

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

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

29) The price of a commodity is 10 per unit. At this price, the quantity supplied is 500 units. Price elasticity of supply of the commodity is 1.25. At what price the quantity to be supplied would be 20% more?

- a. 8.40
- b. 11.60
- c. 12.50
- d. 7.50

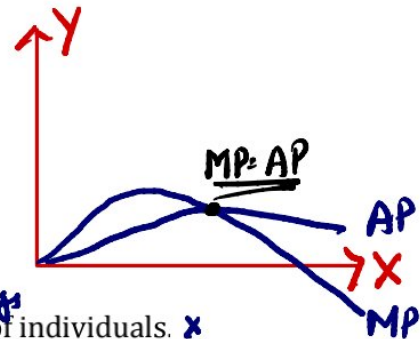
## Chapter 3 Theory of Production

1) Identify the correct statement:

- a. The average product is at its maximum when marginal product is equal to average product.
- b. The law of increasing returns to scale relates to the effect of changes in factor proportions.
- c. Economies of scale arise only because of indivisibilities of factor proportions.
- d. Internal economies of scale can accrue when industry expands beyond optimum. *low of variab*

2) Which of the following is not a characteristic of land?

- a. Its supply for the economy is limited.
- b. It is immobile. ✓
- c. Its usefulness depends on human efforts.
- d. It is produced by our forefathers.



3) Which of the following statements is true? *Only Savings*

- a. Accumulation of capital depends solely on income of individuals. x
- b. Savings can be influenced by government policies.
- c. External economies go with size and internal economies with location.
- d. The supply curve of labour is an upward sloping curve.

4) The marginal product of a variable input is best described as:

- a. total product divided by the number of units of variable input
- b. the additional output resulting from a one-unit increase in the variable input.
- c. the additional output resulting from a one-unit increase in both the variable and fixed inputs.
- d. the ratio of the amount of the variable input that is being used to the amount of the fixed input that is being used

MP ↓ - MC ↑

5) Diminishing marginal returns implies:

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

MPT ↑    MC ↓  
MP max    MC min

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

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

MP = AP, AP max.

MP max. inflection point

7) Which of the following is the best definition of “production function”?

- a. The relationship between market price and quantity supplied.
- b. The relationship between the firm’s total revenue and the cost of production.
- c. **The relationship between the quantities of inputs needed to produce a given level of output**
- d. The relationship between the quantity of inputs and the firm’s marginal cost of production.

8) 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.

Use the following information to answer questions 9-11.

Hours of Labour	Total Output <u>TP</u>	Marginal product <u>MP</u>
0	-	-
1	100	100
2	180	80
3	240	60

240 - 180 = 60

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

- a. 80
- b. 100
- c. **180**
- d. 200

10) What is the marginal product of the third hour of labour?

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

11) What is the average product of the first three hours of labour?

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

12) If a firm moves from one point on a production isoquant to another, which of the following will not happen.

- a. A change in the ratio in which the inputs are combined to produce output
- b. A change in the ratio of marginal products of the inputs
- c. A change in the marginal rate of technical substitution
- d. A change in the level of output.

13) If decreasing returns to scale are present, then if all inputs are increased by 10% then:

- a. output will also decrease by 10%
- b. output will increase by 10%.
- c. output will increase by less than 10%
- d. output will increase by more than 10%

14) The production function is a relationship between a given combination of inputs and:

- a. another combination that yields the same output.
- b. the highest resulting output.
- c. the increase in output generated by one-unit increase in one output.
- d. all levels of output that can be generated by those inputs.

\* 15) If the marginal product of labour is below the average product of labour, it must be true that:

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



16) The law of variable proportions is drawn under all of the assumptions mentioned below except the assumption that:

- a. the technology is changing
- b. there must be some inputs whose quantity is kept fixed
- c. we consider only physical inputs and not economic profitability in monetary terms.
- d. the technology is given and stable.

17) Laws of production does not include .....

- a. returns to scale. - long
- b. law of diminishing returns to a factor
- c. law of variable proportions
- d. least cost combination of factors.

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

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

19) The production function:

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

20) The production process described below exhibits.

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

TP MP  
0  
23  
17  
10

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

TP - MP - +ive = TP ↑  
0 = TP max  
-ive = TP ↓

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

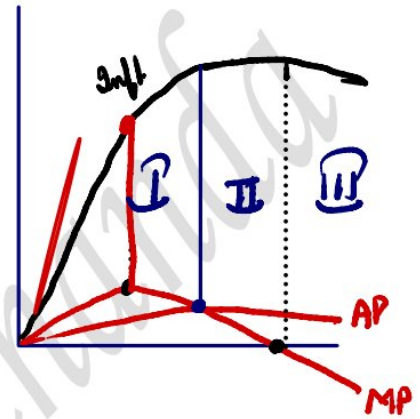
- a. Total product begins to decrease when average product begins to decrease but continues to increase at a decreasing rate. X
- b. When marginal product is equal to average product, average product is decreasing but at its highest. Max
- c. When the marginal product curve cuts the average product curve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

MP = 0  
MP / all +ive

MP max MP ↓

22) Which of the following statements is true?

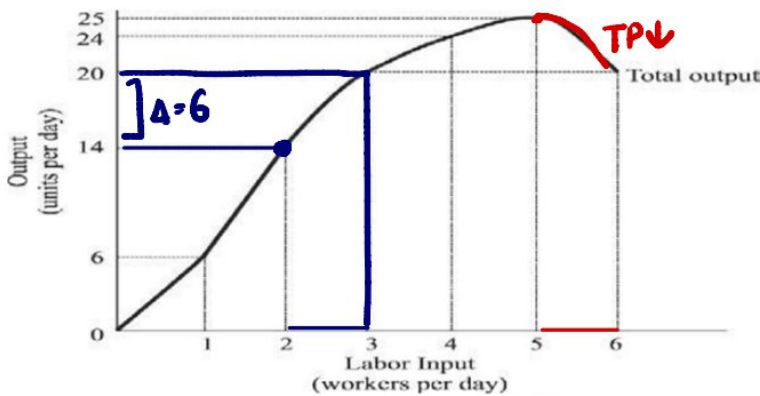
- a. After the inflection point of the production function, a greater use of the variable input induces a reduction in the marginal product ✓ MP ↓
- b. Before reaching the inevitable point of decreasing marginal returns, the quantity of output obtained can increase at an increasing rate ✓
- c. The first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



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

- a. total product curve. -  $\frac{\Delta TP}{\Delta Q} = MP$
- b. average product curve
- c. marginal product curve
- d. implicit product curve.

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



The marginal physical product of the third unit of labour is 6, the MP of the 6 labour is Negative

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

25) In the third of the three stages of production:

- a. the marginal product curve has a positive slope.
  - b. the marginal product curve lies completely below the average product curve.
  - c. total product increases
  - d. marginal product is positive.
- $MP < AP$  - AP ↓

- 26) Which of the following statements describes increasing returns to scale? ✓
- Doubling of all inputs used leads to doubling of the output.
  - Increasing the inputs by 50% leads to a 25% increase in output.
  - Increasing inputs by 1/4 leads to an increase in output of 1/3 ✓
  - None of the above 25+ 3333+

- \* 27) The most important function of an entrepreneur is to \_\_\_\_\_.
- Innovate ✓
  - Bear the sense of responsibility
  - Finance
  - Earn profit

- 28) Assertion (A): In the short run, a producer operates in only II stage of Law of Diminishing Returns where average product of variable factor is declining ✓  
Reason (R): In stage I and stage III the marginal product of the fixed and the variable factors respectively are negative. X
- (A) is true and (R) is false ✓
  - Both (A) and (R) are true & (R) is the correct explanation of (A)
  - Both (A) and (R) are true & (R) is not the correct explanation of (A)
  - (A) is false and (R) is true

- 29) In the long run which factor of production is fixed?
- Labour
  - Capital
  - Building
  - None of these ✓

- 30) Law of diminishing returns to scale is relevant to
- Short period ✓
  - Long period
  - Market period
  - None of these

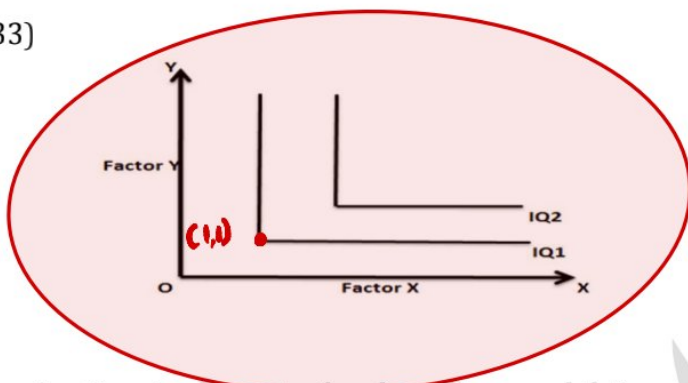
- \* 31) The Cobb-Douglas homogeneous production function given as:  $Q = L^{1/2} k^{1/2}$  exhibits-
- Constant returns to scale ✓
  - Decreasing returns to scale
  - Increasing returns to scale
  - All of the above at various level of output

$$\begin{array}{l} a + b = 1 \Rightarrow \text{Constant} \\ a + b > 1 \Rightarrow \text{Increasing} \\ a + b < 1 \Rightarrow \text{Dec} \end{array}$$

32) If all inputs are increased in the same proportion, then it is the case of <sup>-Long Run</sup>

1. Short run production function ~~X~~
  2. Long run production function ✓
  3. Law of Variable Proportion
  4. Law of Returns to Scale - Long Run
- a. 1 & 2 only
  - b. 2 & 3 only
  - c. 1 & 4 only
  - d. 2 & 4 only

\* 33)



Iso-Quants shown in the above figure exhibits:

1. Perfect substitutability of factors
  2. Perfect complementarity of factors
  3. Fixed proportion production function
  4. Variable proportion production function
- a. 1 & 2 only
  - b. 1 & 3 only
  - c. 3 & 4 only
  - d. 2 & 3 only

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

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

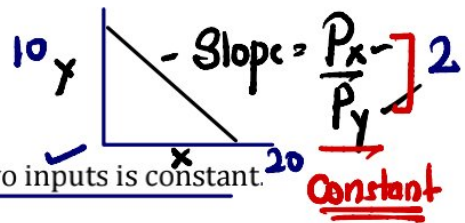
Codes	A	B	C
a.	1	2	3
b.	3	1	2
c.	2	3	1
d.	3	2	1

\* 35)

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

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

- a. (A) is true and (R) is false
- b. Both (A) and (R) are true & (R) is the correct explanation of (A)
- c. Both (A) and (R) are true & (R) is not the correct explanation of (A)
- d. (A) is false and (R) is true



36) "Returns to Scale" refers to the effect on total output of changes in:

- a. a factor
- b. various inputs separately
- c. all the inputs simultaneously
- d. None of these

\* 37)

Consider the following statements about the relationship between cost and production

1. When AP rises, AVC falls ✓
2. When AP reaches at maximum, AVC is minimum ✓
3. When AP falls, AVC rises

Which of the above statements is correct?

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

\* 38)

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

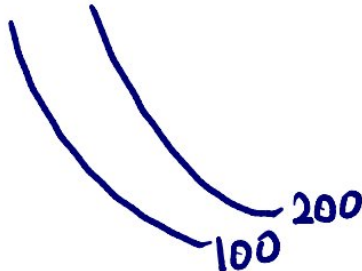
Combinations	IQ <sub>1</sub>			IQ <sub>2</sub> ✓		
	Output	Capital	Labour	Output	Capital	Labour
I	100	90	10	200	85	5
II	100	60	20	200	70	10
III	100	40	30	200	60	15
IV	100	30	40	200	55	20

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

- a. IQ<sub>1</sub> & IQ<sub>2</sub> are parallel to each other
- b. IQ<sub>1</sub> & IQ<sub>2</sub> are non-parallel & intersecting to each other.
- c. IQ<sub>1</sub> & IQ<sub>2</sub> are neither parallel nor intersecting each other.
- d. Can't say

MRTS equal

$$\text{MRTS} = \frac{30}{10} = \frac{3}{2}$$





39) Isoquant word is made up of two words i.e., Iso & Quant. Where quant means quantity or output then Iso means-

- a. Maximum
- b. Equal
- c. Minimum
- d. None of these

40) An isoquant slopes:  $\nearrow$  MRTS  $\searrow$

- a. downward to the left
- b. downward to the right
- c. upward to the left
- d. upward to the right



41) At shut down point:

- a. Price is equal to AVC
- b. Total revenue is equal to TVC
- c. Total loss of the firm is equal to TFC
- d. All of the above

$$AR = AVC \quad \downarrow$$

$$TR = TVC$$

42) The marginal cost curve intersects the average cost curve when average cost is:

- a. Maximum
- b. Minimum
- c. Raising
- d. Falling



43) If the total cost of manufacturing commodity 'X' is Rs. 1,50,000. Out of this implicit cost is Rs. 80,000 what will be explicit cost:

- a. Rs. 95,000
- b. Rs. 1,25,000
- c. Rs. 80,000
- d. Rs. 70,000

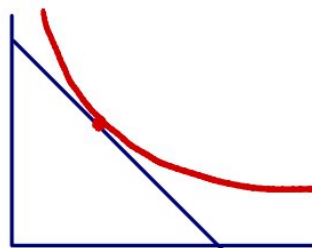
$$TC = Imp + Exp$$

44) Which is the other name that is given to the long run average cost curve?

- a. profit curve
- b. planning curve
- c. demand curve
- d. indifference curve

45) The producer is in equilibrium at a point where the cost line is:

- a. above the isoquant
- b. below the isoquant
- c. cutting the isoquant
- d. tangent to isoquant



\* 46) According to \_\_\_\_, land has certain original and indestructible powers and these properties of land cannot be destroyed

- a. Ricardo
- b. James bates
- c. James bates
- d. J.R. Parkinson

47) Which of the following function can never be delegated by the entrepreneur?

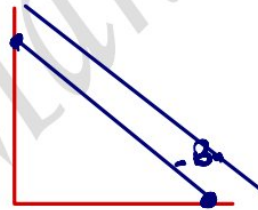
- a. Initiating the business enterprise
- b. Innovation ✓
- c. Risk bearing
- d. All of the above

48) When Average product is maximum:

- a. MP is at maximum
- b. MP curve cuts AP from below
- c. Total Product is at maximum →  $MP=0$
- d. First stage of Increasing returns to factor ends.

49) Which of the following statement is not true?

- \* a. Iso-cost line never touches the axis ✗
- b. Isoquants are convex to the origin ✓
- c. Isoquants are non-intersecting ✓
- d. Higher Iso-cost line shows higher budget



50) \_\_\_\_ is that point on TP at which MP is maximum

- a. Saturation point
- b. Production Optimization point
- c. Inflexion point
- d. Maximum point

\* 51) The quantity of the variable factor becomes too excessive relative to the fixed factor so that they get in each other's way, is the case of:

- a. Increasing return to scale
- b. Decreasing return to scale
- c. Diminishing return to factor
- d. Negative return to factor  $MP_{neg}$

52) In Cobb-Douglas production function, if labour elasticity and capital elasticity is more than 1, it refers to:

$$a + b > 1$$

- a. Increasing return to factor
- b. Constant return to scale
- c. Increasing return to scale
- d. Decreasing return to scale

53) Profit is the reward for bearing \_\_\_\_\_

- a. Foreseeable risk - *Ans.*
- b. Uncertainties
- c. Both of the above
- d. None of the above

54) \_\_\_\_\_ is a precondition for mobilization of savings?

- a. Income of individual
- b. Ability to save
- c. Availability of financial products and institutions
- d. Willingness to save

55) Stages I and III are called

- a. Economic Absurdity
- b. Economic Stability
- c. Economic Equilibrium
- d. All of the above

*- Rom*  
56) Circulating capital means:

- a. Capital is a durable source which gives returns for a specific period.
- b. Interest generated from capital and reinvested to earn more interest.
- c. Capital performs its production function in single use and is not used further.
- d. Used for a series of services over a period of time.

57) A person went to buy land and thought one of the following was a wrong feature regarding land:

- a. Homogeneous
- b. Heterogeneous
- c. Immobile
- d. No supply price

Given the following data, calculate the missing values:

L	TP	MP
1	200	200
2	<u>380</u>	180
3	<u>540</u>	<u>160</u>
4	<u>680</u>	<u>140</u>
5	<u>800</u>	120 ✓

$$\frac{800}{5}$$

58) What is the marginal production of the 4th unit?

- a. 170
- b. 140
- c. 120
- d. 160

59) What is the total output at the 3rd unit?

- a. 520
- b. 680
- c. 540
- d. 600

60) What is the Average Product of the 5th unit?

- a. 200
- b. 160
- c. 190
- d. 800

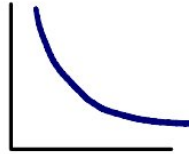
61) How is production in the economic sense distinguished from non-market activities performed within a household?

- a. Involvement of love and affection
- b. Exchange in the market
- c. Voluntary nature of the activity
- d. Intangible outputs

# Theory of Cost

1) Which of the following cost curves is never 'U' shaped?

- a. Average cost curve
- b. Marginal cost curve
- c. Average variable cost curve
- d. Average fixed cost curve.



2) Total cost in the short run is classified into fixed costs and variable costs. Which one of the following is a variable cost?

- a. Cost of raw materials.
- b. Cost of equipment
- c. Interest payment on past borrowings
- d. Payment of rent on building

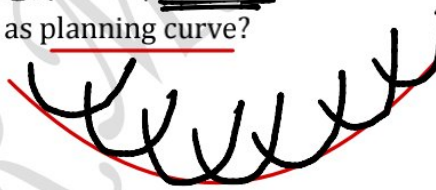
3) In the short run, when the output of a firm increases, its average fixed cost:

- a. Increases
- b. Decreases
- c. remains constant
- d. first declines and then rises



4) 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



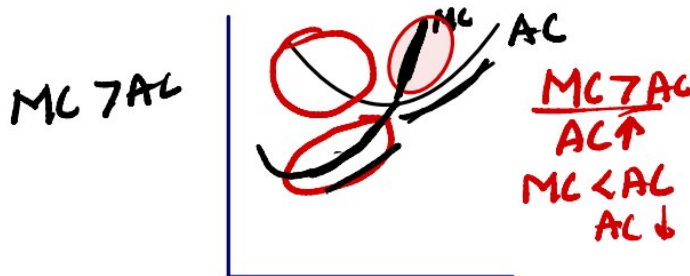
5) With which of the following is the concept of marginal cost closely related?

- a. Variable cost
- b. Fixed cost
- c. Opportunity cost
- d. Economic cost



6) Which of the following statements is correct?

- a. When the average cost is rising, the marginal cost must also be rising.
- b. When the average cost is rising, the marginal cost must be falling.
- c. When the average cost is rising, the marginal cost is above the average cost.
- d. When the average cost is falling, the marginal cost must be rising.



- 7) Which of the following is an example of an "implicit cost"?
- a. Interest that could have been earned on retained earnings used by the firm to finance expansion **- Explicit**
  - b. The payment of rent by the firm for the building in which it is housed
  - c. The interest payment made by the firm for funds borrowed from a bank.
  - d. The payment of wages by the firm.

Use the following data to answer questions 8-10.

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

**LFC**

**80**

**70**

**60**

**ATC = 80**

- 8) The average fixed cost of 2 units of output is:

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

$$\hookrightarrow AFC = \frac{240}{2}$$

**MP ↑**

- 9) The marginal cost of the sixth unit of output is:

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

**MP ↓ - MC ↑**

- \* 10) Diminishing marginal returns start to occur between units:

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

- 11) Which of the following is true of the relationship between the marginal cost function and the average cost function?

- a. If MC is greater than ATC, then ATC is falling ✗
- b. The ATC curve intersects the MC curve at minimum MC ✗
- c. The MC curve intersects the ATC curve at minimum ATC ✓
- d. If MC is less than ATC, then ATC is increasing.

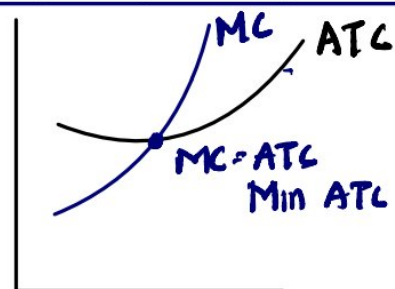
**MC > ATC, ATC ↓**

- 12) Which of the following statements is true of the relationship among the average cost functions?

- a.  $ATC = AFC - AVC$  ✗
- b.  $AVC = AFC + ATC$  ✗
- c.  $AFC = ATC + AVC$  ✗
- d.  $AFC = ATC - AVC$  ✓

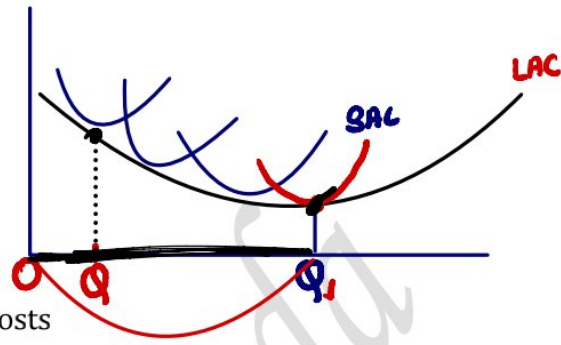
$$ATC = AFC + AVC$$

$$ATC - AFC$$



13) Which of the following is not a determinant of the firm's cost function?

- a. The production function. ✓ - Input
- b. The price of labour.
- c. Taxes
- d. ✓ The price of the firm's output



14) Suppose output <sup>FCx</sup> increases in the short run. Total cost will:

- a. increase due to an increase in fixed costs only
- b. ✓ increase due to an increase in variable costs only.
- c. increase due to an increase in both fixed and variable costs
- d. decrease if the firm is in the region of diminishing returns



15) Which of the following statements concerning the long-run average cost curve is false?

- a. It represents the least-cost input combination for producing each level of output. ✓
- b. It is derived from a series of short-run average cost curves. ✓
- c. ✓ The short-run cost curve at the minimum point of the long-run average cost curve represents the least-cost plant size for all levels of output
- d. As output increases, the amount of capital employed by the firm increases along the curve.

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

- a. Diseconomies of scale
- b. Diminishing returns
- c. The difficulties encountered in coordinating the many activities of a large firm.
- d. ✓ The increase in productivity that results from specialization



17) The positively sloped (i.e. rising) part of the long run average total cost curve is due to which of the following?

- a. ✓ Diseconomies of scale.
- b. Increasing returns
- c. The firm being able to take advantage of large-scale production techniques as it expands its output.
- d. The increase in productivity that results from specialization

18) A firm's average total cost is Rs. 300 at 5 units of output and Rs. 320 at 6 units of output. The marginal cost of producing the 6th unit is:

- a. Rs. 20
- b. Rs. 120
- c. Rs. 320
- d. ✓ Rs. 420

$$5 - 300 \\ TC = 1500$$

$$TC = 1920$$

120

19) 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?

$$TC = 1050 \leftarrow \begin{matrix} 350 \text{ FC} \\ 100 \text{ VC} \end{matrix}$$

- a. Rs. 200
- b. Rs. 50
- c. Rs. 300
- d. Rs. 100

$$\underline{ATC} - AVC = 100$$

20) A firm has a variable cost of Rs. 1000 at 5 units of output. If fixed costs are Rs. 400, what will be the average total cost at 5 units of output?

- a. Rs. 280
- b. Rs. 60
- c. Rs. 120
- d. Rs. 1,400

$$TC = 1400$$

$$ATC = \frac{1400}{5}$$

21) A firm's average fixed cost is Rs. 20 at 6 units of output. What will it be at 4 units of output?

- a. Rs. 60
- b. Rs. 30
- c. Rs. 40
- d. Rs. 20

$$TFC = \frac{120}{4} = 30$$

22) When marginal costs are below average total costs,

- a. average fixed costs are rising.
- b. average total costs are falling
- c. average total costs are rising.
- d. average total costs are minimized.

$$MC < ATC$$

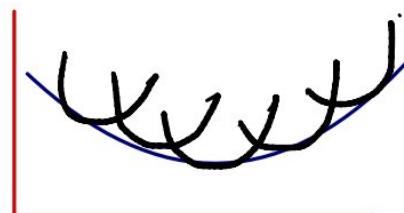
↓  
ATC falls

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

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

24) A firm's long-run average total cost curve is

- a. Identical to its long-run marginal-cost curve as all factors are variable.
- b. Also its long-run total cost curve because it explains the relationship cost and quantity supplied in the long run
- c. In fact, the average total cost curve of the optimal plant in the short run as it tries to produce at least cost.
- d. Tangent to all short-run average total cost the curves and represents the lowest average total cost for producing each level of output.





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

- a. marginal cost and average cost are both falling
- b. marginal cost and average cost are both rising
- c. marginal cost is rising and average cost is falling
- d. it is impossible to tell if either of the curves are rising or falling

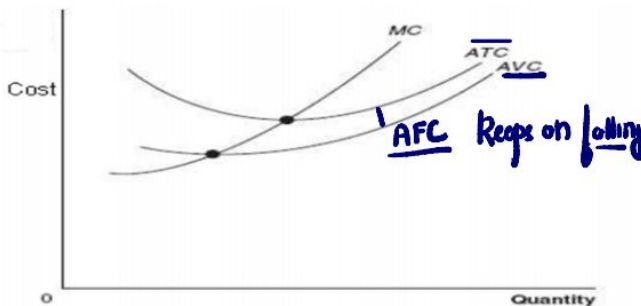
$MC = 20$   
 $AC = 15$   
 $MC > AC$   
 $\downarrow$   
 $AC \uparrow$

26) Economic costs of production differ from accounting costs of production because

- a. Economic costs include expenditures for hired resources while accounting costs do not
- b. Accounting costs include opportunity costs which are deducted later to find paid out costs
- c. Accounting costs include expenditures for hired resources while economic costs do not.
- d. Economic costs add the opportunity cost of a firm which uses its own resources.

Graph:

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



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

28) Which of the following statements is incorrect?

- a. The LAC curve is also called the planning curve of a firm. ✓
- b. Total revenue = price per unit × number of units sold. ✓
- c. Opportunity cost is also called alternative cost. ✓
- d. If total revenue is divided by the number of units sold, we get marginal revenue. ✓

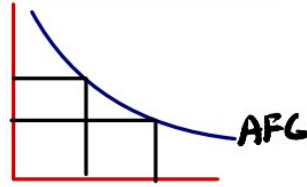
29) Cost incurred which has 'no relevance' to future planning is called

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

$\frac{TR}{Q}$

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

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



31) Which of the following is not a formula for marginal cost?

- a.  $MC_N = TC_N - TC_{N-1}$  ✓
- b.  $MC = \frac{\Delta TC}{\Delta Q}$  ✓
- c.  $MC_N = TVC_N - TVC_{N-1}$
- d.  $MC_N = TFC_N - TFC_{N-1}$

\* 32) Which of the following is incorrect formula?

- a.  $TC = AC \times Q$  ✓ TFC 0 - 100 MC
- b.  $\sum MC = TC$  ✗
- c.  $\sum MC = TVC$
- d.  $\sum MC + TFC = TC$   
 $TVC + TFC = TC$

Read the following paragraph and answer question 33-45.

Suppose that a sole proprietorship is earning total revenues of Rs. 10,00,000 and is incurring explicit costs of Rs. 7,50,000. The owner could work for another company for Rs. 3,00,000 a year.

33) What will be the implicit cost of the firm?

- a. Rs. 3,00,000
- b. Rs. 2,50,000
- c. Rs. 7,50,000
- d. Insufficient data

Handwritten calculations:  
 $TR = 10,00,000$   
 $AC = 7,50,000$   
 $AP = 2,50,000$   
 $\Rightarrow IC = (3,00,000)$   
 $EC Loss = 7,50,000$   
75,000

34) The above mentioned firm is earning:

- a. Accounting profit of Rs. 2,50,000. ✓
- b. Economic loss of Rs. 50,000 ✓
- c. Both a. and b. are correct.
- d. None of the above is correct.

35) Suppose in the above mentioned question, the owner had invested Rs. 500,000 by withdrawing from his saving accounts on which he was earning 5% interest per annum, the economic profit or loss is

- a. economic profit of Rs. 75,000
- b. economic loss of Rs. 75,000
- c. economic profit of Rs. 2,50,000
- d. economic loss of Rs. 2,50,000

Handwritten calculation:  
 $25,000$  Imp Cost ✓

36) The LAC curve which envelops the family of SAC curve, is "U" shape because:

- a. All SAC curves are U shaped
- b. Law of variable proportions
- c. Law of Return to scale
- d. All of the above



37) Different department can be further sub divided into separate sections like sales can be split into separate sections such as for advertising, exports, and customer service is an example of:

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

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

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



39) Fixed cost are a function of:

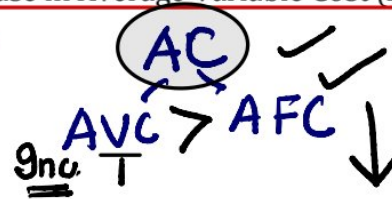
- a. Output
- b. Capacity
- c. Time
- d. They can never be changed

40) When LAC curve is \_\_\_\_\_, it will be tangent to the rising portions of the SAC curves.

- a. Decreasing
- b. Increasing
- c. Constant
- d. None of the above

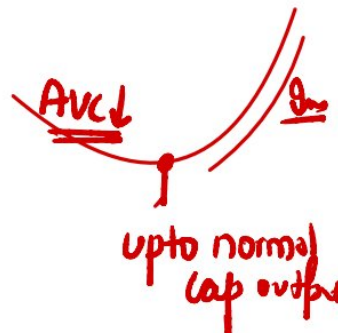
41) Beyond certain output level, when there is a sharp increase in Average Variable Cost (AVC), Average Cost (AC) also increases due to the reason that:

- a. Fall in AFC is less than the sharp rise in AVC
- b. Fall in AFC is greater than the sharp rise in AVC
- c. Fall in AFC is equal to the rise in AVC
- d. None of the above



42) Average Variable Cost Curve has a positive slope:

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



43) Which of the following is an example of sunk cost?

- a. Expenses incurred on advertising
- b. Buy a new production facility
- c. Replace worn out machinery
- d. All of the above

44) Empirical evidence shows that the modern firms face \_\_\_\_\_ LAC

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



45) \_\_\_\_\_ arises due to endogenous factors?

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

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

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

47) What term is used to describe costs that remain fixed over a certain range of output but suddenly jump to a new higher level when output goes beyond a given limit?

- a. Variable cost
- b. Semi-variable cost
- c. Stair-step variable cost
- d. Sunk cost



\* 48) What will be the total amount of sunk cost on the basis of following information?

Particulars	Amount (₹ in crores)
Fuel and Power	<u>1,000</u> X
Research and Development	150 <u>Sunk cost</u>
Rent	9 <u>Decision</u> ✓
Wages	10 X
Advertisement	<u>5</u> <u>Sunk cost</u>

- a. 1,150 crores
- b. 155 crores
- c. 159 crores
- d. 164 crores

TFC = 20

49) A firm produces 5 units of output at average fixed cost of 4 per unit. For production of 10 units of output average cost is 7 per unit. Average variable cost for producing 10 units of output is:

- a. ₹4
- b. ₹5
- c. ₹6
- d. ₹10

$$TC = 70 - 20$$

$$\frac{50}{10} = VC$$

Chapter 4, 5 & 3  
30 Marks

MR = TR ✓

## Chapter 4

300

288

- 1) Assume that when price is Rs. 20, the quantity demanded is 15 units, and when price is Rs. 18, the quantity demanded is 16 units. Based on this information, what is the marginal revenue resulting from an increase in output from 15 units to 16 units?
- Rs. 18
  - Rs. 16
  - Rs. 12
  - Rs. 28

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

$$MR = MC$$

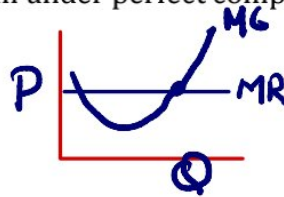
- The firm should do nothing.
- The firm should hire less labour.
- The firm should increase price.
- The firm should increase output.

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

- Large number of buyers and sellers
- Homogeneous product
- Freedom of entry
- Absence of transport cost

- 4) What is the shape of the demand curve faced by a firm under perfect competition?

- Horizontal
- Vertical
- Positively sloped
- Negatively sloped



- 5) Which is the first order condition for the profit of a firm to be maximum?

- $AC = MR$
- $MC = MR$
- $MR = AR$
- $AC = AR$

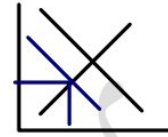
- 6) Which of the following is not a characteristic of a "price-taker"?

- $TR = P \times Q$
- $AR = Price$
- Negatively - sloped demand curve
- Marginal Revenue = Price

Explicit Cost ← (→) Revenue  
Acc. cost  
Acc. profit  
- Implicit cost  
Eco. profit

7) Which of the following statements is false?

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

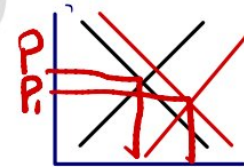


8) With a given supply curve, a decrease in demand causes → Surplus

- a. an overall decrease in price but an increase in equilibrium quantity
- b. an overall increase in price but a decrease in equilibrium quantity.
- c. an overall decrease in price and a decrease in equilibrium quantity.
- d. no change in overall price but a reduction in equilibrium quantity.

9) It is assumed in economic theory that

- a. decision making within the firm is usually undertaken by managers, but never by the owners.
- b. the ultimate goal of the firm is to maximize profits, regardless of firm size or type of business organization.
- c. as the firm's size increases, so do its goals.
- d. the basic decision making unit of any firm is its owners.



10) If supply increases in a greater proportion than demand

- a. The new equilibrium price and quantity will be greater than the original equilibrium price and quantity
- b. The new equilibrium price will be greater than the original equilibrium price but equilibrium quantity will be higher
- c. The new equilibrium price and quantity will be lower than the original equilibrium price and quantity.
- d. The new equilibrium price will be lower than the original equilibrium and the new equilibrium quantity will be higher.

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

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

Surplus  
S > D  
P ↓

Shortage  
D > S  
P ↑

Supply ↑

- 12) Suppose the technology for producing personal computers improves and, at the same time, individuals discover new uses for personal computers so that there is greater utilization of personal computers. Which of the following will happen to equilibrium price and equilibrium quantity?
- Price will increase; quantity cannot be determined
  - Price will decrease; quantity cannot be determined
  - Quantity will increase; price cannot be determined
  - Quantity will decrease; price cannot be determined
- 13) Which of the following is not a condition of perfect competition?
- A large number of firms
  - Perfect mobility of factors.
  - ✓ Informative advertising to ensure that consumers have good information.
  - Freedom of entry and exit into and out of the market.
- 14) Which of the following is not a characteristic of monopolistic competition?
- Ease of entry into the industry. ✓
  - Product differentiation. ✓
  - A relatively large number of sellers. ✓
  - A homogeneous product. Diff.
- 15) Monopoly may arise in a product market because
- A significantly important resource for the production of the commodity is owned by a single firm.
  - The government has given the firm patent right to produce the commodity.
  - The costs of production and economies of scale makes production by a single producer more efficient.
  - All the above
- 16) Price-taking firms, i.e., firms that operate in a perfectly competitive market, are said to be "small" relative to the market. Which of the following best describes this smallness?
- The individual firm must have fewer than 10 employees.
  - The individual firm faces a downward-sloping demand curve
  - The individual firm has assets of less than ` 20 lakhs.
  - The individual firm is unable to affect market price through its output decisions
- 17) For a price-taking firm:
- marginal revenue is less than price.
  - ✓ marginal revenue is equal to price.
  - marginal revenue is greater than price.
  - the relationship between marginal revenue and price is indeterminate

$$AR = P = D = MR$$





18) The long-run equilibrium outcomes in monopolistic competition and perfect competition are similar, because in both market structures

- a. the efficient output level will be produced in the long run.
- b. firms will be producing at minimum average cost
- c. **firms will only earn a normal profit.**
- d. firms realize all economies of scale.

Free Entry

19) Which of the following is the distinguishing characteristic of oligopolies?

- a. A standardized product
- b. The goal of profit maximization
- c. **The interdependence among firms**
- d. Downward-sloping demand curves faced by firms.

20) Average revenue curve is also known as:

- a. Profit Curve
- b. **Demand Curve** -  $P=Q$
- c. Average Cost Curve
- d. Indifference Curve

AR = P

21) Discriminating monopoly implies that the monopolist charges different prices for his commodity:

- a. from different groups of consumers
- b. for different uses
- c. at different places
- d. **any of the above**

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

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

$e < 1$  , More price  
 $e > 1$  , Less price

23) In the context of oligopoly, the kinked demand hypothesis is designed to explain

- a. Price and output determination
- b. **Price rigidity**
- c. Price leadership
- d. Collusion among rivals.



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

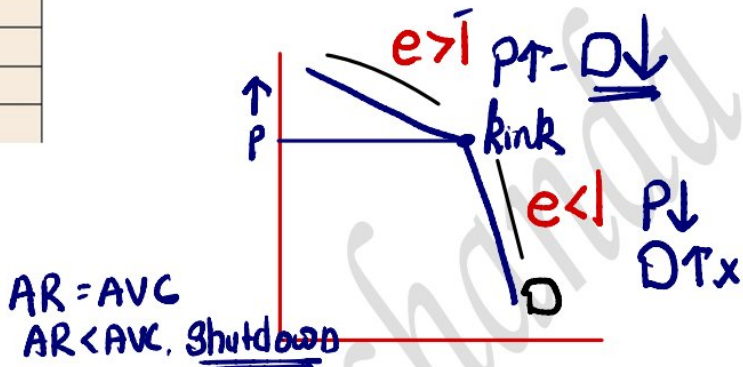
- a. the firm has some, but not complete, control over its product price
- b. **there are so many buyers and sellers in the market that any individual firm cannot affect the market.**
- c. each firm produces a homogeneous product.
- d. there is easy entry into or exit from the market place.



25) If firms in the toothpaste industry have the following market shares, which market structure would best describe the industry

Market share	(% of market)
Toothpaste	18.7
Dentipaste	14.3
Shinibright	11.6
I can't believe its not toothpaste	9.4
Brighter than white	8.8
Pastystuff	7.4
Others	29.8

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



- 26) The kinked demand curve model of oligopoly assumes that
- a. the response (of consumers) to a price increase is less than the response to a price decrease.
  - b. the response (of consumers) to a price increase is more than the response to a price decrease
  - c. the elasticity of demand is constant regardless of whether price increases or decreases.
  - d. the elasticity of demand is perfectly elastic if price increases and perfectly inelastic if price decreases

27) Suppose that, at the profit-maximizing level of output, a firm finds that market price is less than average total cost, but greater than average variable cost. Which of the following statements is correct?

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

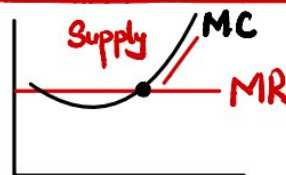
AR < ATC

AR > AVC

AR > AVC  
Fixed cost ↓ ✓

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

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



29) One characteristic not typical of oligopolistic industry is

- a. horizontal demand curve. - Kinked
- b. too much importance to non-price competition ✓
- c. price leadership.
- d. a small number of firms in the industry

Monopoly firm - Monopolista  
Monopolistic firm - Monopolistak

\*

30) The structure of the toothpaste industry in India is best described as

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

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

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

32) Which of the following statements is incorrect?

- a. Even a monopolistic firm can have losses ✓
- b. Firms in a perfectly competitive market are price takers. ✓
- c. It is always beneficial for a firm in a perfectly competitive market to discriminate prices <sup>Monopoly</sup>
- d. Kinked demand curve is related to an oligopolistic market

33) Under perfect competition, in the long run, there will be no \_\_\_\_\_

- a. normal profits
- b. supernormal profits
- c. production
- d. costs

$$AR = AC$$

34) When \_\_\_\_\_, we know that the firms are earning just normal profits.

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

Zero econ Profit

35) When \_\_\_\_\_, we know that the firms under perfect competition must be producing at the minimum point of the average cost curve and so there will be productive efficiency.

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

$$\underline{MC = AC}$$

Min. point

$$AR = \underline{MC}$$

36) When \_\_\_\_\_, there will be allocative efficiency meaning thereby that the cost of the last unit is exactly equal to the price consumers are willing to pay for it and so that the right goods are being sold to the right people at the right price.

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

37) Agricultural goods markets depict characteristics close to

- a. perfect competition. ✓
- b. Oligopoly
- c. monopoly.
- d. monopolistic competition.

38) The market for hand tools (such as hammers and screwdrivers) is dominated by Draper, Stanley, and Craftsman. This market is best described as

- a. Monopolistically competitive
- b. a monopoly
- c. an oligopoly
- d. perfectly competitive

Price

1. Monopoly
2. Monopolistic
3. Oligopoly
4. Perf. comp.

\* 39) When an oligopolist individually chooses its level of production to maximize its profits, it charges a price that is

- a. more than the price charged by either monopoly or a competitive market
- b. less than the price charged by either monopoly or a competitive market
- c. more than the price charged by a monopoly and less than the price charged by a competitive market
- d. less than the price charged by a monopoly and more than the price charged by a competitive market.

40) In the long-run equilibrium of a competitive market, firms operate at

- a. the intersection of the marginal cost and marginal revenue  $MC = MR$
- b. their efficient scale  $\cdot$  Min cost
- c. zero economic profit  $\rightarrow$
- d. all of these answers are correct

Perfect

41) In a very short period market:

- a. the supply is fixed
- b. the demand is fixed
- c. demand and supply are fixed
- d. none of the above

1 min



42) Time element was conceived by

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

43) When  $e > 1$  then MR is

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

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

↓  
1-1 = 0

44) When  $e = 1$  then MR is

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

$$e < 1$$
$$\frac{0.5-1}{0.5} = \text{neg.}$$

45) When  $e < 1$  then MR is

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

46) Price discrimination is one of the features of \_\_\_\_\_

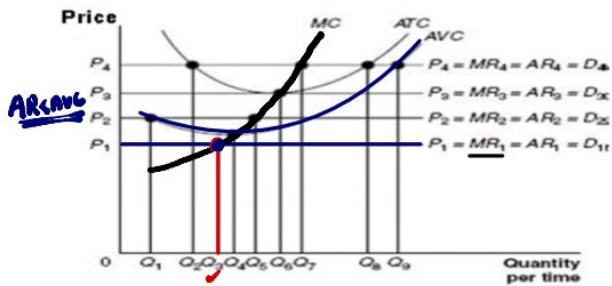
- a. monopolistic competition
- b. monopoly
- c. perfect competition
- d. oligopoly

47) Generally, perishable goods like butter, eggs, milk, vegetables etc., will have

- a. regional market
- b. local market
- c. national market
- d. none of the above



\* 48) At price  $P_1$ , the firm in the figure would produce



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

\* 49) Secular period is also known as

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

50) Stock exchange market is an example of

- a. unregulated market
- b. regulated market **SEBI**
- c. spot market
- d. none of the above

51) The market for the ultimate consumers is known as

- a. whole sale market
- b. regulated market
- c. unregulated market
- d. retail market

52) The condition for pure competition is

- a. large number of buyer and seller, free entry and exist
- b. homogeneous product
- c. both (a) and (b)
- d. large number of buyer and seller, homogeneous product, perfect knowledge about the product

**Types**

53) Pure oligopoly is based on the \_\_\_\_\_ products

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

54) In oligopoly, when the industry is dominated by one large firm which is considered as leader of the group, then it is called:

- a. full oligopoly
- b. collusive oligopoly
- c. partial oligopoly
- d. syndicated oligopoly

55) When the products are sold through a centralized body, oligopoly is known as

- a. organized oligopoly
- b. partial oligopoly
- c. competitive oligopoly
- d. syndicated oligopoly

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

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

57) Under \_\_\_\_\_ the monopolist will fix a price which will take away the entire consumers' surplus.

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

58) Price discrimination is related to

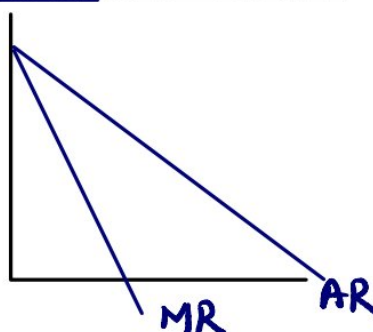
- a. Time
- b. size of the purchase
- c. income
- d. any of the above

59) The firm and the industry are one and the same in \_\_\_\_\_

- a. Perfect competition
- b. Monopolistic competition
- c. Duopoly
- d. Monopoly

60) The demand curve of a monopoly firm will be \_\_\_\_\_

- a. Upward sloping
- b. Downward sloping
- c. Horizontal
- d. Vertical



61) Which of the following statements is incorrect?

- a. Under monopoly there is no difference between a firm and an industry ✓
- b. A monopolist may restrict the output and raise the price ✓
- c. ~~Commodities offered for sale under a perfect competition will be heterogeneous~~ **homog.**
- d. Product differentiation is peculiar to monopolistic competition

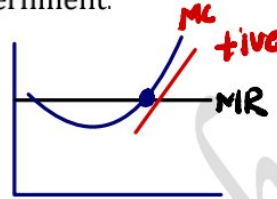
62) Example of a commodity said to have an International Market.

- a. Perishable Goods.
- b. **High Value and Small Bulk Commodities. Gold, silver**
- c. Product whose trading is restricted by government.
- d. Bulky Articles

63) Conditions for equilibrium of a firm are:

- a.  $MR = MC$  ✓
- b.  $MC$  should cut  $MR$  from below. ✓
- c.  $MR = AR$  and  $MC$  should cut  $MR$  from below ✗

2 ~~MR = MC and MC should have a positive slope.~~



64) Natural Monopoly arises when

- a. There is enormous goodwill enjoyed by a firm
- b. There are stringent legal and regulatory requirement.
- c. **There are very large Economies of Scale.**
- d. There are Business Combinations and Cartels.

65) Price Discrimination cannot persist under the following market form:

- a. **Perfect Competition**
- b. Monopoly
- c. Monopolistic
- d. Oligopoly

66) Sweezy's Model explains the concept of price rigidity relating to following market form:

- a. **Oligopoly Market**
- b. Perfect Competition Market
- c. Monopoly Market
- d. Monopolistic Market

67) Combination of Monopoly Market and Monopsony Market is called as

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



68) Price varies by attributes such as location or by Customer Segment is \_\_\_\_\_ degree of Price Discrimination.

- a. First
- b. Second
- c. Third
- d. Fourth

69) The kinked demand curve model of oligopoly is useful in explaining

- a. the way that collusion works
- b. why oligopolistic price and output are extremely sensitive to changes in marginal cost.
- c. why oligopolistic prices might change only infrequently. rigid
- d. the process by which oligopolist merge with one other.

\* 70) The monopolistically competitive seller's demand curve will become more elastic, the

- a. more significant the barriers to entering the industry.
- b. greater the degree of product differentiation.
- c. larger the number of competitors.
- d. smaller the number of competitors.

Pr  $\uparrow$  - Competition  $\uparrow$

\* 71) With respect to the pure monopolist's demand curve it can be said that

- a. The stronger the barrier to entry, the more elastic is the monopolist's demand curve
- b. Price exceeds marginal revenue at all outputs greater than 1.
- c. Demand is perfectly inelastic.
- d. Marginal revenue equals price at all outputs.

Monopoly



\* 72) For an imperfectly competitive firm

- a. Total revenue curve is straight up sloping line because a firm's sales are independent of product price X -
- b. The marginal revenue curve lies above the demand curve because any reduction in price applies to all units sold. X
- c. The marginal revenue curve lies below the demand curve because any reduction in price applies to all units sold. ✓

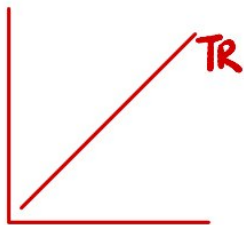
X Marginal revenue curve lies below the demand curve because any reduction in price applies to only extra unit sold.

73) A firm reaches a break-even point (normal profit position) where,

- a. Marginal revenue curve cuts the horizontal axis.
- b. Marginal cost curve intersects the average variable cost curve.
- c. Total revenue equals total variable cost.
- d. Total revenue and total cost are equal.

TR - TC	Q	P/AR	TR	MR
	1	10	10	10
	2	9	18	8

*Perf. comp.*



74) A purely competitive seller's average revenue curve coincides with

- a. its marginal revenue curve only
- b. its demand curve only
- c. both its demand & marginal revenue curves
- d. Neither demand nor marginal revenue curve



75) For a purely competitive firm total revenue

- a. is price times quantity sold  $P \times Q$
- b. increases by a constant absolute amount as output expands.
- c. graphs as a straight up sloping line from the origin.
- d. has all of the above characteristics

Q	P	TR
1	10	10
2	10	20
3	10	30

*10 4-MR*

76) Demand curve is:

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

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

77) Price control is:

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

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

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

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



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

79) Which of the following is not correct? ✓

Economics ✓

1. Monopoly form of market organization may be the result of increasing returns to scale ✓
2. Monopoly form of market organization may be the result of patent or govt. decision ✓
3. Monopoly form of market or organization may be the result of control over the supply of raw materials
4. Monopoly form of market or organization may be the result of control over the demand of raw materials ✗

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

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

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

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

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

1. Existence of two or more than two markets ✓
2. Full control over the supply ✓ **Monopoly**
- ✗ Communication between buyers in different sectors of the monopolist's market ✗
4. Existence of different elasticity of demand in different markets. ✓
5. No possibility of reselling a commodity at a higher price in another market. ✓

- a. 1, 2, 3 & 4
- b. 2, 3, 4 & 5
- c. 3, 4 & 5
- d. 1, 2, 4 & 5

82) If a monopolist could perfectly discriminate then which of the following statements would be true?

- a. Every increment of the goods would be priced separately so as to capture the entire consumer surplus
- b. Every increment of the goods would be priced evenly.
- c. Every increment of the goods would be priced higher than the previous one.
- d. Every increment of the goods would be priced lower than the previous one.

\* 83) For a competitive firm, long period normal price will

- a. Equal AC and MC of production
- b. Equal MC of production only
- c. Equal TC of production only
- d. None of these

$$AR = MR = MC = AC$$

84) Monopolistic competition has features of

- a. Monopoly but not competition
- b. Monopoly and competition with features of competition predominating
- c. Monopoly and competition with features of monopoly predominating
- d. None of the above

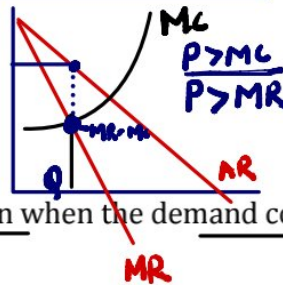
85) Marginal revenue along with marginal cost helps to determine

- a. Profit maximizing output
- b. Profit/unit
- c. Price/unit
- d. Total revenue

$$MR = MC$$

\* 86) Which of the following is true at equilibrium in monopolistic competition?

- a. Price is greater than marginal cost
- b. Price is greater than marginal revenue
- c. Both (A) and (B)
- d. Price is equal to marginal revenue



87) The kinked demand curve theory explains that even when the demand conditions change the price stable

- a. Change, changes
- b. Change, remains stable
- c. Remain stable, changes
- d. Remain stable, falls

88) The size of a monopolist's plant and the degree of utilization of any given plant size depend entirely on the \_\_\_\_\_.

- a. Factor price
- b. Price of good
- c. Market demand
- d. Market supply

\* 89) In the perfect competition at short run, the firm is a price \_\_\_\_\_ and can sell any amount of output at the ongoing market price.

- a. Taker, any
- b. Taker, a definite
- c. Maker, any
- d. None of the above

320

fix. 15 D ↑ S ↓

\* 90) Which of the following is an implication of the imposition of price ceiling below the equilibrium price?

- a. Shortages in the market ✓
- b. Problem of allocation of limited supplies among large number of consumer.
- c. Black marketing
- d. All of the above

91) If a product has elastic demand, its marginal revenue (MR) will be Positive. (Given that the price of the product is Rs.5/unit).

- a. Positive
- b. Zero
- c. Negative
- d. can't be determined

$-e > 1$

$$MR = AR \times \frac{e-1}{e}$$

$$20 = AR \times \left[ \frac{3-1}{3} \right]$$

\* 92) If the price elasticity of demand of a product is (-) 3, what should be the price of the product for its MR to be Rs. 20?

- a. Rs. 10/unit
- b. Rs. 20/unit
- c. Rs. 30/unit
- d. Rs. 40/unit

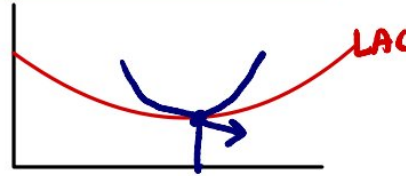
93) If the price of a product is Rs.10/unit and its price elasticity of demand is (-) 2.5. Its MR will be

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

$$MR = 10 \times \left[ \frac{2.5-1}{2.5} \right]$$

94) When the perfectly competitive firm and industry are in long run equilibrium then:

- a.  $P = MR = SAC = LAC$  ✓
- b.  $D = MR = SMC = LMC$
- c.  $P = MR =$  Lowest point on the LAC curve
- d. All of the above



95) In monopoly, the relationship between average and marginal revenue curves is as follows:

- a. AR curve lies above the MR curve
- b. AR curve coincides with the MR curve
- c. AR curve lies below the MR curve
- d. AR curve is parallel to the MR curve

96) In perfect competition the firm's \_\_\_\_\_ above AVC has the identical shape of the firm's supply curve

- a. Marginal revenue curve
- b. Marginal cost curve ✓
- c. Average cost curve
- d. None of the above

$AR = MC$   
 $MR$



97) Which of the following statements about price and marginal cost in competitive and monopolized markets is true?

- a. In competitive markets, price equals marginal cost; in monopolized markets, price equals marginal cost.  $AR = MC$
- b. In competitive markets, price exceeds marginal cost; in monopolized markets, price exceeds marginal cost.  $AR = MC$  ✗
- c. In competitive markets, price equals marginal cost; in monopolized markets, price exceeds marginal cost.
- d. In competitive markets, price exceeds marginal cost; in monopolized markets, price equals marginal cost.

98) If oligopolist engage in collusion and successfully form a cartel, the market outcome is

- a. The same as if it were served by a monopoly
- b. The same as if it were served by competitive firms
- c. Efficient because cooperation improves efficiency
- d. Known as Nash equilibrium

99) If a seller realizes Rs. 10,000 after selling 100 units and Rs. 14,000 after selling 120 units. What is the marginal revenue here?

- a. Rs. 4,000
- b. Rs. 450
- c. Rs. 200
- d. Rs. 100

$$\frac{\Delta TR}{\Delta Q} = \frac{4000}{20} = 200$$

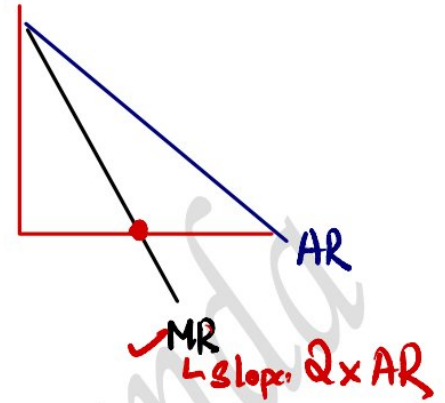
- 100) In long run equilibrium the pure monopolist can make pure profits because of
- Blocked entry
  - The high price he charges
  - The low LAC costs
  - Advertising
- 101) In short run, a firm in monopolistic competition
- always earns profits
  - incurs losses
  - earns normal profit only
  - may earn normal profit, supernormal profit or incur losses
- \* 102) In the case of monopoly:
- MR curve cannot be defined
  - AR curve cannot be defined
  - the short run supply curve cannot be defined
  - none of the above
- 103) Full capacity is utilized only when there is
- Monopoly
  - Perfect competition
  - Price discrimination
  - Oligopoly
- 104) If a competitive firm doubles its output, its total revenue:
- Doubles
  - more than doubles.
  - less than doubles.
  - cannot be determined because the price of the good may rise or fall
- 105) In Economics, we are concerned with:
- Value in use only
  - Exchange value only
  - Both value in use and exchange value
  - None of the above
- 106) Women primarily wear Traditional Assamese Saree in Assam & adjoining areas, is an example of:
- National Market
  - Regional Market
  - Local Market
  - International Market

- 107) Markets where goods are exchanged for money payable either immediately or within a short span of time:
- Forward Market
  - Spot Market
  - Both (a) and (b)
  - Neither (a) nor (b)
- 108) Marginal Revenue will be zero in imperfect competitive market, if the elasticity of demand is:
- Equal to zero
  - Equal to 1
  - Greater than 1
  - Less than 1
- $e = 1$   
 $MR = AR \times \frac{e-1}{e}$
- 109) On the basis of nature of transaction, the market is classified into:
- Regulated & Unregulated Market
  - Wholesale & Retail Market
  - Spot & Future Market
  - None of these
- 110) \_\_\_ is not an objective of price discrimination
- To secure equity through pricing
  - To enjoy economies of scale
  - To dispose of surplus stock
  - To escape foreign market
- \* 111) This type of oligopoly tends to process raw materials or produce intermediate goods that are used as inputs by other industries
- Open oligopoly
  - Collusive oligopoly
  - Pure oligopoly - Homogenous - Raw Mat
  - Full oligopoly
- 112) The elasticity of demand on the upper segment of a kinked demand curve will be:
- Infinite
  - Equal to one
  - Greater than one
  - Less than one
- \* 113) \_\_\_ classified three degrees of price discrimination
- Alfred Marshall
  - Prof. Pigou
  - Hickes & Allen
  - Adam smith





- 114) MR curve under Monopoly lies between AR and Y-axis because the rate of decline of MR is:
- Just half of the rate of decline of AR
  - Just equal to the rate of decline of AR
  - Just double the rate of decline of the AR
  - None of the above



- 115) Aluminum industry is an example of:

- Collusive Oligopoly
- Organized oligopoly
- Competitive oligopoly
- Pure Oligopoly

Supply

- 116) Increase in demand and decrease in supply causes:

- Equilibrium Price uncertain, Equilibrium quantity rises
- Equilibrium Price rises, Equilibrium quantity falls
- Equilibrium Price rises, Equilibrium quantity uncertain
- Equilibrium Price falls, Equilibrium quantity uncertain

↓ - Shortage = P↑

- 117) In which form of market are patents and copyrights given by the government to protect intellectual property rights?

- Perfect competition
- Monopoly
- Monopolistic competition
- Oligopoly

- 118) If the electricity department is charging Rs. 3 per unit to farmers and Rs. 7 per unit to industries, it is described as:

- Product differentiation
- Price discrimination
- Monopoly
- Differentiation activity

- 119) When a few firms in the oligopolistic market come to a common understanding with each other in fixing price and output, it is called:

- Syndicate oligopoly
- Collusive oligopoly
- Perfect oligopoly
- Open oligopoly

120) Three major smartphone manufacturers, Alpha Tech, Beta Mobile, and Gamma Gadgets, dominate the smartphone market. These companies are in constant competition for market share and innovation. Which type of the market structure has been described in this scenario?

- a. Monopoly
- b. Oligopoly
- c. Perfect Competition
- d. Monopolistic Competition

121) If Marginal Revenue (MR) for Unit 1 is 10, for Unit 2 is 5, and for Unit 3 is 3 then what will be the amount of Total Revenue (TR)?

- a. ₹15
- b. ₹10
- c. ₹8
- d. ₹18

Handwritten calculation:  

$$\begin{array}{r} 1 \\ 2 \\ 3 \end{array} \left. \begin{array}{l} 10 \\ 5 \\ 3 \end{array} \right\} 18$$

122) Which market covers a wider area such as a few adjacent cities, parts of states, or a cluster of states?

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

123) When should a competitive firm consider shutting down its operations?

- a. When the price is above Total Variable Costs (TVC).
- b. When the price is below Average Variable Costs (AVC).
- c. When the price is equal to Total Revenue (TR).
- d. When the price is constant.

124) In the case of demand decreasing and supply increasing, what is the expected impact on equilibrium price?

- a. Equilibrium price rises
- b. Equilibrium price falls
- c. Equilibrium price remains constant
- d. Equilibrium price remains uncertain

Handwritten notes:  $\downarrow$  (under demand decreasing),  $\uparrow$  (under supply increasing), Surplus - P  $\downarrow$

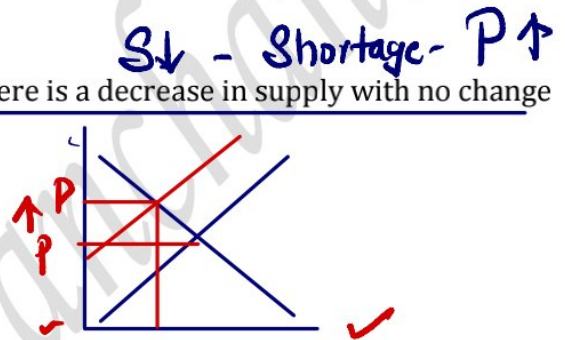
125) \* In Ricardo's view, what does "Exchange Value" represent?

- a. The cost of production of a commodity
- b. The subjective preferences of individuals
- c. Power in exchange over purchasable commodities in general
- d. The quantity of labour embodied in a commodity



- 126) Talcum powder market is an example of which of the following markets?
- Collusive Oligopoly
  - Imperfect Oligopoly
  - Open Oligopoly
  - Close Oligopoly
- 127) A software company engages in price discrimination for its product. The company identifies different market segments and charges different prices based on perceived differences in willingness to pay. This is possible under which situation?
- Monopolistic competition
  - A Monopoly
  - Perfect competition
  - Oligopoly competitions

- 128) What happens to the equilibrium price when there is a decrease in supply with no change in demand?
- Equilibrium price goes down.
  - Equilibrium price remains constant.
  - Equilibrium price goes up.
  - Equilibrium quantity increases.



- 129) A market structure in which there is only a single buyer and a single seller is known as:
- Monopsony
  - Bilateral Monopoly
  - Oligopoly
  - Duopoly
- 130) Monopolistic Competition is characterized by
- Many sellers selling identical products to many buyers.
  - Many sellers sell differentiated products to many buyers.
  - Few sellers selling identical products to many buyers.
  - Few sellers selling competing products to selective buyers.

- 131) According to the Kinked demand curve hypothesis, why does the demand curve facing an oligopolist have a 'Kink' at the prevailing price level?
- To create confusion among competitors
  - To make the demand curve visually interesting
  - The segment above price is highly elastic, and below it is inelastic
  - It is a graphical error in the representation.



Resume - 6.10 pm

Chapter 4 - over

# Chapter -5

## Business Cycles

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



- 2) A significant decline in general economic activity extending over a period of time is
- business cycle
  - contraction phase
  - recession
  - recovery

- 3) The trough of a business cycle occurs when \_\_\_\_ hits its lowest point.
- inflation in the economy
  - the money supply
  - aggregate economic activity
  - the unemployment rate



- 4) The lowest point in the business cycle is referred to as the
- Expansion
  - Boom
  - Peak
  - Trough

- 5) A variable that tends to move later than aggregate economic activity is called
- a leading variable
  - a coincident variable.
  - a lagging variable.
  - a cyclical variable



- 6) Industries that are extremely sensitive to the business cycle are the
- Durable goods and service sectors.
  - Non-durable goods and service sectors.
  - Capital goods and non-durable goods sectors.
  - Capital goods and durable goods sectors.

- 7) A decrease in government spending would cause
- the aggregate demand curve to shift to the right.
  - the aggregate demand curve to shift to the left
  - a movement down and to the right along the aggregate demand curve.
  - a movement up and to the left along the aggregate demand curve.


- Employment ↓ - Income ↓

- 8) Which of the following does not occur during an expansion?
- a. Consumer purchases of all types of goods tend to increase.
  - b. Employment increases as demand for labour rises.
  - c. Business profits and business confidence tend to increase
  - d. None of the above

- 9) During recession, the unemployment rate \_\_\_\_\_ and output \_\_\_\_\_.
- a. Rises; falls
  - b. Rises; rises
  - c. Falls; rises
  - d. Falls; falls

- 10) The four phases of the business cycle are
- a. expansion, peak, contraction and trough
  - b. contraction, expansion, trough and boom
  - c. expansion contraction, peak, and trough
  - d. peak, depression, bust, and boom

- 11) Leading economic indicators ✓
- a. are used to forecast probable shifts in economic policies
  - b. are generally used to forecast economic fluctuations
  - c. are indicators of stock prices existing in an economy
  - d. are indicators of probable recession and depression

- \* 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
- 

- \* 13) The most probable outcome of an increase in the money supply is
- a. interest rates to rise, investment spending to rise, and aggregate demand to rise
  - b. interest rates to rise, investment spending to fall, and aggregate demand to fall
  - c. interest rates to fall, investment spending to rise, and aggregate demand to rise
  - d. interest rates to fall, investment spending to fall, and aggregate demand to fall

- 14) Which of the following is not a characteristic of business cycles?
- a. Business cycles have serious consequences on the well-being of the society.
  - b. Business cycles occur periodically, although they do not exhibit the same regularity.
  - c. Business cycles have uniform characteristics and causes
  - d. Business cycles are contagious and unpredictable.

\* 15) Which of the following is not an example of coincident indicator?

- a. Industrial production ✓
- b. Inflation ✓
- c. Retail sales
- d. New orders for plant and equipment Leading

\* 16) According to \_\_\_\_\_ trade cycles occur due to onset of innovations.

- a. Hawtrey
- b. Adam Smith
- c. J M Keynes
- d. Schumpeter

\* 17) Which economic indicator is required to predict the turning point of business cycle?

- a. Leading indicator
- b. Lagging indicator
- c. Coincident
- d. All of the above

↓  
Indicators

18) Business cycle generally originate in free market economies, what is a free market economy?

- a. The economy where government is in possession of major assets
- b. The economy where private firms control major assets
- c. The economy where decisions of productions are taken by public sector undertakings
- d. The economy where price is controlled by government

19) Which of the following statements is correct?

- a. The business cycle largely affects the agricultural sector ✗
- b. The business cycle largely affects small employees ✗
- c. The business cycle generally affects all sectors of economy but business sector in particular
- d. The business cycle affects low wages workers

20) According to Keynes, fluctuations in Economic activities are due to-

- a. Fluctuation in aggregate effective demand.
- b. Innovations
- c. Changes in money supply
- d. Fluctuation in agricultural output

$$AD = C + I + G + (X - M)$$

21) Which of the following is the cause of business cycles?

- a. Fluctuations in aggregate effective demand ✓
- b. Fluctuations in investments ✓
- c. Fluctuations in government spending
- d. All of the above

22) In order to influence spending on the goods and services in the short run, monetary policy is directed at directly influencing \_\_\_\_\_.

- a. Unemployment rate
- b. Inflation rate
- c. Interest rate
- d. Economic growth rate

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

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

24) Post war reconstruction

- a. will push the economy to slow down because of excess external debts.
- b. will cause pickup in economic activities as the reconstruction pushes up effective demand & in turn employment and income.
- c. can cause boom or recession depending upon the policies for reconstruction adopted by govt.
- d. None of these

\* 25) Suppose in an economy the population growth rate remained 6% during last 5 years while the economic growth rate during the same period was just 3%. Contraction

What will be the consequences of it? Select the right option from the options given below.

- a. Lesser savings → Lower investment → Low income & employment → Low effective demand → Overall slowdown in economic activities
- b. More consumption expenditure → more demand → more production → more employment & income → Overall boom in economic activities
- c. Increase in labour supply → Lower wage rate → Low income → Low savings & investments → Low production → Overall slowdown in economic activities
- d. None of the above

26) Which of the following statements is correct regarding business cycles?

- a. Business cycles always affect all sectors uniformly. ✗
- b. Business cycles may affect all sectors uniformly. ✗
- c. Business cycles do not affect all sectors uniformly.
- d. None of these

\* 27) Cyclical business refers to

- a. The business where demand fluctuates seasonally
- b. The business which keep on changing their product
- c. The business whose fortunes are closely related to the rate of economic growth.
- d. All of the above

\* 28) Match List I with List II and choose the correct answer using the codes given below.

	List I		List II
I	Leading indicator	A	Industrial production - <u>coinc.</u>
II	Lagging indicator	B	Changes in stock price <u>lead.</u>
III.	Coincident indicator	C	Corporate profit <u>lagg.</u>

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

29) According to British Economist J. M. Keynes \_\_\_\_\_ was the main cause of massive decline in income and employment during Great Depression of 1930.

- a. Lower aggregate expenditure in the economy.
- b. Banking crises and low money supply
- c. Overdebttness
- d. Lower profits & pessimism

30) Business cycle emerge in \_\_\_\_\_.

- a. Socialist economy
- b. Free market economy
- c. Mixed economic system
- d. None of the above

31) During what time, the production of weapons and arms, etc. increases and most of the resources of the country are diverted for their production?

- a. Post-War
- b. Pre-War
- c. War
- d. Peace

32) In Recovery phase of business cycle, the process of reversal is initially felt in the:

- a. Capital market
- b. Labour market
- c. Agriculture market
- d. Financial market

20 Marks