, aggregated demand, capital and consumer expenditure.

- (a) Boom (b) Expansion
(c) Both (d) None

Answer: c

Explanation:

Expansion or Boom: This phase is characterized by an increase in output and employment. There is also an increase in the demand in the market, capital expenditure, sales and subsequently an increase in income and profits.

Question 5

Which of the following is an example of lagging indicator-

- (a) Unemployment (b) Employment
(c) Rigid Employment (d) None

Answer: a

Explanation:

Unemployment: A lagging indicator is an observable or measurable factor that changes sometime after the economic, financial, or business variable with which it is correlated changes. Some general examples of lagging economic indicators include the unemployment rate, corporate profits, and labor cost per unit of output.

Question 6

Which of the following is not a leading indicator-

- (a) Future movement (b) Prime rate
(c) neither a nor b (d) None

Answer: b

Explanation:

A leading indicator is a piece of economic data that corresponds with a future movement or change in some phenomenon of interest. Economic leading indicators can help to predict and forecast future events and trends in business, markets, and the economy.

Question 7

Usual occupation means

- (a) Regular occupation (b) irregular occupation
(c) Seasonal occupation (d) None

Answer: a

Explanation:

Regular occupation: Usual occupation means the substantial and material acts you are routinely performing for your employer when your disability begins. So it is regular occupation

Question 8

According to which economist, trade cycle is a purely monetary phenomenon

- (a) Schumpeter (b) Pigou
(c) Hawtrey (d) Marshall

Answer: c

Explanation:

According to Hawtrey, trade cycle is a purely monetary phenomenon. Unplanned changes in the supply of money may cause business fluctuation in an economy.

Question 9

_____ is a measurable economic factor that changes at the same time when economy starts to follow a particular pattern of trend.

- (a) Leading Indicators (b) Coincident Indicator
(c) Lagging Indicator (d) Heading Indicator

Answer: b

Explanation:

A third type of indicator is coincident indicator. Coincident economic indicators, also called concurrent indicators, coincide or occur simultaneously with the business-cycle movements. Since they coincide fairly closely with changes in the cycle of economic activity, they describe the current state of the business cycle. In other words, these indicators give information about the rate of change of the expansion or contraction of an economy more or less at the same point of time it happens. A few examples of coincident indicators are Gross Domestic Product, industrial production, inflation, personal income, retail sales and financial market trends such as stock market prices.

Question 10

According to fluctuations in economic activities are due to fluctuations in aggregated effective demand.

- (a) Keynes (b) Hawtrey
(c) Pigou (d) Marshall

Answer: a

Explanation:

According to Keynes, fluctuations in economic activities are due to fluctuations in aggregate effective demand (Effective demand refers to the willingness and ability of consumers to purchase goods at different prices). In a free market economy, where maximization of profits is the aim of businesses, a higher level of aggregate demand

will induce businessmen to produce more. As a result, there will be more output, income and employment. However, if aggregate demand outstrips aggregate supply, it causes inflation.

Question 11

In India, Monetary policy is implemented by

- (a) RBI (b) SEBI
(c) SBI (d) ICICI

Answer:

Explanation:

The Reserve Bank of India (RBI) is vested with the responsibility of conducting monetary policy. This responsibility is explicitly mandated under the Reserve Bank of India Act, 1934.

Question 12

Economic indicator required to predict the turning point of business cycle is:

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

Answer:

Explanation:

Economic indicator required to predict the turning point of business cycle is:

- (a) Leading indicator
(b) Lagging indicator
(c) Coincident

JUNE - 2022

Question 1

Involuntary unemployment is zero in:

- (a) Expansion (b) Peak
(c) Contraction (d) Trough

Answer: a

Explanation:

In expansion, involuntary unemployment is almost zero and whatever unemployment is there is either frictional or structural.

Question 2

Actual Demand Stagnates in:

- (a) Expansion (b) Contraction
(c) Peak (d) Trough

Answer: c

Explanation:

Actual Demand Stagnates when there is an end in expansion and beginning of peak. So

demand stagnates at "peak". Here, consumers begin to review their expenditure.

Question 3

Typical feature of depression is _____ in the interest rate:

- (a) Fall (b) Rise
(c) Constant (d) None of the above

Answer: a

Explanation:

Depression is the severe form of recession people; demand for liquid money increases resulting in decrease/fall in interest rates.

Question 4

Fall in interest rate is a typical feature of depression. Indicator which changes after the real output changes?

- (a) Lagging Indicator (b) Leading Indicator
(c) Coincident indicator (d) Concurrent Indicator

Answer: a

Explanation:

Lagging indicators reflect the economy's historical performance they are observable after an economic trend or pattern already occurred. Variables that change after real output changes are "Lagging indicators".

Question 5

Coincident indicator is also known as:

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

Answer: a

Explanation:

Coincident indicator is also known as concurrent indicator as these are occurring simultaneously with the business cycle movements.

Question 6

What is leading indicator in the following?

- (a) Change in GDP (b) Change in Stock
(c) Unemployment (d) Commercial leading Activity

Answer: b

Explanation:

Leading indicators are:

- (i) Changes in stock price.
(ii) New orders for capital goods.
(i) New orders for consumer goods.

Question 7

_____ sector can not be a cyclical business.

- (a) Electric goods (b) House building
(c) Agriculture (d) Restaurant

Answer: c

Explanation:

Business whose fortunes are closely linked to the rate of economic growth are cyclic all businesses. Ex- Fashion Retailers, electric goods, restaurants, house building.

Question 8

Which of the following is correct?

- (a) Recession is severe form of depression (b) Depression is a severe form of recession
(c) In case of depression interest rates rises (d) All of the above

Answer: b

Explanation:

Depression is severe form of recession. Recession when is complete economic activities pushes economy into phases of depression and severe contraction in

Question 9

The lowest point in the business cycle is referred to as -

- (a) Peak (b) Recession
(c) Trough (d) Expansion

Answer: c

Explanation:

The lowest point in business cycle is referred as through, it is the lowest point of business cycle in contrast to peak/ boom.

Question 10

Which of the following is not the main feature of business cycle?

- (a) Occurs Periodically (b) Worldwide impact
(c) Profit Variation (d) Asynchronous

Answer: d

Explanation:

Asynchronous

Reason: There are several feature of a Business Cycle given below:

1. Occurs Periodically
2. Synchronous
3. Major Sectors are Affected
4. Profit Variation
5. Worldwide Impact

DEC - 2022**Question 1**

Which of the following is not an example of cyclical business?

- | | |
|----------------------|-------------------|
| a) Fashion retailers | b) House Builders |
| c) Restaurants | d) Washing powder |

Answer: d

Explanation:

Washing powder comes under consumer staples the term consumer staples refers to a set of essential products used by consumers. This category includes things like foods and beverages, household goods, and hygiene products as well as alcohol and tobacco.

Question 2

Recent example of the Business cycle is ' the housing bubble' of the US economy. This bubble got bust in

- | | |
|---------|---------|
| a) 1930 | b) 1998 |
| c) 2000 | d) 2007 |

Answer: d

Explanation:

The United States subprime mortgage crisis was a multinational financial crisis that occurred between 2007 and 2010 that contributed to the 2007–2008 global financial crises.

Question 3

Peaks and troughs of the business cycle are known collectively as

- | | |
|-----------------------|-------------------------------|
| a) Volatility | b) Turning points |
| c) Equilibrium points | d) Real business cycle events |

Answer: b

Explanation:

The business cycle refers to the fluctuations in the level of economic activity. The business cycle is characterized by four main phases/ turning points.

Question 4

Which of the following characteristics does not belong to expansion path of business cycles?

- | | |
|--|--------------------------------------|
| a) Consumers spending on goods and services tend to rise | b) Business Confidence tends to rise |
| c) Interest rates and profits tend to rise | d) Unemployment tends to rise |

Answer: d

Explanation:

Expansion (also called boom or upswing)

Characterized by increase in national output and all other economic variables so unemployment does not rise instead more employment is generated.

Question 5

The rhythmic fluctuations in aggregate economic activity that an experience over a period of time are called

- a) Inflation
- b) Unemployment
- c) Business cycles
- d) Growth rate

Answer: c

Explanation:

The business cycle refers to the fluctuations in the level of economic activity. The business cycle is characterized by four main phases/ turning points.

Question 6

The phase of business cycle in which growth rate becomes negative and the level of national income and expenditure declines rapidly resulting in widespread unemployment.

- a) Contraction
- b) Recession
- c) Depression
- d) Recovery

Answer: c

Negative growth is a decline in a company's sales or earnings, or a decrease in an economy's GDP during any quarter. Declining wage growth and a contraction of the money supply are characteristics of negative growth, and economists view negative growth as a sign of a possible Trough or depression.

Question 7

Trade cycles occur as a result of mismatch between aggregate demand function and aggregate supply functions. Who said this?

- a) Pigou
- b) Schumpeter
- c) Hawtrey
- d) Keynes

Answer: d

Explanation

Keynes economists believe that a change in demand causes a change in the economic activities. Which causes trade cycle

Question 8

According to _____ trade cycles occur due to onset of innovations.

- a) Hawtrey
- b) Adam Smith
- c) J.M. Keynes
- d) Schumpeter

Answer: d

Explanation

Joseph Schumpeter considered trade cycles to be the result of innovation activity of the

entrepreneurs in a competitive economy. In his view trade cycles are an inherent part of the process of economic growth of a capitalist society.

Question 9

_____ are the variables that changes after the real output changes.

- | | |
|--------------------------|--------------------------|
| a) Leading indicators | b) Lagging indicators |
| c) Coincident indicators | d) Concurrent indicators |

Answer: b

Explanation

A lagging indicator is an observable or measurable factor that changes sometime after the economic, financial, or business variable with which it is correlated changes. Some general examples of lagging economic indicators include the unemployment rate, corporate profits, and labor cost per unit of output.

Question 10

Which one of the following factors is an external cause or exogenous factor which may lead to boom or bust?

- | | |
|----------------------|----------------------|
| a) Economical factor | b) Social factor |
| c) Natural factor | d) Industrial factor |

Answer: c

Explanation

External cause of business cycle

- Natural factors
- Technology shocks
- Population growth
- Wars
- Post war reconstruction