

# **CA-FOUNDATION**

## **MCQs COMPILER FOR**

## **BUSINESS ECONOMICS**

**(For Sep 24 & Jan 25 attempt)**

### **ICAI NEW SYLLABUS**

Complete coverage  
of all ICAI Past Years  
and ICAI MTP MCQs  
with Solutions

**CA SANCHIT GROVER**

(Previously associated with  
Ernst & Young in Tax Consultancy)



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## CHAPTER - 1

## NATURE & SCOPE OF BUSINESS ECONOMICS

### Type 1:- Question Bank from ICAI Study Material

1. Economists regard decision making as important because:
  - a) The resources required to satisfy our unlimited wants and needs are infinite, or scarce.
  - b) It is crucial to understand how we can best allocate our scarce resources to satisfy society's unlimited wants and needs.
  - c) Resources have alternative uses.
  - d) All the above.
2. Business Economics is
  - a) Abstract and applies the tools of Microeconomics.
  - b) Involves practical application of economic theory in business decision making.
  - c) Incorporates tools from multiple disciplines.
  - d) (b) and (c) above.
3. In Economics, we use the term scarcity to mean;
  - a) Absolute scarcity and lack of resources in less developed countries.
  - b) Relative scarcity i.e. scarcity in relation to the wants of the society.
  - c) Scarcity during times of business failure and natural calamities.
  - d) Scarcity caused on account of excessive consumption by the rich.
4. What implication(s) does resource scarcity have for the satisfaction of wants?
  - a) Not all wants can be satisfied.
  - b) We will never be faced with the need to make choices.
  - c) We must develop ways to decrease our individual wants.
  - d) The discovery of new natural resources is necessary to increase our ability to satisfy wants
5. Which of the following is a normative statement?
  - a) Planned economies allocate resources via government departments.
  - b) Most transitional economies have experienced problems of falling output and rising prices over the past decade.
  - c) There is a greater degree of consumer sovereignty in market economies than planned economies.
  - d) Reducing inequality should be a major priority for mixed economies.
6. In every economic system, scarcity imposes limitations on
  - a) households, business firms, governments, and the nation as a whole.
  - b) households and business firms, but not the governments.
  - c) local and state governments, but not the federal government.
  - d) households and governments, but not business firms.
7. Macroeconomics is also called \_\_\_\_\_ economics.
  - a) applied
  - b) aggregate
  - c) experimental
  - d) none of the above
8. An example of 'positive' economic analysis would be:
  - a) an analysis of the relationship between the price of food and the quantity purchased.
  - b) determining how much income each person should be guaranteed.
  - c) determining the 'fair' price for food.
  - d) deciding how to distribute the output of the economy.
9. A study of how increases in the corporate income tax rate will affect the national unemployment rate is an example of
  - a) Macro-Economics.
  - b) Descriptive Economics.
  - c) Micro-economics.
  - d) Normative economics.

10. Which of the following does not suggest a macro approach for India?
  - a) Determining the GNP of India.
  - b) Finding the causes of failure of ABC Ltd.
  - c) Identifying the causes of inflation in India.
  - d) Analyse the causes of failure of industry in providing large scale employment
11. **Ram:** My corn harvest this year is poor.  
**Krishan:** Don't worry. Price increases will compensate for the fall in quantity supplied.  
**Vinod:** Climate affects crop yields. Some years are bad, others are good.  
**Madhu:** The Government ought to guarantee that our income will not fall.  
 In this conversation, the normative statement is made by
  - a) Ram
  - b) Krishan
  - c) Vinod
  - d) Madhu
12. Consider the following and decide which, if any, economy is without scarcity:
  - a) The pre-independent Indian economy, where most people were farmers.
  - b) A mythical economy where everybody is a billionaire.
  - c) Any economy where income is distributed equally among its people.
  - d) None of the above.
13. Which of the following is not a subject matter of Micro-economies?
  - a) The price of mangoes.
  - b) The cost of producing a fire truck for the re department of Delhi, India.
  - c) The quantity of mangoes produced for the mangoes market.
  - d) The national economy's annual rate of growth.
14. The branch of economic theory that deals with the problem of allocation of resources is
  - a) Micro- Economic theory
  - b) Macro-Economic theory
  - c) Econometrics
  - d) None of the above
15. Which of the following is not the subject matter of Business Economics?
  - a) Should our firm be in this business?
  - b) How much should be produced and at price should be kept?
  - c) How will the product be placed in the market?
  - d) How should we decrease unemployment in the economy?
16. Which of the following is a normative economic statement?
  - a) Unemployment rate decreases with industrialization
  - b) Economics is a social science that studies human behaviour.
  - c) The minimum wage should be raised to Rs. 200/- per day
  - d) India spends a huge amount of money on national defence.
17. Which of the following would be considered a topic of study in Macroeconomics?
  - a) The effect of increase in wages on the profitability of cotton industry
  - b) The effect on steel prices when more steel is imported
  - c) The effect of an increasing inflation rate on living standards of people in India
  - d) The effect of an increase in the price of coffee on the quantity of tea consumed
18. The difference between positive and normative Economics is:
  - a) Positive Economics explains the performance of the economy while normative Economics finds out the reasons for poor performance.
  - b) Positive Economics describes the facts of the economy while normative Economics involves evaluating whether some of these are good or bad for the welfare of the people.
  - c) Normative Economics describes the facts of the economy while positive Economics involves evaluating whether some of these are good or bad for the welfare of the people.
  - d) Positive Economics prescribes while normative Economics describes.

19. Which of the following is not within the scope of Business Economics?
- Capital Budgeting
  - Risk Analysis
  - Business Cycles
  - Accounting Standards
20. Which of the following statements is incorrect?
- Business economics is normative in nature.
  - Business Economics has a close connection with statistics.
  - Business Economist need not worry about macro variables.
  - Business Economics is also called Managerial Economics.
21. Economic goods are considered scarce resources because they
- cannot be increased in quantity.
  - do not exist in adequate quantity to satisfy the requirements of the society.
  - are of primary importance in satisfying social requirements.
  - are limited to man made goods.
22. In a free market economy the allocation of resources is determined by
- voting done by consumers
  - a central planning authority.
  - consumer preferences.
  - the level of profits of firms.
23. A capitalist economy uses \_\_\_\_\_ as the principal means of allocating resources.
- demand
  - supply
  - efficiency
  - prices
24. Which of the following is considered as a disadvantage of allocating resources using the market system?
- Income will tend to be unevenly distributed.
  - People do not get goods of their choice.
  - Men of Initiative and enterprise are not rewarded.
  - Profits will tend to be low.
25. Which of the following statements does not apply to a market economy?
- Firms decide whom to hire and what to produce.
  - Firms aim at maximizing profits.
  - Households decide which firms to work for and what to buy with their incomes.
  - Government policies are the primary forces that guide the decisions of firms and households.
26. In a mixed economy
- all economic decisions are taken by the central authority.
  - all economic decisions are taken by private entrepreneurs.
  - economic decisions are partly taken by the state and partly by the private entrepreneurs.
  - None of the above
27. The central problem in economics is that of-
- Comparing the success of command versus market economies
  - guaranteeing that production occurs in the most efficient manner.
  - guaranteeing a minimum level of income for every citizen.
  - allocating scarce resources in such a manner that society's unlimited needs or wants are satisfied in the best possible manner.
28. Capital intensive technique would get chosen in a
- labour surplus economy where the relative price of capital is lower.
  - capital surplus economy where the relative price of capital is lower.
  - developed economy where technology is better.
  - developing economy where technology is poor.
29. Which of the following is not one of the four central questions that the study of economics is supposed to answer?
- Who produces what?
  - When are goods produced?
  - Who consumes what?
  - How are goods produced?
30. Larger production of \_\_\_\_ goods would lead to higher production in future.
- consumer goods
  - capital goods
  - agricultural goods



- d) public goods
31. The economic system in which all the means of production are owned and controlled by private individuals for profit.
- Socialism
  - Capitalism
  - Mixed economy
  - Communism
32. Macro Economics is the study of \_\_\_\_\_.
- all aspects of scarcity.
  - the national economy and the global economy as a whole.
  - big businesses.
  - the decisions of individual businesses and people.
33. Freedom of choice is the advantage of
- Socialism
  - Capitalism
  - Communism
  - None of the above
34. Exploitation and inequality are minimal under:
- Socialism
  - Capitalism
  - Mixed economy
  - None of the above
35. Administered prices refer to:
- Prices determined by forces of demand and supply
  - Prices determined by sellers in the market
  - Prices determined by an external authority which is usually the government
  - None of the above
36. In Economics, the central economic problem means:
- Output is restricted to the limited availability of resources
  - Consumer do not have as much money as they would wish
  - There will always be certain level of unemployment
  - Resources are not always allocated in an optimum way
37. The definition "Science which deals with wealth of Nation" was given by
- Alfred Marshall
  - A C Pigou
  - Adam Smith
  - J B Say
38. Which of the following is not one of the features of capitalist economy?
- Right of private property
  - Freedom of choice by the consumers
  - No profit, No Loss motive
  - Competition
39. There is need of economic study, because –
- The resources are limited
  - The wants are unlimited
  - The resources are unlimited
  - Both a and b
40. The benefit of economic study is
- It ensure that all problems will be appropriately tackled
  - It helps in identifying problems
  - It enable to examine a problem in its right perspective
  - It gives exact solutions to every problem
41. The managerial economics –
- Is Applied Economics that fills the gap between economic theory and business practice
  - Is just a theory concept
  - Trains managers how to behave in recession
  - Provides the tools which explain various concepts
42. Which of the following statements is correct?
- Micro economics is important for study of a particular household and a particular firm
  - Macro economics is important for study of economic conditions of a country
  - None of the above
  - Both a and b
43. Mr. Satish hired a business consultant to guide him for growth of his business. The consultant visited him factory and suggested some changes with respect to staff appointment, loan availability and so on. Which approach is that consultant using?
- Micro economics
  - Macro economics
  - None of the above
  - Both a and b
44. Profit motive is a merit of

- a) Socialism  
b) Capitalism  
c) Mixed economy  
d) None of the above
45. \_\_\_\_\_ is also called as command economy  
a) Socialist  
b) Capitalist  
c) Mixed economy  
d) None of the above
46. Which of the following statements is/are correct regarding business economics?  
(a) Business economics attempts to indicate how business policies are firmly rooted in economic principles.  
(b) Business economics uses micro economic analysis of the business unit and macro economic analysis of business environment.
- (c) Business economics takes a pragmatic approach towards facilitating an integration between economic theory and business practices.  
(d) All the above.
47. Unlimited ends and limited means together present the problem of \_\_\_\_\_.  
(a) Scarcity of resources  
(b) Choice  
(c) Distribution  
(d) None of the above
48. Scarcity definition of Economics is given by-  
(a) Alfred Marshall  
(b) Samuelson  
(c) Robinson  
(d) Adam Smith

### Additional Questions from Previous Edition of ICAI Study Material

49. Suppose you find Rs. 100. If you choose to use Rs. 100 to go to a football match, your opportunity cost of going to the game is \_\_\_\_\_.  
(a) nothing, because you found the money.  
(b) Rs. 100 (because you could have used Rs. 100 to buy other things) plus the value of your time spent at the game.  
(c) Rs. 100 (because you could have used the Rs. 100 to buy other things) plus the value of your time spent at the game, plus the cost of the dinner you purchased at the game.  
(d) Rs. 100 (because you could have used the Rs. 100 to buy other things).
50. Which of the following statements is normative?  
(a) Large government deficits cause an economy to grow more slowly.  
(b) People work harder if the wage is higher.  
(c) The unemployment rate should be less.  
(d) Printing too much money causes inflation
51. The opportunity cost of a good is  
(a) the time lost in finding it  
(b) the quantity of other goods sacrificed to get another unit of that good  
(c) the expenditure on the good  
(d) the loss of interest in using savings
52. Micro-economics is concerned with  
(a) the economy as a whole  
(b) the electronics industry  
(c) the study of individual economic behaviour  
(d) the interactions within the entire economy
53. Which of the following statements is incorrect?  
(a) Unlike normative economics, positive economics is based on objective analysis of economic issues.  
(b) The opportunity cost of a good is the quantity of other goods sacrificed to get another unit of that good.  
(c) Microeconomics emphasizes interactions in the economy as a whole.  
(d) None of the above.

Answers to ICAI Question Bank

<b>Q1</b>	<b>Q2</b>	<b>Q3</b>	<b>Q4</b>	<b>Q5</b>	<b>Q6</b>	<b>Q7</b>	<b>Q8</b>	<b>Q9</b>	<b>Q10</b>
(d)	(d)	(b)	(a)	(d)	(a)	(b)	(a)	(a)	(b)
<b>Q11</b>	<b>Q12</b>	<b>Q13</b>	<b>Q14</b>	<b>Q15</b>	<b>Q16</b>	<b>Q17</b>	<b>Q18</b>	<b>Q19</b>	<b>Q20</b>
(d)	(d)	(d)	(a)	(d)	(c)	(c)	(b)	(d)	(c)
<b>Q21</b>	<b>Q22</b>	<b>Q23</b>	<b>Q24</b>	<b>Q25</b>	<b>Q26</b>	<b>Q27</b>	<b>Q28</b>	<b>Q29</b>	<b>Q30</b>
(b)	(c)	(d)	(a)	(d)	(c)	(d)	(b)	(b)	(b)
<b>Q31</b>	<b>Q32</b>	<b>Q33</b>	<b>Q34</b>	<b>Q35</b>	<b>Q36</b>	<b>Q37</b>	<b>Q38</b>	<b>Q39</b>	<b>Q40</b>
(b)	(b)	(b)	(a)	(c)	(a)	(c)	(c)	(d)	(c)
<b>Q41</b>	<b>Q42</b>	<b>Q43</b>	<b>Q44</b>	<b>Q45</b>	<b>Q46</b>	<b>Q47</b>	<b>Q48</b>	<b>Q49</b>	<b>Q50</b>
(a)	(d)	(a)	(b)	(a)	(d)	(b)	(c)	(b)	(c)
<b>Q51</b>	<b>Q52</b>	<b>Q53</b>							
(b)	(c)	(c)							





**Type 2:- Question Bank from ICAI Past Year Papers and MTP**

**Q1)** Applied economics includes \_\_\_\_\_

**(June 2019)**

- (a) Regression analysis and mathematical linear programming
- (b) Capital budgeting
- (c) Both a and b
- (d) None

**Q2)** Macroeconomics include \_\_\_\_\_

**(June 2019)**

- (a) Product pricing
- (b) Consumer Behaviour
- (c) External value of money
- (d) Location of industry

**Q3)** Socialism Ensures

**(June 2019)**

- (a) Rapid growth and balanced development
- (b) Right to work
- (c) Incentives for efficient economic decisions
- (d) Both a and b

**Q4)** "A society would not like to use all its scarce resources for current consumption only" This deals in-

- (a) What to produce?
- (b) How to produce?
- (c) For Whom to produce?
- (d) What provision should be made for Economic Growth?

**Q5)** Freedom of choice is the advantage of \_\_\_\_\_

**(June 2019, MTP March 2022)**

- (a) Socialism
- (b) Capitalism
- (c) Mixed Economy
- (d) None of the above

**Q6)** Socialist economy is \_\_\_\_\_

**(June 2019)**

- (a) Self regulating
- (b) Profit oriented
- (c) Command economy

(d) Allocation of resources as per market requirements

**Q7)** Exploitation and inequality will be more in \_\_\_\_\_

**(June 2019)**

- (a) Socialism
- (b) Capitalism
- (c) Mixed
- (d) All of the above

**Q8)** Business Economics is \_\_\_\_\_

**(June 2019)**

- (a) Normative in nature
- (b) Interdisciplinary in nature
- (c) Both
- (d) None

**Q9)** Which of the following statement is incorrect?

- (a) Business economics is a normative in nature
- (b) Business economics is closely related with statistics
- (c) Business economics only considers micro variables
- (d) Business economics is also called Managerial economics

**Q10)** Price-mechanism is an important feature of -

- (i) Market economy
- (ii) Regulated economy
- (iii) Mixed economy
- (iv) Capitalist economy

(a) i and ii only

(b) iii and iv only

(c) i and iii only

(d) i and iv only

**Q11)** The practical application of economic theory in business decisions is called **(Nov 2018)**

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

**Q12)** Social insurance, sickness benefits, old age pension, etc are some social benefits provided

by-

- (a) State in capitalist economy
- (b) State in socialist economy
- (c) State in mixed economy
- (d) Both (b) and (c)

**Q13)** Micro economic theory deals with the issues  
... **(Nov 2018)**

- (a) Product pricing
- (b) Consumer behaviour
- (c) Factor pricing
- (d) All of the above

**Q14)** Nature of business economics is:  
**(Nov 2018)**

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

**Q15)** Issues requiring decision making in the context of business are: **(Nov 2018)**

- (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 and uncertainties involved?
- (d) All of the above

**Q16)** Consider the following statement about Capitalism: **(Nov 2018)**

- (i) It works through price mechanism
- (ii) It increase human welfare
- (iii) It operates on profit motive

- (a) (i) & (ii)
- (b) (i) & (iii)
- (c) (ii) & (iii)
- (d) None of the above

**Q17)** Business economics uses elements of:  
**(Nov 2018)**

- (a) Micro economics
- (b) Macro economics
- (c) Both micro & macro economics

(d) None of the above

**Q18)** 'A government deficit will reduce unemployment and cause an increase in prices.' This statement is-

- (a) Positive
- (b) Normative
- (c) Incomplete
- (d) None of these

**Q19)** In Capitalist Economics, the answer the fundamental questions – what, how, and for whom to produce, are obtained by –

- (a) Market Forces of Demand and Supply
- (b) Government Regulations
- (c) Cost Benefit Analysis
- (d) All of the above

**Q20)** Which of the following is not feature of capitalistic economy?

- (a) Right to private property
- (b) Restriction on Consumer's right to choose
- (c) Profit motive
- (d) Freedom of enterprise

**Q21)** Factors of production are owned by \_\_\_\_\_ in market economies. **(NOV 2019)**

- (a) Govt.
- (b) Investors
- (c) Privately
- (d) None

**Q22)** Which book of economics is known as first book of modern economics? **(Nov 2019)**

- (a) An Inquiry into nation
- (b) An inquiry into wealth of nation
- (c) An inquiry into wealth
- (d) Wealth of nation

**Q23)** Distribution and Sharing of National Product relates to the problem of-

- (a) What to Produce
- (b) How to Produce
- (c) For whom to Produce
- (d) How to provide for growth



**Q24)** An economy which uses all its resources on production of ..... Goods only, cannot provide for future growth prospects.

- (a) Capital Goods only
- (b) Consumer Goods only
- (c) Both (a) and (b)
- (d) Neither (a) nor (b)

**Q25)** \_\_\_\_\_ economics explain economics phenomenon according to their causes and effects  
(Dec 2020)

- (a) Normative
- (b) Empirical
- (c) Positive
- (d) Applied

**Q26)** In capitalistic economy \_\_\_\_\_ and \_\_\_\_\_ will be more  
(Dec 2020)

- (a) Inequalities, exploitation
- (b) Exploitation, equalities
- (c) Equalities, non-exploitation
- (d) Non exploitation, inequalities

**Q27)** The study of behaviour of different individuals, organizations with in an economic system is known as  
(Dec2020)

- (a) Micro Economics
- (b) Macro economics
- (c) Welfare economics
- (d) None

**Q28)** The nature of business economics is  
(Dec 2020)

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

**Q29)** \_\_\_\_\_ are responsible for all economic problems  
(Dec 2020)

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

**Q30)** In mixed economy the feature include existence of  
(MTP Oct 21)

- (a) Private Sector
- (b) Public Sector
- (c) Combined Sector
- (d) All of these

**Q31)** Which of the following is demerit of Capitalism:  
(MTP Oct 21)

- (a) There is precedence of property rights over human right
- (b) It functions in a domestic framework
- (c) High degree of operative efficiency
- (d) None of these

**Q32)** The industrialization and economic development of the USA Great Britain and other Western European Countries here taken place under the condition of \_\_\_\_\_  
(MTP Oct 21)

- (a) Capitalism and Laissez Faire
- (b) Mixed Economic Structure
- (c) Socialism and Planned Structure
- (d) None of these

**Q33)** In the beginning economics was named as  
(MTP Oct 21)

- (a) Political Economy
- (b) Welfare Economics
- (c) Economies of Wealth
- (d) None of these

**Q34)** Normative economics can be explained through :  
(MTP Oct 21)

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

**Q35)** Which of the following is not a characteristics of capitalist economy:  
(MTP Nov 21)

- (a) Right to Private Property
- (b) Freedom of Enterprise
- (c) Consumer Sovereignty
- (d) Combined Sector

**Q36)** Which are the areas that do not come under Macro economics \_\_\_\_ **(MTP Nov 21)**

- (a) External Value of currency
- (b) The general price level and interest rate
- (c) Location of the industry
- (d) National Income and National Output

**Q37)** Which of the following is an example of positive science:

- (a) India is an over populated country
- (b) When price rises demand falls
- (c) Air is a mixture of gases
- (d) All of these

**Q38)** Scarcity of resource has to be dealt in: **(MTP Nov 21)**

- (a) Capitalist Economy
- (b) Socialist Economy
- (c) Mixed Economy
- (d) All of these

**Q39)** Adam smith published his masterpiece "An enquiry into the nature and causes of wealth or nation" in the year:

- (a) 1776
- (b) 1786
- (c) 1756
- (d) 1766

**Q40)** How to Produce is related to: **(MTP Nov 21)**

- (a) Product's Choice
- (b) Choice of technique
- (c) Either (a) or (b)
- (d) None of these

**Q41)** Which of the following statements is incorrect? **(MTP Oct 2020)**

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

**Q42)** The definition "Science which deals with wealth of Nation" was given by: **(MTP Oct 2020)**

- (a) Alfred Marshall
- (b) A C Pigou
- (c) Adam Smith
- (d) J B Say

**Q43)** Which of the following is not one of the features of capitalist economy? **(MTP Oct 2020)**

- (a) Right of private property
- (b) Freedom of choice by the consumers
- (c) No profit, No Loss motive
- (d) Competition

**Q44)** When we study why saving rates are high or low, we are studying : **(MTP Mar 2018)**

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

**Q45)** Which of the following statements is incorrect? **(MTP Oct 2018)**

- (a) Unlike normative economics, positive economics is based on objective analysis of economic issues.
- (b) The opportunity cost of a good is the quantity of other goods sacrificed to get another unit of that good.
- (c) Microeconomics emphasizes interactions in the economy as a whole.
- (d) None of the above.

**Q46)** Which economy is now a myth only, as no country in the world is having that type of economy? **(MTP Mar 2019)**

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

**Q47)** Macroeconomics is the study of: **(MTP Mar 2019)**

- (a) Inflation
- (b) Unemployment
- (c) Growth





(d) All of the above

**Q48)** Questions like what should be the level of national income, what should be the wage rate fall within the scope of: **(MTP Apr 2019)**

- (a) Positive Science
- (b) Normative Science
- (c) Both (a) and (b)
- (d) None of the above

**Q49)** Which of the following involve a trade – off? **(MTP Aug 2018)**

- (a) Taking a nap
- (b) Watching a football game on Saturday afternoon
- (c) Going to university
- (d) All of these answers involve trade-offs.

**Q50)** Choice is created by the- **(MTP May 2020)**

- (a) Abundance of resources
- (b) Scarcity of resources
- (c) Urgency of needs
- (d) Non-Availability of resources

**Q51)** Which of the following statements would you consider to be a normative one? **(MTP May 2020, MTP Aug 2018)**

- (a) Faster economic growth should result if an economy has a higher level of investment
- (b) Changing the level of interest rates is a better way of managing the economy than using taxation and government expenditure.
- (c) Higher levels of unemployment will lead to higher levels of inflation.
- (d) The average level of growth in the economy was faster in the 1990s than the 1980s.

**Q52)** Which of the following is correct? **(MTP Aug 2018)**

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

(d) Both (b) and (c)

**Q53)** The problem what to produce relates to: **(MTP March 2021)**

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

**Q54)** Which of the following is a normative statement? **(MTP April 2021)**

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

**Q55)** Which of the following is not a demerit of Capitalism? **(MTP April 2021)**

- (a) The pattern of demand does not represent the real need of the society.
- (b) Strikes and lockdown are very common under capitalism
- (c) Capitalism usually functions in a democratic framework.
- (d) None of these

**Q56)** Socialist economy does have: **(MTP April 2021)**

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



**Answers to ICAI Past Year Papers and MTP Questions**

(Q1)	(Q2)	(Q3)	(Q4)	(Q5)	(Q6)	(Q7)	(Q8)	(Q9)	(Q10)
C	C	D	D	B	C	B	C	C	D
(Q11)	(Q12)	(Q13)	(Q14)	(Q15)	(Q16)	(Q17)	(Q18)	(Q19)	(Q20)
C	D	D	D	D	B	C	A	A	B
(Q21)	(Q22)	(Q23)	(Q24)	(Q25)	(Q26)	(Q27)	(Q28)	(Q29)	(Q30)
C	B	C	B	C	A	A	B	C	D
(Q31)	(Q32)	(Q33)	(Q34)	(Q35)	(Q36)	(Q37)	(Q38)	(Q39)	(Q40)
A	A	A	A	D	C	D	D	A	B
(Q41)	(Q42)	(Q43)	(Q44)	(Q45)	(Q46)	(Q47)	(Q48)	(Q49)	(Q50)
C	C	C	A	C	B	D	B	D	B
(Q51)	(Q52)	(Q53)	(Q54)	(Q55)	(Q56)	(Q57)	(Q58)	(Q59)	(Q60)
B	D	A	A	C	D				

### Type 3:- Additional Questions for Practice

Q1) Which of the following statements are positive statements?

- (i) India is overpopulated.
- (ii) Agricultural income should be taxed.
- (iii) Service-class people should be exempted from income tax
- (iv) There is tremendous tax evasion in India,
- (a) i and ii
- (b) i and iii
- (c) i and iv
- (d) iii and iv

Q2) A mixed economy to solve its central problems relies on-

- (a) Economic planning
- (b) Price mechanism
- (c) Price fixing
- (d) Both 'a' and 'b'

Q3) Positive economics remains strictly neutral towards ends. This means that-

- (a) Positive economics study the facts as they are
- (b) Positive economics is prescriptive in nature
- (c) Positive economics is based on ethical, philosophical and religious beliefs
- (d) Only (a) and (b)

Q4) "During the boom periods when aggregate demand, national income and prices are high, entrepreneurs tend to make high profits". This statement shows-

- (a) Effect of micro-economic variables on macro variables
- (b) Effect of macro-economic variables on micro variables

(c) Inter-dependence of micro and macroeconomics

(d) Both (b) and (c)

Q5) Economics is an art as-

- (a) it teaches us to do
- (b) it provides practical solutions to various economic problems.
- (c) it is practice of knowledge
- (d) all the above

Using the given statements, answer Questions 6 and 7

**Ram :** "Rise in prices of goods have made it difficult to make two ends meet"

**Shyam :** "Yes, the cost of cultivation too has increased very much".

**Raghu :** "Government should take steps to curb the price rise and provide relief to common man".

**Bhola :** "Yes, the government should deal strictly on hoarders and black marketers".

Q6) In the above conversation whose statements shows positive aspect of Economics?

- (a) Ram
- (b) Shyam
- (c) Both (a) and (b)
- (d) Bhola

Q7) In the above conversation whose statements shows normative side of economics

- (a) Shyam
- (b) Raghu
- (c) Bhola
- (d) Both (b) and (c)

Q8) A dual system of pricing exists in-

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

(d) None of these

### Answers to Additional Questions

(Q1)	(Q2)	(Q3)	(Q4)	(Q5)	(Q6)	(Q7)	(Q8)	(Q9)	(Q10)
C	D	A	D	D	C	D	C		



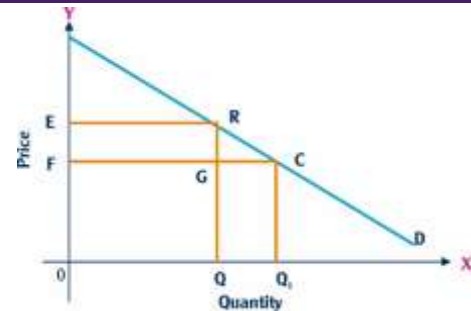
## CHAPTER – 2.1 THEORY OF CONSUMER BEHAVIOUR

### Type 1:- Question Bank from ICAI Study Material

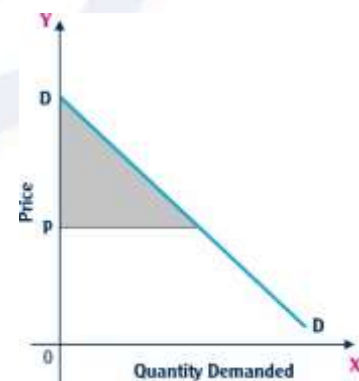
- Total utility is maximum when:
  - marginal utility is zero.
  - marginal utility is at its highest point.
  - marginal utility is negative.
  - none of the above.
- The successive units of stamps collected by a little boy give him greater and greater satisfaction. This is a clear case of
  - Operation of the law of demand.
  - Consumer surplus enjoyed in hobbies and rare collections
  - Exception to the law of diminishing utility.
  - None of the above
- By consumer surplus, economists mean
  - the area inside the budget line above the price of the commodity
  - the area between the average revenue and marginal revenue curves.
  - the difference between the maximum amount a person is willing to pay for a good and its market price.
  - the difference between the market price and the supply curve
- When economists speak of the utility of a certain good, they are referring to
  - the demand for the good.
  - the usefulness of the good in consumption.
  - the expected satisfaction derived from consuming the good.
  - the rate at which consumers are willing to exchange one good for another.
- Comforts lies between
  - inferior goods and necessities.
  - luxuries and inferior goods.
  - necessaries and luxuries.
  - none of the above.

**Refer to the figure below. Answer questions 6 and 7**

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



- A decrease in consumer surplus by EFR
  - A decrease in consumer surplus by AER
  - A decrease in consumer surplus by EFCR
  - None of The above
- When price rises from F to E, the increase in revenue earned by the seller is
    - Equivalent to area EFR
    - Equivalent to area EFCR
    - Equivalent to area AER
    - None of the above
  - In the diagram given below, the shaded portion represents

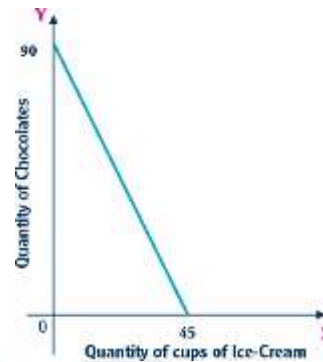


- Price above which there is no demand for the commodity.
  - Monopoly price of the commodity.
  - Consumer surplus.
  - None of the above.
- Total utility is maximum when:
    - marginal utility is zero
    - marginal utility is at its highest point
    - marginal utility is equal to average utility
    - average utility is maximum

10. The law of consumer surplus is based on :
- indifferent curve analysis
  - revealed preference theory
  - law of substitution
  - the law of diminishing marginal utility
11. The second glass of lemonade gives lesser satisfaction to a thirsty boy, this is a clear case of:
- Law of demand
  - Law of diminishing returns
  - Law of diminishing marginal utility
  - Law of supply
12. Which one is not an assumption of the theory of demand based on analysis of indifference curves?
- Given scale of preferences as between different combinations of two goods.
  - Diminishing marginal rate of substitution.
  - Constant marginal utility of money.
  - Consumers would always prefer more of a particular good to less of it, other things remaining the same.
13. An indifference curve slopes down towards right since more of one commodity and less of another result in:
- same level of satisfaction.
  - greater satisfaction.
  - maximum satisfaction.
  - any of the above.
14. Which of the following is a property of an indifference curve?
- it is convex to the origin due to diminishing marginal rate of substitution
  - the marginal rate of substitution is constant as you move along an indifference curve.
  - marginal utility is constant as you move along an indifference curve.
  - total utility is greatest where the 45 degree line cuts the indifference curve.
15. A point below the budget line of a consumer
- Represents a combination of goods which costs the whole of consumer's income.
  - Represents a combination of goods which costs less than the consumer's income.
  - Represents a combination of goods which is unattainable to the consumer given his/her money income.

- Represents a combination of goods which costs more than the consumers' income.

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

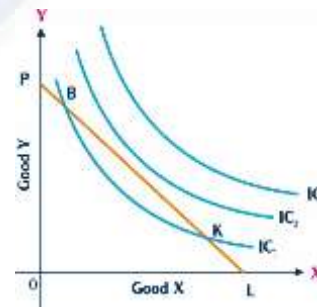


The prices of these two commodities respectively are:

- ₹ 10 and ₹ 20
- ₹ 20 and ₹ 10
- ₹ 10 and ₹ 5
- Any of the above.

**Refer to the figure below. Answer questions 17 and 18**

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



- No advise needed ,as she is maximizing her utility at B
  - Consume more of Good X and less of Good Y
  - Consume more of X and and less of Y and reach point K
  - Consumer same quantity of Good Y and more of Good X
18. Which of the following statements is true about this consumer?



- (a) The consumer is not maximizing her utility at point K
- (b) The consumer is spending her entire income on both goods
- (c) The consumer gets equal pleasure at points B and K
- (d) All the above
19. How would that budget line be affected if the price of both goods fell?
- (a) The budget line would not shift.
- (b) The new budget line must be parallel to the old budget line.
- (c) The budget line must be shifting to the left
- (d) The new budget line will have the same slope as the original so long as the prices of both goods change in the same proportion

### Additional Questions from Previous Edition of ICAI Study Material

20. The Slope of Indifference Curve indicates
- (a) Marginal Rate of Substitution of x for y
- (b) Prices of x and y
- (c) Slope of the budget line
- (d) Change in prices
21. An indifference curve slopes down towards right since more of one commodity and less of another result in:
- (a) same satisfaction
- (b) greater satisfaction
- (c) maximum satisfaction
- (d) decreasing expenditure
22. Which of the following is a property of the indifference curve ?
- (a) Indifference curves are convex to the origin
- (b) Indifference curves slope downwards from left to right
- (c) No two indifference curves can cut each other
- (d) All of the above are the properties of Indifference curves

### Answers to ICAI Question Bank

Q1	Q2	Q3	Q4	Q5	Q6	Q7	Q8	Q9	Q10
(a)	(c)	(c)	(c)	(c)	(d)	(a)	(c)	(a)	(d)
Q11	Q12	Q13	Q14	Q15	Q16	Q17	Q18	Q19	Q20
(c)	(c)	(a)	(a)	(b)	(b)	(b)	(d)	(d)	(a)
Q21	Q22	Q23	Q24	Q25	Q26	Q27	Q28	Q29	Q30
(a)	(d)								

## Type 2:- Question Bank from ICAI Past Year Papers and MTP

- Q1)** Which of the following relation is true with MU? **(June 2019)**  
 (a) When MU is positive, Total utility rises at a diminishing rate  
 (b) When marginal utility is zero, total utility is maximum.  
 (c) When marginal utility is negative, total utility is diminishing  
 (d) All of the above
- Q2)** Consumer surplus in case of necessary commodities: **(Nov 2018)**  
 (a) Zero  
 (b) One  
 (c) Infinite  
 (d) None of these
- Q3)** The consumer is in equilibrium when the following condition is satisfied: **(Nov 2018)**  
 (a)  $\frac{MU_x}{MU_y} > \frac{P_x}{P_y}$   
 (b)  $\frac{MU_x}{MU_y} < \frac{P_x}{P_y}$   
 (c)  $\frac{MU_x}{MU_y} = \frac{P_x}{P_y}$   
 (d) None of these
- Q4)** Which of the following statement is not true? **(Nov 2018)**  
 (a) MU is the slope of TU curve  
 (b) MU is the rate of change of TU  
 (c) MU cannot be negative  
 (d) MU can become zero
- Q5)** Which of the following is a property of an indifference curve? **(Nov 2019)**  
 (a) It is convex to the origin.  
 (b) The marginal rate of substitution is constant as you move along an indifference curve.  
 (c) Marginal utility is constant as you move along an indifference curve.  
 (d) Total utility is greatest where the 45 degree line cuts the indifference curve.
- Q6)** Puru wanted to buy laptop by paying Rs. 60,000 but the actual price is Rs. 55,000, then consumer surplus **(Dec 2020)**  
 (a) 60,000  
 (b) 55,000  
 (c) 5,000  
 (d) 6,500
- Q7)** Comforts lies between **(MTP Oct 21)**  
 (a) Luxuries and Inferior goods  
 (b) Inferior goods and necessities  
 (c) Necessaries and Luxuries  
 (d) None of these
- Q8)** In case of necessities the marginal utilities of the earlier units are very large. In such cases the consumer surplus will be: **(MTP Mar 2018, MTP Mar 19)**  
 (a) Infinite  
 (b) zero  
 (c) Marginally positive  
 (d) Marginally Negative
- Q9)** Law of diminishing marginal utility may not apply to: **(MTP Mar 2018)**  
 (a) Money  
 (b) Butter  
 (c) Pepsi, Coke etc.  
 (d) Ice cream
- Q10)** The consumer surplus concept is derived from: **(MTP Mar 2019)**  
 (a) Law of demand  
 (b) Indifference curve analysis  
 (c) Law of diminishing marginal utility  
 (d) All of above
- Q11)** Rational decision making requires that: **(MTP March 2021)**  
 (a) one's choice be arrived at logically and without error.  
 (b) one's choice be consistent with one's goal.  
 (c) one's choice never vary.



- (d) the consumer plan's to attain the highest possible level of satisfaction.
- Q12)** A rise in price will – **(MTP March 2021)**
- (a) increase in consumer surplus
  - (b) decrease in consumer surplus
  - (c) no change in consumer surplus
  - (d) none of these
- Q13)** The consumer is in equilibrium when the following condition is satisfied: **(June 2019)**
- (a) Budget line is the tangent to the IC Curve
  - (b)  $\frac{MU_x}{p_x} = \frac{MU_y}{p_y} = \frac{MU_z}{p_z}$
  - (c) Both a & B
  - (d) None of the above
- Q14)** Which of the following is not the property of indifference curve? **(June 2019)**
- (a) Slopes downwards to the right
  - (b) Always convex to the origin
  - (c) Intersects each other
  - (d) Will not touch either of the axis
- Q15)** In an indifference curve analysis, the consumer attains equilibrium at a point where the marginal rate of substitution \_\_\_\_\_ the price ratio  $\frac{p_x}{p_y}$  **(Nov 2018)**
- (a) greater than
  - (b) less than
  - (c) equal to
  - (d) Not related to
- Q16)** Which of the following statements about indifference curve is not true? **(Nov 2018)**
- (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 curves can't touch each other
- Q17)** An indifference curve shows \_\_\_\_\_ marginal rate of substitution between two commodities **(Nov 2018)**
- (a) increasing
  - (b) decreasing
  - (c) constant
- Q18)** Indifference curve slopes downwards as one product increase and another decreases because they give. **(Nov 2019)**
- (a) Equal satisfaction
  - (b) Greater Satisfaction
  - (c) Lesser Satisfaction
  - (d) None
- Q19)** Budget line is otherwise called as **(Nov 2019)**
- (a) Money line
  - (b) Preference line
  - (c) Income line
  - (d) Price line
- Q20)** If indifference curve is L shaped, it means two goods will be **(Dec 2020)**
- (a) Perfect Complementary Goods
  - (b) Perfect Substitute goods
  - (c) Perfect inferior goods
  - (d) Perfect superior goods
- Q21)** Lets assume that at OY-axis we have good A and at 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 **(Dec 2020)**
- (a) Right on OY axis
  - (b) Right on OX axis
  - (c) Left on OY axis
  - (d) Left on OX axis
- Q22)** The rate at which the consumer is prepared to exchange-good x and y is : **(MTP Oct 21)**
- (a) Marginal rate of substitution
  - (b) Elasticity of Substitution
  - (c) Diminishing Marginal Utility
  - (d) None of these
- Q23)** The slope of budget line is: **(MTP Nov 21)**
- (a)  $P_x/P_y$
  - (b)  $P_y/P_x$
  - (c)  $P_x.P_y$
  - (d) None of these
- Q24)** Indifference Curve analysis is superior to cardinal utility analysis:

(MTP Nov 21)

- (a) It dispenses with the assumption of measurability
- (b) It segregates income effect and substitution effect
- (c) It does not assume constancy of marginal utility of money
- (d) All of the above

**Q25)** Which is not the assumption of Indifference curve Analysis? **(MTP Mar 2018)**

- (a) The consumer is rational and possesses full information about all the aspects of economic environment
- (b) The consumer is not capable of ranking all combinations
- (c) If consumer prefers combination A to B and B to C, then he must prefer combination A to C
- (d) If combination A has more commodities than combination B, then A must be preferred to B.

**Q26)** Which of the following statements is false? **(MTP Mar 2018, MTP Apr 2019)**

- (a) An indifference curve is concave to the origin
- (b) An indifference curve is convex to the origin
- (c) A higher indifference curve is better than a lower indifference curve
- (d) An indifference curve is a curve which represents all those combinations of two goods which give same satisfaction to the consumer.

**Q27)** When two goods are perfect substitutes of each other then **(MTP Mar 2019)**

- (a) MRS is falling
- (b) MRS is rising
- (c) MRS is constant
- (d) None of the above

**Q28)** \_\_\_\_\_ depicts complete picture of consumer tastes and preferences.

**(MTP Mar 2019)**

- (a) Budget line
- (b) Average cost curve
- (c) Indifference map

(d) Marginal revenue curve

**Q29)** The marginal utility from last unit consumed of commodity Y = 50 Units and  $MU_m = 10$ .

The consumer is in equilibrium and consuming commodity y only. Find the Price of Commodity Y-

**(MTP March 2021)**

- (a) 5
- (b) 10
- (c) 40
- (d) None of these

**Q30)** If  $MU_x = 30$ ,  $P_x = 5$ ,  $MU_y = 40$  the value of  $P_y$  will be **(MTP April 2021)**

- (a) 10
- (b) 15
- (c) 6.66
- (d) None of these

**Q31)** If price of both goods fall how would the budget line be affected? **(MTP April 2021)**

- (a) The budget line will shift to left
- (b) The budget line will shift to right
- (c) The budget line will not change
- (d) The new budget line will shift to right and will have the same slope as the original so long as the price of both goods change in the same proportion.

**Q32)** When two goods are perfect substitutes for each other: **(MTP March 2022)**

- (a) Indifference curve for these two goods are straight parallel line with a constant slope along the curve
- (b) Indifference curve has a constant MRS
- (c) Concave to the Origin
- (d) Both (a) and (b)

**Q33)** The slope of consumer's budget line is - **(MTP Oct 2019)**

- (a) Positive and constant
- (b) Negative and decreasing
- (c) Negative and constant
- (d) Positive and increasing

**Q34)** Which one is not the Assumption of Ordinal Approach-

- (a) Consumer is rational

- (b) Consumer has consistent consumption pattern
- (c) Consumer is capable of ranking all conceivable combination of goods
- (d) Hypothesis of independent utility

### Answers to ICAI Past Year Papers and MTP Questions

(Q1)	(Q2)	(Q3)	(Q4)	(Q5)	(Q6)	(Q7)	(Q8)	(Q9)	(Q10)
D	C	C	C	A	C	C	A	A	C
(Q11)	(Q12)	(Q13)	(Q14)	(Q15)	(Q16)	(Q17)	(Q18)	(Q19)	(Q20)
D	B	C	C	C	A	B	A	D	A
(Q21)	(Q22)	(Q23)	(Q24)	(Q25)	(Q26)	(Q27)	(Q28)	(Q29)	(Q30)
D	A	A	D	B	A	C	C	A	C
(Q31)	(Q32)	(Q33)	(Q34)	(Q35)	(Q36)	(Q37)	(Q38)	(Q39)	(Q40)
D	D	C	D						

### Type 3:- Additional Questions for Practice

1. All but one are the assumptions of the Cardinal Utility Theory. Which one is not the assumption?
  - (a) Rational Consumer
  - (b) Constant Marginal Utility of money
  - (c) Perfectly Competitive Market
  - (d) Independent Utilities
2. The price that a consumer is ready to pay for a commodity represents the utility he is expecting from the commodity means-
  - (a) Utility is measurable
  - (b) Utility is not measurable
  - (c) Money is the measuring rod of utility
  - (d) Both 'a' and 'c'
3. Which of the following statements regarding ordinal utility is true?
  - (a) Utility can be measured, but cannot be ranked in order of preferences
  - (b) Utility can be measured only
  - (c) Utility can neither be measured nor be ranked in order or preferences
  - (d) Utility cannot be measured, but can be ranked in order of preferences
4. Marginal Utility-
  - (a) is always positive
  - (b) is always negative
  - (c) can be positive or negative but not zero
  - (d) can be positive or negative or zero
5. At saturation point the slope of total utility curve is \_\_\_\_\_.
  - (a) rising
  - (b) falling



(c) zero

(d) none of these

6. MU of one commodity has no relation with MU of another commodity implies-

(a) assumption of uniform quality  
(b) assumption of rational consumer  
(c) assumption of independent utilities  
(d) assumption of reasonable quantity

7. Suppose the price of good X is given as ₹ 8 and the MU for 4 units is given as-

Units	1	2	3	4
MUx ₹	12	10	8	6

How many units should a consumer purchase to maximize satisfaction?

(a) 4 units  
(b) 3 units  
(c) 2 units  
(d) 1 unit

8. Following is the utility schedule of a person-

Units	1	2	3	4	5
MU x (in units)	50	40	30	20	10

If the commodity is sold for ₹ 4 and MU of one rupee is 5 utils, how many units will the consumer buy to maximize satisfaction?

(a) 1 unit  
(b) 2 units  
(c) 3 units  
(d) 4 units

9. Suppose that an ice-cream is sold for ₹ 30. Ritu has already eaten 3 ice-creams. Her MU from eating the 3rd ice-cream is 90 utils. MU of ₹ 1 is 3 utils. Should she eat more ice-creams or stop?

(a) Stop eating more ice-creams  
(b) Continue eating more ice-creams  
(c) Stop after eating one more ice-cream  
(d) Eat 2 more ice-creams

10. The consumer is in equilibrium and is consuming good-X only. The MU from last unit

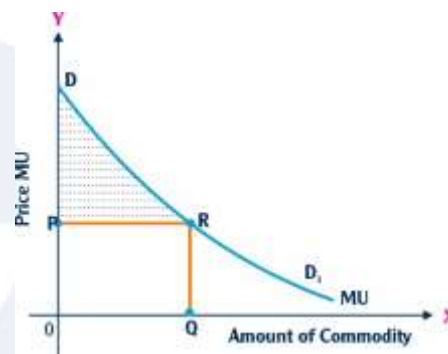
of good X consumed is 50 utils and MU of money = 10. What is the price of good X?

(a) ₹ 5  
(b) ₹ 40  
(c) ₹ 10  
(d) ₹ 4

11. The doctrine of consumer's surplus is based on

(a) Elasticity of Demand  
(b) Indifference Curve Analysis  
(c) Law of Variable Proportion  
(d) Law of Diminishing Marginal Utility

**For Q. No 12, refer the following figure:**



12. In the above figure, the consumer's surplus is shown by the area-

(a) POQR  
(b) DPR  
(c) OQRD  
(d) none of these

13. Amit divides his income entirely between Good X and Good Y. He allocates his income between these two goods in such a way that he maximizes his satisfaction. His MU from extra unit of Y is 4 Utils and the price of Y is ₹ 40. If the price of X is ₹ 80, how much utility is he deriving from X

(a) 4  
(b) 6  
(c) 8  
(d) 10

14. A free good is plentiful so as to have no price, will be used upto the point where its marginal utility is \_\_\_\_

- (a) zero
- (b) highest
- (c) lowest
- (d) none of these

15. On an indifference curve, the MRS falls when-

- (a) moving upwards
- (b) moving downwards
- (c) at the middle
- (d) none of these

16. Should a consumer move upward along an IC, total satisfaction level-

- (a) First increases and then decreases
- (b) First decreases and then increases
- (c) Remains constant
- (d) Increases

17. If two goods were perfect substitutes of each other, the IC will be-

- (a) Curvilinear
- (b) linear
- (c) right angled
- (d) convex to origin

18. Refer the following figure, what change budget line shows -



- (a)  $P_x$  falls and  $P_y$  rises
- (b)  $P_x$  rise and  $P_y$  falls
- (c)  $P_x = P_y$
- (d) none of the above

19. Refer the following figure-

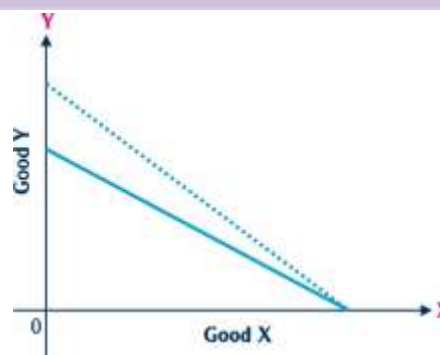


Figure denotes-

- (a) Change in income
- (b) Change in price of Good-X
- (c) Change in price of Good-Y
- (d) -Change in the prices of both Good X & Y

20. If a consumer has monotonic preferences, which bundle will he choose?

- (a) (10,8)
- (b) (8,6)
- (c) (10,7)
- (d) (8,8)

**Refer the following to answer question no. 21**

A consumer wants to buy two good X and Y. The prices of the two goods are ₹ 4 and ₹ 5 respectively. The consumers income is ₹ 20.

21. The slope of the budget line is-

- (a) 0.9
- (b) 0.8
- (c) 0.7
- (d) 0.5

22. A consumer can buy 6 units Good-X and 8 units of Good-Y if he spends his entire income. The prices of the two goods are ₹ 6 and ₹ 8 respectively. What is the consumer's income.

- (a) ₹ 100
- (b) ₹ 150
- (c) ₹ 200
- (d) ₹ 250

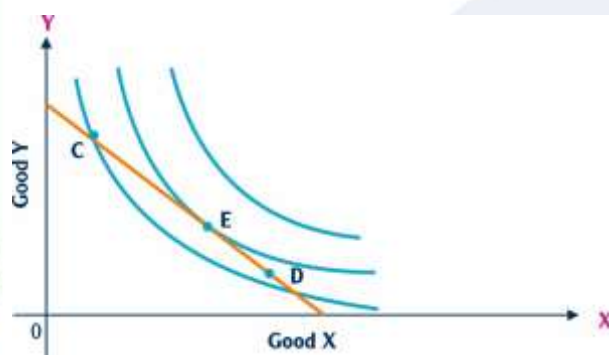
**Read the following to answer question Nos. 23 and 24**

A consumer wants to buy two goods X and Y. He has ₹ 24 to spend. The prices of two goods X and Y are ₹ 4 and ₹ 2 respectively.

23. Which of the following bundles a consumer would be able to buy-
- 4X and 5Y
  - 2X and 7Y
  - 3X and 6Y
  - None of the above
24. What will be the  $MRS_{xy}$  when the consumer is at equilibrium-
- 1:2
  - 2:1
  - 1:1
  - 2:2
25. In a situation where  $MRS_{xy} > P_x/P_y$ , the consumer would react by -
- reducing the consumption of Good - X
  - increasing the consumption of Good - Y
  - increasing the consumption of Good - X
  - none of these

Consider the following figure and answer question

25.



### Answers to Additional Questions

(Q1)	(Q2)	(Q3)	(Q4)	(Q5)	(Q6)	(Q7)	(Q8)	(Q9)	(Q10)
A	D	D	D	C	C	B	D	A	A
(Q11)	(Q12)	(Q13)	(Q14)	(Q15)	(Q16)	(Q17)	(Q18)	(Q19)	(Q20)
D	B	C	A	B	C	B	B	C	A
(Q21)	(Q22)	(Q23)	(Q24)	(Q25)	(Q26)	(Q27)	(Q28)	(Q29)	(Q30)
B	A	C	B	C					

## CHAPTER – 2.2 LAW OF DEMAND AND ELASTICITY OF DEMAND

### Type 1:- Question Bank from ICAI Study Material

1. Demand for a commodity refers to:
  - (a) desire backed by ability to pay for the commodity
  - (b) need for the commodity and willingness to pay for it
  - (c) the quantity demanded of that commodity at a certain price.
  - (d) the quantity of the commodity demanded at a certain price during any particular period of time.
2. Contraction of demand is the result of:
  - (a) decrease in the number of consumers.
  - (b) increase in the price of the good concerned.
  - (c) increase in the prices of other goods.
  - (d) decrease in the income of purchasers
3. All but one of the following are assumed to remain the same while drawing an individual's demand curve for a commodity. Which one is it?
  - (a) The preference of the individual.
  - (b) His monetary income.
  - (c) Price of the commodity.
  - (d) Price of related goods.
4. 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.
5. The Law of Demand, assuming other things to remain constant, establishes the relationship between:
  - (a) income of the consumer and the quantity of a good demanded by him.
  - (b) price of a good and the quantity demanded.
  - (c) price of a good and the demand for its substitute.
  - (d) quantity demanded of a good and the relative prices of its complementary goods.
6. Suppose the price of Pepsi increases, we will expect the demand curve of Coca Cola to:
  - (a) shift towards left since these are substitutes.
  - (b) shift towards right since these are substitutes.
  - (c) remain at the same level.
  - (d) None of the above.
7. All of the following are determinants of demand except:
  - (a) tastes and preferences.
  - (b) quantity supplied.
  - (c) income of the consumer.
  - (d) price of related goods.
8. A movement along the demand curve for soft drinks is best described as :
  - (a) An increase in demand.
  - (b) A decrease in demand.
  - (c) A change in quantity demanded.
  - (d) A change in demand.
9. If the price of Pepsi decreases relative to the price of Coke and 7-UP, the demand for :
  - (a) Coke will decrease.
  - (b) 7-Up will decrease.
  - (c) Coke and 7-UP will increase.
  - (d) Coke and 7-Up will decrease.
10. Which of the following is an incorrect statement?
  - (a) When goods are substitutes, a fall in the price of one (ceteris paribus) leads to a fall in the quantity demanded of its substitutes.
  - (b) When commodities are complements, a fall in the price of one (other things being equal) will cause the demand of the other to rise.
  - (c) As the income of the consumer increases, the demand for the commodity increases always and vice versa.
  - (d) When a commodity becomes fashionable people prefer to buy it and therefore its demand increases.

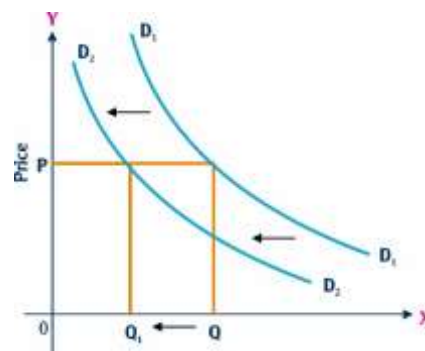
11. What will happen in the rice market if buyers are expecting higher rice prices in the near future?
  - (a) The demand for rice will increase and the demand curve will shift to the right
  - (b) The demand for rice will decrease and the demand curve will shift to the left
  - (c) The demand for rice will be unaffected as it is a necessity
  - (d) The demand for wheat will increase and the demand curve will shift to the right
12. In the case of a Giffen good, the demand curve will be:
  - (a) horizontal.
  - (b) downward-sloping to the right.
  - (c) vertical.
  - (d) upward-sloping to the right.
13. Conspicuous goods are also known as:
  - (a) prestige goods.
  - (b) snob goods.
  - (c) veblen goods.
  - (d) all of the above.
14. A relative price is
  - (a) price expressed in terms of money
  - (b) what you get paid for babysitting your cousin
  - (c) the ratio of one money price to another
  - (d) equal to a money price
15. Demand is the
  - (a) the desire for a commodity given its price and those of related commodities.
  - (b) the entire relationship between the quantity demanded and the price of a good other things remaining the same.
  - (c) willingness to pay for a good if income is larger enough.
  - (d) ability to pay for a good.
16. The price of tomatoes increases and people buy tomato puree. You infer that tomato puree and tomatoes are
  - (a) normal goods.
  - (b) complements.
  - (c) substitutes.
  - (d) inferior goods.
17. Chicken and fish are substitutes. If the price of chicken increases, the demand for fish will
  - (a) increase or decrease but the demand curve for chicken will not change.
  - (b) increase and the demand curve for fish will shift rightwards.
  - (c) not change but there will be a movement along the demand curve for fish.
  - (d) decrease and the demand curve for fish will shift leftwards.
18. Potato chips and popcorn are substitutes. A rise in the price of potato chips will ----- the demand for popcorn and the quantity of popcorn will -----
  - (a) increase; increase
  - (b) increase; decrease
  - (c) decrease; decrease
  - (d) decrease; increase
19. If the price of Orange Juice increases, the demand for Apple Juice will \_\_\_\_\_.
  - (a) increase because they are substitutes
  - (b) decrease because they are substitutes
  - (c) remain the same because the real income is changed
  - (d) decrease as real income decreases
20. When total demand for a commodity whose price has fallen increases, it is due to:
  - (a) income effect.
  - (b) substitution effect.
  - (c) complementary effect.
  - (d) price effect.
21. With a fall in the price of a commodity:
  - (a) consumer's real income increases.
  - (b) consumer's real income decreases.
  - (c) there is no change in the real income of the consumer.
  - (d) none of the above.
22. With an increase in the price of diamond, the quantity demanded also increases. This is because it is a:
  - (a) substitute good.
  - (b) complementary good.
  - (c) conspicuous good.
  - (d) none of the above.
23. An example of a good that exhibit direct price-demand relationship is
  - (a) Giffen goods.
  - (b) Complementary goods.



- (c) Substitute goods.  
(d) None of the above.
24. In Economics, when demand for a commodity increases with a fall in its price it is known as:  
(a) contraction of demand.  
(b) expansion of demand.  
(c) no change in demand.  
(d) none of the above.
25. Which of the following statements about inferior goods is/are false?  
I. Inferior goods are those that we will never buy, no matter how cheap they are.  
II. Inferior goods are those that we buy more of, if we become poorer.  
III. Inferior goods are those that we buy more of, if we become richer.  
(a) I and III only.  
(b) I only  
(c) III only.  
(d) I, II, and III.
26. At higher prices people demand more of certain goods not for their worth but for their prestige value – This is called  
(a) veblen effect.  
(b) giffens paradox.  
(c) speculative effect.  
(d) none of the above.
27. The following diagram shows the relationship between price of Good X and quantity demanded of Good Y.  
What we infer from the diagram is:-



- (a) Good X and Good Y are perfect complements  
(b) Good X and Good Y are perfect substitutes  
(c) Good X and Good Y are remote substitutes  
(d) Good X and Good Y are close substitutes
28. The diagram given below shows



- (a) A change in demand which may be caused by a rise in income and the good is a normal good  
(b) A shift of demand curve caused by a fall in the price of a complementary good  
(c) A change in demand which is caused by a rise in income and the good is an inferior good  
(d) A shift of demand curve caused by a rise in the price of a substitute and the good is a normal good
29. The demand curve of a normal good has shifted to the right. Which of the four events would have caused the shift?  
(a) A fall in the price of a substitute with the price of the good unchanged  
(b) A fall in the nominal income of the consumer and a fall in the price of the normal good  
(c) A fall in the price of a complementary good with the price of the normal good unchanged  
(d) A fall in the price of the normal good, other things remaining the same
30. If roller-coaster ride is a function of amusement park visit, then, if the price of amusement park entry falls  
(a) The demand for roller-coaster rides will rise and the demand curve will shift to right  
(b) The demand for roller coaster ride cannot be predicted as it depends on the tastes of consumers for the ride  
(c) There will be an expansion in the demand for roller coaster drive as it complementary

- (d) None of the above
31. During a recession, economies experience increased unemployment and a reduced level of income. How would a recession likely to affect the market demand for new cars?
- Demand curve will shift to the right.
  - Demand curve will shift to the left.
  - Demand will not shift, but the quantity of cars sold per month will decrease.
  - Demand will not shift, but the quantity of cars sold per month will increase.
32. In the case of a straight line demand curve meeting the two axes, the price-elasticity of demand at the mid-point of the line would be:
- 0
  - 1
  - 1.5
  - 2
33. Identify the factor which generally keeps the price-elasticity of demand for a good low:
- Variety of uses for that good.
  - very low price of a commodity.
  - Close substitutes for that good.
  - High proportion of the consumer's income spent on it.
34. Identify the coefficient of price-elasticity of demand when the percentage increase in the quantity of a good demanded is smaller than the percentage fall in its price:
- Equal to one.
  - Greater than one.
  - Smaller than one.
  - Zero.
35. In the case of an inferior good, the income elasticity of demand is:
- positive.
  - zero.
  - negative.
  - infinite
36. If the demand for a good is inelastic, an increase in its price will cause the total expenditure of the consumers of the good to:
- remain the same.
  - increase.
  - decrease.
  - any of these
37. If regardless of changes in its price, the quantity demanded of a good remains unchanged, then the demand curve for the good will be:
- horizontal.
  - vertical.
  - positively sloped.
  - negatively sloped.
38. If a good is a luxury, its income elasticity of demand is:
- positive and less than 1.
  - negative but greater than -1.
  - positive and greater than 1.
  - zero.
39. The price of hot dogs increases by 22% and the quantity of hot dogs demanded falls by 25%. This indicates that demand for hot dogs is:
- elastic.
  - inelastic.
  - unitarily elastic.
  - perfectly elastic.
40. If the quantity demanded of mutton increases by 5% when the price of chicken increases by 20%, the cross-price elasticity of demand between mutton and chicken is:
- 0.25
  - 0.25
  - 4
  - 4
41. Given the following four possibilities, which one results in an increase in total consumer expenditure?
- demand is unitary elastic and price falls.
  - demand is elastic and price rises.
  - demand is inelastic and price falls.
  - demand is inelastic and prices rises.
42. Which of the following statements about price elasticity of supply is correct?
- Price elasticity of supply is a measure of how much the quantity supplied of a good responds to a change in the price of that good.
  - Price elasticity of supply is computed as the percentage change in quantity supplied divided by the percentage change in price.
  - Price elasticity of supply in the long run would be different from that of the short run.

- (d) All the above.
43. Suppose the price of movies seen at a theatre rises from ₹ 120 per person to ₹ 200 per person. The theatre manager observes that the rise in price causes attendance at a given movie to fall from 300 persons to 200 persons. What is the price elasticity of demand for movies? (Use Arc Elasticity Method)
- .5
  - .8
  - 1.0
  - 1.2
44. Suppose a department store has a sale on its silverware. If the price of a plate-setting is reduced from ₹ 300 to ₹ 200 and the quantity demanded increases from 3,000 plate-settings to 5,000 plate-settings, what is the price elasticity of demand for silverware? (Use Arc Elasticity Method)
- .8
  - 1.0
  - 1.25
  - 1.50
45. When the numerical value of cross elasticity between two goods is very high, it means
- The goods are perfect complements and therefore have to be used together.
  - The goods are perfect substitutes and can be used with ease in place of one another.
  - There is a high degree of substitutability between the two goods.
  - The goods are neutral and therefore cannot be considered as substitutes.
46. If the local pizzeria raises the price of a medium pizza from ₹ 60 to ₹ 100 and quantity demanded falls from 700 pizzas a night to 100 pizzas a night, the price elasticity of demand for pizzas is: (Use Arc Elasticity Method)
- .67
  - 1.5
  - 2.0
  - 3.0
47. If electricity demand is inelastic, and electricity charges increase, which of the following is likely to occur?
- Quantity demanded will fall by a relatively large amount.
  - Quantity demanded will fall by a relatively small amount.
  - Quantity demanded will rise in the short run, but fall in the long run.
  - Quantity demanded will fall in the short run, but rise in the long run.
48. Suppose the demand for meals at a medium-priced restaurant is elastic. If the management of the restaurant is considering raising prices, it can expect a relatively:
- large fall in quantity demanded.
  - large fall in demand.
  - small fall in quantity demanded.
  - small fall in demand.
49. Point elasticity is useful for which of the following situations?
- The bookstore is considering doubling the price of notebooks.
  - A restaurant is considering lowering the price of its most expensive dishes by 50 percent.
  - An auto producer is interested in determining the response of consumers to the price of cars being lowered by ₹ 100.
  - None of the above.
50. A decrease in price will result in an increase in total revenue if :
- the percentage change in quantity demanded is less than the percentage change in price.
  - the percentage change in quantity demanded is greater than the percentage change in price.
  - demand is inelastic.
  - the consumer is operating along a linear demand curve at a point at which the price is very low and the quantity demanded is very high.
51. An increase in price will result in an increase in total revenue if :
- the percentage change in quantity demanded is less than the percentage change in price.
  - the percentage change in quantity demanded is greater than the percentage change in price.

- (c) demand is elastic.
- (d) the consumer is operating along a linear demand curve at a point at which the price is very high and the quantity demanded is very low.
52. Demand for a good will tend to be more elastic if it exhibits which of the following characteristics?
- It represents a small part of the consumer's income.
  - The good has many substitutes available.
  - It is a necessity (as opposed to a luxury).
  - There is little time for the consumer to adjust to the price change
53. Demand for a good will tend to be more inelastic if it exhibits which of the following characteristics?
- The good has many substitutes.
  - The good is a luxury (as opposed to a necessity).
  - The good is a small part of the consumer's income.
  - There is a great deal of time for the consumer to adjust to the change in prices.
54. Suppose a consumer's income increases from ₹ 30,000 to ₹ 36,000. As a result, the consumer increases her purchases of compact discs (CDs) from 25 CDs to 30 CDs. What is the consumer's income elasticity of demand for CDs? (Use Arc Elasticity Method)
- 0.5
  - 1.0
  - 1.5
  - 2.0
55. For a normal good with a downward sloping demand curve:
- The price elasticity of demand is negative; the income elasticity of demand is negative.
  - The price elasticity of demand is positive; the income elasticity of demand is negative.
  - The price elasticity of demand is positive; the income elasticity of demand is positive.
  - The price elasticity of demand is negative; the income elasticity of demand is positive
56. The quantity purchased remains constant irrespective of the change in income. This is known as
- negative income elasticity of demand.
  - income elasticity of demand less than one.
  - zero income elasticity of demand.
  - income elasticity of demand is greater than one.
57. As income increases, the consumer will go in for superior goods and consequently the demand for inferior goods will fall. This means inferior goods have:
- income elasticity of demand less than one.
  - negative income elasticity of demand.
  - zero income elasticity of demand.
  - unitary income elasticity of demand.
58. When income increases the money spent on necessities of life may not increase in the same proportion, This means:
- income elasticity of demand is zero.
  - income elasticity of demand is one.
  - income elasticity of demand is greater than one.
  - income elasticity of demand is less than one
59. The luxury goods like jewellery and fancy articles will have
- low income elasticity of demand
  - high income elasticity of demand
  - zero income elasticity of demand
  - none of the above
60. A good which cannot be consumed more than once is known as
- durable good
  - non-durable good
  - producer good
  - none of the above
61. Suppose potatoes have (-).0.4 as income elasticity. We can say from the data given that:
- Potatoes are superior goods.
  - Potatoes are necessities.
  - Potatoes are inferior goods.
  - There is a need to increase the income of consumers so that they can purchase potatoes.
62. The price of a commodity decreases from ₹ 6 to ₹ 4 and the quantity demanded of the good increases from 10 units to 15 units, and the coefficient of price elasticity.
- 1.5
  - 2.5



- (c) -1.5  
(d) 0.5
- 63.** 'No matter what the price of coffee is, Arjun always spend a total of exactly 100 per week on coffee.' The statement implies that:
- Arjun is very fond of coffee and therefore he has an inelastic demand for coffee
  - Arjun has elastic demand for coffee
  - Arjun's demand for coffee is relatively less elastic
  - Arjun's demand for coffee is unit elastic
- 64.** A firm learns that the own price elasticity of a product it manufactures is 3.5. What would be the correct action for this firm to take if it wishes to raise its total revenue?
- Lower the price because demand for the good is elastic.
  - Raise the price because demand for the product is inelastic.
  - Raise the price because demand is elastic.
  - We need information in order to answer this question
- 65.** If the price of air-conditioner increases from ₹ 30,000 to ₹ 30,010 and resultant change in demand is negligible, we use the measure of \_\_\_\_\_ to measure elasticity.
- point elasticity of demand since it is a small change
  - Arc elasticity of demand since it is a small change
  - Price elasticity based on average prices method
  - Any of the above
- 66.** Given the following four possibilities, which one will result in an increase in total expenditure of the consumer?
- Demand is unit elastic and price rises
  - Demand is elastic and price rises
  - Demand is inelastic and price falls
  - demand is inelastic and price rises
- 67.** The cross elasticity between Rye bread and Whole Wheat bread is expected to be:
- positive
  - negative
  - zero
  - can't say
- 68.** The cross elasticity between personal computers and soft wares is:
- positive.
  - negative.
  - zero.
  - one.
- 69.** The cross elasticity between Bread and DVDs is:
- positive.
  - negative.
  - zero .
  - one.
- 70.** Which of the following statements is correct?
- With the help of statistical tools, the demand can be forecasted with perfect accuracy
  - The more the number of substitutes of a commodity, more elastic is the demand.
  - Demand for butter is perfectly elastic.
  - Gold jewellery will have negative income elasticity.
- 71.** Suppose the income elasticity of education in private school in India is 3.6. What does this indicate:
- Private school education is highly wanted by rich
  - Private school education is a necessity.
  - Private school education is a luxury.
  - We should have more private schools.
- 72.** If the organizers of an upcoming cricket match decide to increase the ticket price in order to raise its revenues, what they have learned from past experience is;
- The percentage increase in ticket rates will be always equal the percentage decrease in tickets sold
  - The percentage increase in ticket rates will be always greater than the percentage decrease in tickets sold
  - The percentage increase in ticket rates will be less than the percentage decrease in tickets sold
  - (a) and (c) above are true
- 73.** The average income of residents of two cities A and B and the corresponding change in demand for two goods is given in the following table. Which of the following statements is true?



City	% Increase in income	% change in demand for Good X	% Change in demand for Good Y
A	12	6.5	-2.3
B	9	5.6	1.6

- (a) Both goods are normal goods in both cities A and B

- (b) Good X is a normal good in both cities ; good Y is an inferior good in city A  
 (c) Good X is a normal good in both cities ; good Y is an inferior good in city B  
 (d) Need more information to make an accurate comment

### Additional Questions from Previous Edition of ICAI Study Material

74. \_\_\_\_\_ and \_\_\_\_\_ do not directly affect the demand curve  
 (a) the price of related goods, consumer incomes  
 (b) Consumer incomes, tastes  
 (c) the costs of production, bank opening hours  
 (d) the price of related goods, preferences
75. If the demand curve for good X is downward-sloping, an increase in the price will result in  
 (a) A decrease in the demand for good X.  
 (b) No change in the quantity demanded for good X.  
 (c) A larger quantity demanded for good X.  
 (d) A smaller quantity demanded for good X
76. The income of a household rises by 20 per cent, the demand for computer rises by 25 per cent, this means computer (in Economics) is a/an  
 (a) inferior good  
 (b) luxury good  
 (c) necessity  
 (d) can't say
77. The income elasticity of tomatoes is 0.25, it means tomatoes are:  
 (a) inferior goods.  
 (b) luxury goods.  
 (c) normal goods.  
 (d) can't say.
78. Suppose a department store has a sale on its silverware. If the price of a plate-setting is reduced from ₹ 300 to ₹ 200 and the quantity demanded increases from 3,000 plate-settings to 5,000 plate-settings, what is the price elasticity of demand for silverware?  
 (a) 8  
 (b) 1.0  
 (c) 1.25  
 (d) 1.50
79. If increasing air fares increases revenues and decreasing them decreases revenues, then the demand for air travel has a price elasticity of:  
 (a) Zero  
 (b) Greater than zero but less than one  
 (c) One  
 (d) Greater than one
80. Suppose the demand for meals at a medium-priced restaurant is elastic. If the management of the restaurant is considering raising prices, it can expect a relatively:  
 (a) large fall in quantity demanded  
 (b) large fall in demand  
 (c) small fall in quantity demanded  
 (d) small fall in demand
81. Demand for electricity is elastic because ---  
 (a) it is very expensive  
 (b) it has a number of close substitutes  
 (c) it has alternative uses  
 (d) none of the above
82. If consumers always spend 15 percent of their income on food, then the income elasticity of demand for food is \_\_\_\_\_.  
 (a) 1.50  
 (b) 1.15  
 (c) 1.00.  
 (d) 0.15
83. In the case of an inferior good the income elasticity of demand is:  
 (a) positive  
 (b) zero

- (c) negative  
(d) infinite
84. The elasticity of substitution between two perfect substitutes is:
- (a) zero  
(b) greater than zero  
(c) less than infinity  
(d) infinite
85. Which of the following statements is incorrect?
- (a) An indifference curve must be downward-sloping to the right.
- (b) Convexity of a curve implies that the slope of the curve diminishes as one moves from left to right.
- (c) The income elasticity for inferior goods to a consumer is positive.
- (d) The total effect of a change in the price of a good on its quantity demanded is called the price effect

### Answers to ICAI Question Bank

Q1	Q2	Q3	Q4	Q5	Q6	Q7	Q8	Q9	Q10
(d)	(b)	(c)	(b)	(b)	(b)	(b)	(c)	(d)	(c)
Q11	Q12	Q13	Q14	Q15	Q16	Q17	Q18	Q19	Q20
(a)	(d)	(d)	(c)	(b)	(c)	(b)	(a)	(a)	(d)
Q21	Q22	Q23	Q24	Q25	Q26	Q27	Q28	Q29	Q30
(a)	(c)	(a)	(b)	(a)	(a)	(d)	(c)	(c)	(a)
Q31	Q32	Q33	Q34	Q35	Q36	Q37	Q38	Q39	Q40
(b)	(b)	(b)	(c)	(c)	(b)	(b)	(c)	(a)	(b)
Q41	Q42	Q43	Q44	Q45	Q46	Q47	Q48	Q49	Q50
(d)	(d)	(b)	(c)	(c)	(d)	(b)	(a)	(c)	(b)
Q51	Q52	Q53	Q54	Q55	Q56	Q57	Q58	Q59	Q60
(a)	(b)	(c)	(b)	(d)	(c)	(b)	(d)	(b)	(b)
Q61	Q62	Q63	Q64	Q65	Q66	Q67	Q68	Q69	Q70
(c)	(a)	(d)	(a)	(a)	(d)	(a)	(c)	(c)	(b)
Q71	Q72	Q73	Q74	Q75	Q76	Q77	Q78	Q79	Q80
(c)	(b)	(b)	(c)	(d)	(b)	(c)	(c)	(b)	(a)
Q81	Q82	Q83	Q84	Q85	Q86	Q87	Q88	Q89	Q90
(c)	(c)	(c)	(d)	(c)					

## Type 2:- Question Bank from ICAI Past Year Papers and MTP

**Q1)** During recession what will be the market demand for new cars? **(MTP Oct 21)**

- (a) Demand Curve will shift to the right
- (b) Demand curve will shift to the left
- (c) Demand will not shift but the quantity of cars sold per month will decrease
- (d) Demand will not shift but the quantity of cars sold per month will increase

**Q2)** In case of \_\_\_\_\_ goods, there is an inverse relationship between income and demand for a product. **(June 2019)**

- (a) substitute goods
- (b) Complementary Goods
- (c) Giffen Goods.
- (d) None of the above

**Q3)** When the price of tea decreases, people reduces the consumption of coffee. Then the goods are **(June 2019)**

- (a) Complementary
- (b) Substitutes
- (c) Inferior goods
- (d) Normal goods

**Q4)** In case of inferior commodity, the rise in income will result \_\_\_\_\_ shift in demand curve: **(Nov 2018)**

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

**Q5)** Demand curve of a normal commodity usually slopes \_\_\_\_\_: **(Nov 2018)**

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

**Q6)** When price of apple is Rs. 120 per kg. Ram buys one kg of apples at that price. Now, other things remain the same, the price of apples falls to Rs. 90 per kg. Now Ram buys 2kg of apples. It is called as **(Dec 2020)**

- (a) Contraction of demand
- (b) Expansion of demand
- (c) Market demand
- (d) Demand schedule

**Q7)** For Giffen good the angle Curve is : **(MTP Oct 21)**

- (a) Vertical
- (b) Horizontal
- (c) Negatively Sloped
- (d) Positively Sloped

**Q8)** In case of Inferior goods: **(MTP Nov 21)**

- (a) Income effect and substitution effect work in same direction.
- (b) Income effect and substitution effect work in opposite direction
- (c) Either (a) or (b)
- (d) None of these

**Q9)** Rationale of the law of demand is: **(MTP Nov 21)**

- (a) Price effect of a fall in price
- (b) Different uses
- (c) Arrival of new consumers
- (d) All of these

**Q10)** When total demand for a commodity whose price has fallen increases it is due to: **(MTP Nov 21)**

- (a) Price effect
- (b) Income effect
- (c) Substitution effect
- (d) Complementary effect



**Q11)** For Substitute products the demand is:

**(MTP Nov 21)**

- (a) Downward sloping
- (b) Horizontal
- (c) Upward Sloping
- (d) None of these

**Q12)** In the case of Giffin goods, the demand curve will be - **(MTP Aug 2018, MTP Oct 2020)**

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

**Q13)** Conspicuous goods are also known as

**(MTP Oct 2020)**

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

**Q14)** Chicken and fish are substitutes. If the price of chicken increases, the demand for fish will

**(MTP Oct 2020)**

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

**Q15)** Which of the following statements about inferior goods is/are false?

**(MTP Oct 2020)**

- I. Inferior goods are those that we will never buy, no matter how cheap they are.
- II. Inferior goods are those that we buy more of, if we become poorer.
- III. Inferior goods are those that we buy more of, if we become richer.

(a) I and III only.

(b) I only

(c) III only.

(d) I, II, and III.

**Q16)** If price of good A increases relative to the price of its substitutes B and C, then demand for

**(MTP Oct 2020)**

- (a) B will decrease
- (b) C will decrease
- (c) B and C will increase
- (d) B and C will decrease

**Q17)** Giffen goods are those goods

**(MTP Mar 2018)**

- (a) For which demand increases as price increases
- (b) That have a high income elasticity of demand
- (c) That are in short supply
- (d) None of these

**Q18)** Effective Demand depends on:

**(MTP Mar 2019)**

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

**Q19)** Quantity demanded is a: **(MTP Mar 2019)**

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

**Q20)** The substitution effect will be stronger when:

**(MTP March 2021)**

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

**Q21)** When violation of law of demand occurs:

**(MTP March 2021)**

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

**Q22)** A rise in sale of which type of good is expected in the case of recession:

**(MTP April 2021)**

- (a) Luxury
- (b) Necessity
- (c) Inferior
- (d) Normal

**Q23)** When the demand curve is a rectangular hyperbola an increase in the price of the commodity causes the total expenditure of consumers of the commodity to:

**(MTP March 2022)**

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

**Q24)** According to Hicks and Allen the demand curve slope downwards due to \_\_\_\_

**(MTP March 2022)**

- (a) Law of diminishing marginal utility
- (b) Income effect and substitution effect
- (c) Either (a) or (b)
- (d) None of these

**Q25)** A downward movement along a demand curve indicate-

**(MTP Oct 2019)**

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

**Q26)** \_\_\_\_\_ pair of commodities is an example of substitutes.

**(MTP Aug 2018)**

- (a) Coffee and milk
- (b) Diamond and cow
- (c) Pen and ink
- (d) Mustard oil and coconut oil

**Q27)** If an increase in the price of blue jeans leads to an increase in the demand for tennis shoes, then blue jeans and tennis shoes are \_\_\_\_

**(MTP Aug 2018)**

- (a) Complements.
- (b) Inferior goods
- (c) Normal goods.
- (d) Substitutes.

**Q28)** The reason of right ward shiftment of demand curve

- (a) Fall in the price of complement
- (b) An increase in the Number of Buyers
- (c) Rise in the price of substitute goods
- (d) All of the above.

**Q29)** Which of the following is correct?

**(June 2019)**

- (a) Elasticity on lower segment of demand curve is greater than unity
- (b) Elasticity on upper segment of demand curve is lesser than unity
- (c) Elasticity at the middle of demand curve is equal to unity
- (d) Elasticity decreases as one move from lower part of demand curve to upper part.

**Q30)** If maize has  $-0.30$  as income elasticity of demand, then maize will be considered as \_\_\_\_

**(June 2019)**

- (a) Necessity
- (b) Inferior good
- (c) Superior good
- (d) None





**Q31)** The price elasticity of demand at the midpoint of the straight line demand curve under point method is \_\_\_\_ **(June 2019)**

- (a) 0
- (b) 1
- (c)  $>1$
- (d)  $<1$

**Q32)** Income elasticity of luxury goods

**(Nov 2019)**

- (a) Zero
- (b) Positive and greater than one
- (c) Positive and lesser than one
- (d) Negative and greater than  $-1$

**Q33)** 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.

**(Dec 2020)**

- (a) 126 units
- (b) 36 units
- (c) 144 units
- (d) 120 units

**Q34)** Which of the following are the determinant of price elasticity of demand: **(MTP Oct 21)**

- (a) Availability of substitutes
- (b) Time period
- (c) Tied demand
- (d) All of these

**Q35)** If the cross elasticity is only slightly below zero which of the following is correct? **(MTP Oct 21)**

- (a) They are weak complements
- (b) They are strong complements
- (c) They are weak substitutes
- (d) They are strong substitutes

**Q36)** If the price of a commodity raised by 12% and  $E_d$  is  $(-0.63)$  the expenditure made on the commodity by the consumer will \_\_\_\_ **(MTP Oct 21)**

- (a) Remain the same

- (b) Decrease
- (c) Increase
- (d) Can't say

**Q37)** Demand for a commodity with negative income elasticity indicate that as income falls the amount of the commodity purchased

**(MTP Oct 21)**

- (a) falls
- (b) rises
- (c) remain unchanged
- (d) None of these

**Q38)** The cross elasticity between two Complementary goods will be: **(MTP Nov 21)**

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

**Q39)** If as a result of 20 percent fall in the ticket fares the demand for watching movie in the cinema hall increases by 10 percent, then price elasticity is

**(MTP Oct 2020)**

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

**Q40)** Calculate Income-elasticity for a household when the income of this household rises by 5% and the demand for buttons does not change at all.

**(MTP Mar 2018)**

- (a) Infinity
- (b) 1
- (c) 5
- (d) Zero

**Q41)** If the goods are perfect substitutes for each other then cross elasticity is

**(MTP Mar 2018, MTP Mar 19)**

- (a) Infinite

- (b) One
- (c) Zero
- (d) None of the above

**Q42)** The income of a household rises by 20 per cent, the demand for computer rises by 50%, this means computer is a/an: **(MTP Mar 2018)**

- (a) Inferior good
- (b) Luxury good
- (c) Necessity
- (d) None of the above

**Q43)** If demand for a good is elastic, an increase in its price will cause total expenditure of the consumer of the good to: **(MTP Mar 2018)**

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

**Q44)** If the price of petrol rises by 25% and demand for car falls by 40% then, cross elasticity between petrol and car is: **(MTP Mar 2019)**

- (a) -1.6
- (b) 1.6
- (c) -2.6
- (d) 2.6

**Q45)** If the proportion of income spent on a goods decrease as income rises then income elasticity is:

**(MTP Apr 2019)**

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

**Q46)** If two goods are totally unrelated, then cross elasticity between them is:

**(MTP Apr 2019)**

- (a) Zero
- (b) One
- (c) Infinite

- (d) None of the above

**Q47)** Normal goods have: **(MTP Apr 2019)**

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

**Q48)** What will happen in the rice market if buyers are expecting higher rice prices in the near future?

**(MTP May 2020)**

- (a) The demand for rice will increase.
- (b) The demand for rice will decrease.
- (c) The demand for rice will be unaffected.
- (d) None of the above

**Q49)** Suppose that at a price of Rs. 300 per month, there are 30,000 subscribers to cable television in Small Town. If Small Town Cablevision raises its price to Rs. 400 per month, the number of subscribers will fall to 20,000. What is the price elasticity of demand for cable Small Town? **(MTP May 2020)**

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

**Q50)** For luxuries goods the income elasticity is :

**(MTP March 2021)**

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

**Q51)** From the following demand curve determine the elasticity at the given price  $Q = 1200 - 10P$   
When  $P = 5$ ,  $dQ/dP = 10$  **(MTP April 2021)**

- (a) Elastic
- (b) Inelastic
- (c) Unitary elastic
- (d) None of these



**Q52)** The Coefficient of Price elasticity of demand between two points on a demand curve is \_\_\_\_

**(MTP March 2022)**

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

**Q53)** A movement along a curve rather than a shift in the curve can be measured by:-

**(MTP March 2022)**

- (a) Cross elasticity of demand
- (b) Income elasticity of demand
- (c) Price elasticity of demand & Price elasticity of Supply
- (d) None of these

**Q54)** Demand for electricity is elastic because \_\_\_\_\_

**(MTP March 2022)**

- (a) It is very expensive
- (b) It has a number of close substitutes
- (c) It has alternative uses
- (d) None of the above

**Q55)** Demand for water is –

**(MTP Oct 2019)**

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

**Q56)** Suppose income elasticity of bread is 0.25, its means that bread is-

**(MTP Oct 2019)**

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

**Q57)** Which of the following goods has inelastic demand-

**(MTP Oct 2019)**

- (a) Salt
- (b) Food grains
- (c) Medicines

(d) All of the above

**Q58)** Which of the following is incorrect?

**(MTP Aug 2018)**

- (a) The cross elasticity of demand for two substitutes is positive.
- (b) The income elasticity of demand is the percentage change in quantity demanded of good due to a change in the price of a substitute.
- (c) The cross elasticity of demand for two complements is negative.
- (d) The price elasticity of demand is always negative, except for Giffen goods

**Read the following data and answer Questions number 59-63**

A shopkeeper sells gel pen at Rs. 10 per pen. At this price he can sell 120 per month.

After some time, he raises the price to Rs. 15 per pen. Following the price rise:

**(MTP Oct 2018)**

- Only 60 pens were sold every month
- The number of refills bought were down from 200 to 150.
- The number of ink pen customers bought went up from 90 to 180 per month

**Q59)** The price elasticity of demand when gel pen's price increases from Rs.10 per pen to Rs.15 per pen is equal to: (Use Arc Elasticity Method)

**(MTP Oct 2018)**

- (a) 2.5
- (b) 1.0
- (c) 1.66
- (d) 2.66

**Q60)** The cross elasticity of monthly demand for refills when the price of gel pen increase from Rs. 10 to Rs. 15 is equal to: (Use arc method)

**(MTP Oct 2018)**

- (a) -0.71
- (b) + 0.25

- (c) -0.1  
(d) + 0.38

**Q61)** The cross elasticity of monthly demand for ink pen when the price of gel pen increases from Rs. 10 to Rs. 15 is equal to: (Use arc method)

**(MTP Oct 2018)**

- (a) + 1.66  
(b) -1.05  
(c) -2.09  
(d) + 2.09

**Q62)** What can be said about the price elasticity of demand for pen?

**(MTP Oct 2018)**

- (a) It is perfectly elastic  
(b) It is elastic  
(c) It is perfectly inelastic  
(d) It is inelastic

**Q63)** Suppose income of the residents of locality increases by 50% and the quantity of gel pens demanded increases by 20%. What is income elasticity of demand for gel pen? **(MTP Oct 2018)**

- (a) 0.4  
(b) 0.6  
(c) 1.25  
(d) 1.50

**Q64)** If the elasticity of demand for a commodity is perfectly inelastic then which of the following is incorrect? **(MTP Oct 2018)**

- (a) The commodity must be essential to those who purchase it.  
(b) The commodity must have many substitutes.

- (c) The commodity will be purchased regardless of increase in its price.  
(d) The elasticity of demand for this commodity must equal zero.

**Q65)** Method of measuring Price Ed between two points is \_\_\_\_\_ and at particular point is \_\_\_\_\_

- (a) Arc, Point  
(b) Point, Arc  
(c) Arc, Total outlay  
(d) Total outlay, Arc

**Q66)** Which is not the reason of left ward shiftment of demand curve?

- (a) Rise in the price of complement  
(b) A change in taste against the commodity  
(c) Rise in the income of consumer (Normal Goods)  
(d) All the three

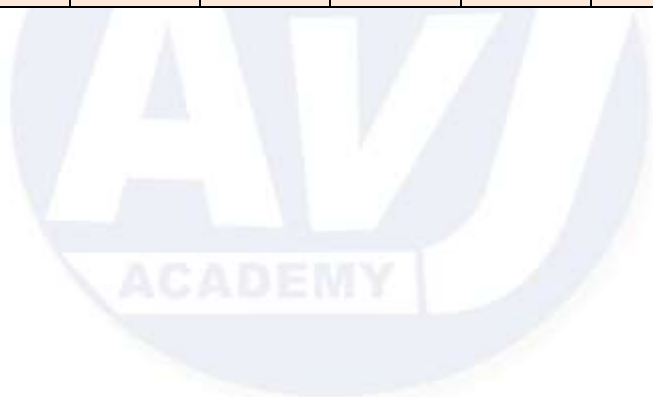
**Q67)** During lockdown due to Covid19 a consumer finds the vegetable vendors selling vegetables in the streets have raised the prices of vegetable than usual prices. She will buy \_\_\_\_\_ vegetable than/as her usual demand showing the demand of vegetable is \_\_\_\_\_ **(MTP Oct 21)**

- (a) Same; Elastic Demand  
(b) Same; Inelastic Demand  
(c) Less; Elastic Demand  
(d) More; Inelastic Demand

### Answers to ICAI Past Year Papers and MTP Questions

(Q1)	(Q2)	(Q3)	(Q4)	(Q5)	(Q6)	(Q7)	(Q8)	(Q9)	(Q10)
B	C	B	B	A	B	C	B	D	A

(Q11)	(Q12)	(Q13)	(Q14)	(Q15)	(Q16)	(Q17)	(Q18)	(Q19)	(Q20)
C	C	D	B	A	C	A	D	A	D
(Q21)	(Q22)	(Q23)	(Q24)	(Q25)	(Q26)	(Q27)	(Q28)	(Q29)	(Q30)
D	C	A	B	D	D	D	D	C	B
(Q31)	(Q32)	(Q33)	(Q34)	(Q35)	(Q36)	(Q37)	(Q38)	(Q39)	(Q40)
B	B	A	D	A	C	B	B	B	D
(Q41)	(Q42)	(Q43)	(Q44)	(Q45)	(Q46)	(Q47)	(Q48)	(Q49)	(Q50)
A	B	B	A	B	A	A	A	A	A
(Q51)	(Q52)	(Q53)	(Q54)	(Q55)	(Q56)	(Q57)	(Q58)	(Q59)	(Q60)
B	A	C	C	B	C	D	B	C	C
(Q61)	(Q62)	(Q63)	(Q64)	(Q65)	(Q66)	(Q67)			
A	B	A	B	A	C	B			





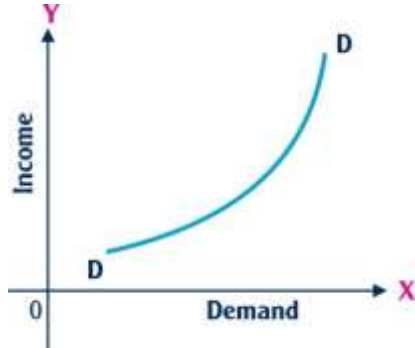
## Type 3:- Additional Questions for Practice

- All but one are the factors which affect individual demand. Find the odd one out.
  - Price of related good
  - Income of the consumer
  - Tastes and preferences of consumer
  - Number of consumers in the market
- If the construction activity in housing sector, infrastructure, etc. rises, the demand for cement will \_\_\_\_ as it has \_\_\_\_ demand.
  - rise ; autonomous
- As the consumer's income increases, the demand for comforts and luxuries will increase \_\_\_\_ to the increase in income.
  - Less than proportionate
  - More than proportionate
  - Proportionate
  - Nothing can be said
- The phrase "Other things being equal" in the Law of Demand means-
  - Income of the consumer remain unchanged
  - Price of related goods remain unchanged
  - Tastes and Preferences of consumer remain unchanged
  - All the above
- The total effect of price change of a good is-
  - Substitution Effect + Income Effect
  - Substitution Effect + Price Effect
  - Substitution Effect + Demonstration Effect
  - Demonstration Effect + Veblen Effect
- Substitution Effect subscribe to the inverse relation between  $P_x$  and  $Q_x$  in case of-
  - normal goods only
  - inferior goods only
  - normal and inferior goods both
  - none of the above
- fall; autonomous
- rise ; derived
- none of these
- As the consumer's income increases, the demand for necessities of life will increase \_\_\_\_ to the increase in income.
  - Less than proportionate
  - More than proportionate
  - Proportionate
  - Nothing can be said
- The Law of Demand will fail in case of inferior goods only if-
  - Substitution Effect is greater than Income Effect
  - Income Effect is greater than Substitution Effect
  - Both 'a' and 'b'
  - Neither 'a' nor 'b'
- \_\_\_\_\_ refers to the effect of change in the price of a product on the consumer's purchasing power.
  - Real Income Effect
  - Substitution Effect
  - Consumer's Surplus
  - None of the above
- Consumers buy a good till  $P_x = MU_x$ . If the price falls, the consumer will reach equilibrium-
  - at a lower quantity
  - at a higher quantity
  - at zero quantity level
  - all the above
- The tendency of low income group to imitate the consumption pattern of high income group is known as \_\_\_\_ effect.
  - Demonstration
  - Copy
  - Prestige
  - Veblen

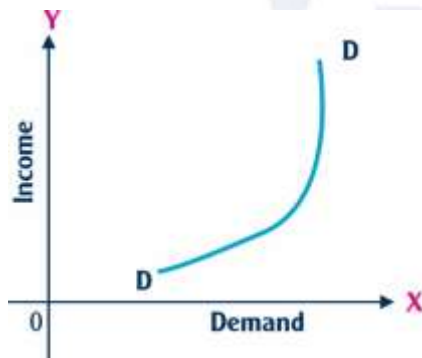
12. When price changes and proportionate change in market demand is more than proportionate change in individual demand implies that the market demand curve is \_\_\_\_\_ than the individual demand curves.
- Steeper
  - Flatter
  - Vertical
  - None of the above
13. The market demand curve in case of Veblen Effect is \_\_\_\_.
- steeper
  - flatter
  - vertical
  - horizontal
14. The market demand curve in case of Bandwagon Effect is \_\_\_\_.
- less elastic
  - steeper
  - flatter
  - horizontal
15. Assume that the market demand curve for Dinshaw Ice cream is known and given to us. With summer setting in, price remaining the same the consumers would -
- shift to a lower demand curve leftward
  - move upward along the same demand curve
  - shift to a higher demand curve rightward
  - move downward along the same demand curve
16. What will be the impact on the demand curve of DESKTOP COMPUTERS when the price of LAPTOPS increase?
- There will be downward movement on demand curve
  - Demand curve will shift to left
  - There will be an upward movement on demand curve
  - Demand curve will shift to right
17. When same quantity of a good is demanded at a lower price, it is known as-
- Extension of Demand
  - Increase in Demand
  - Contraction of Demand
  - Decrease in Demand
18. When less quantity is demanded as the price of good rises, there is \_\_\_\_
- Downward movement along the demand curve
  - Leftward shift of the demand curve
  - An upward movement along the demand curve
  - Rightward shift of the demand curve
- For Q. Nos. 19 to 21 refer the following demand equation  $Q = 180 - 6p$**
19. At what price no one would be willing to buy the commodity?
- ₹ 20
  - ₹ 30
  - ₹ 40
  - ₹ 15
20. If the commodity is given free i.e. if the demand is autonomous, what is the quantity demanded?
- 180
  - 160
  - 140
  - 120
21. If the price of the commodity falls down by ₹ 1, by how much will the quantity demanded change?
- 6
  - 5
  - 12
  - 10
22. Which of the following would result in the shifting of the demand curve?
- Increase in the tax on shoes
  - Growth in the size of population
  - Changes in weather conditions
  - All the above

23. A rightward shift in the demand curve for Bread would be predicted from-
- A decrease in the number of breakfast eaters
  - A change in tastes in favour of corn flakes
  - A fall in the price of Bread
  - A rise in the price of Corn Flakes

24. Consider the following figure- It shows-

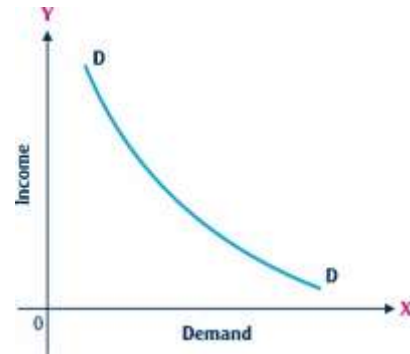


- Inferior goods
  - Giffen goods
  - Normal or Superior goods
  - All the above
25. Consider the following figure-



It shows demand curve for-

- Necessities
  - Comforts and Luxuries
  - Inferior Goods
  - None of the above
26. Consider the following figure-



It shows demand curve for-

- Necessities
  - Comforts and Luxuries
  - Inferior Goods
  - None of the above
27. Coefficient of price elasticity of demand ranges from \_\_\_\_ to \_\_\_\_.
- one ; infinity
  - zero ; infinity
  - zero ; one
  - none of the above
28. As the demand curve becomes flatter and flatter, the elasticity of demand becomes-
- higher
  - lower
  - equal to infinity
  - equal to zero
29. Slope of perfectly elastic demand curve is equal to \_\_\_\_
- 0
  - 1
  - 2
  - 3
30. If you spend more on rent than on soap, your price elasticity of demand for housing is likely to be-
- greater than your price elasticity of demand for soap
  - less than your price elasticity of demand for soap
  - equal to your price elasticity of demand for soap
  - none of the above

31. Regardless of changes in its price, if the quantity demanded of a good remains constant, then the demand curve for the good will be-
  - (a) horizontal
  - (b) vertical
  - (c) positively sloped
  - (d) negatively sloped
32. When price elasticity at a single point on a demand curve is measured, we use \_\_\_\_
  - (a) Proportionate Method
  - (b) Geometric Method
  - (c) Total Expenditure Method
  - (d) Arc Elasticity
33. Let slope of demand curve = -0.5. The elasticity of demand will be \_\_\_\_ if initial price is ₹ 20 per unit and initial quantity is 50 units of the commodity.
  - (a) -0.6
  - (b) -0.7
  - (c) -0.8
  - (d) -0.9
34. All demand curves but one indicate same elasticity of demand at all their points-
  - (a) Horizontal Straight Line Demand Curve
  - (b) Vertical Straight Line Demand Curve
  - (c) Relatively Elastic Demand Curve
  - (d) Rectangular Hyperbola
35. Firms that supply products with higher income elasticity of demand can expect \_\_\_\_ as the economy grows.
  - (a) rise in sales
  - (b) fall in sales
  - (c) constant sales
  - (d) first rise then fall in sales
36. Which one of the following is income inelastic product/service?
  - (a) Air travel
  - (b) Visit to water park
  - (c) Life Saving Drugs
  - (d) Dinner at a five star hotel

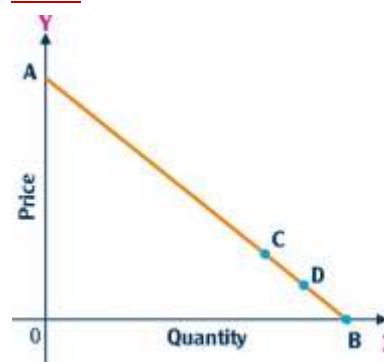
## Consider the following information to answer Q. Nos. 37 to 38

The following elasticities relating to demand for CORN are given-

- Price Elasticity  $E_p = 1.50$
- Cross Elasticity between the demand for CORN and price of WHEAT = 0.75
- Income Elasticity,  $E_y = 0.50$

37. The above information shows that wheat and corn are \_\_\_\_
  - (a) neutral goods
  - (b) necessity
  - (c) complementary goods
  - (d) substitute goods
38. If income rises, the share of income spent on corn will-
  - (a) remain same
  - (b) increase
  - (c) fall
  - (d) none of the above
39. If income elasticity for the household for good A is 2, then the good is-
  - (a) necessity item
  - (b) inferior good
  - (c) luxury item
  - (d) neutral good

## Consider the following figure to answer Q. Nos. 40 to 42.



40. In the figure above elasticity of demand at point 'D' is-
  - (a) < elasticity of demand at point 'C'
  - (b) > elasticity of demand at point 'C'
  - (c) = elasticity of demand at point 'C'

- (d) None of the above
41. At point 'B' price is \_\_\_\_ and therefore elasticity of demand is \_\_\_\_.
- (a) high ; high  
(b) low ; low  
(c) zero ; zero  
(d) zero ; high/low
- (a) low  
(b) infinite  
(c) high  
(d) zero
42. The elasticity of demand at point 'A' is-

### Answers to Additional Questions

(Q1)	(Q2)	(Q3)	(Q4)	(Q5)	(Q6)	(Q7)	(Q8)	(Q9)	(Q10)
D	C	A	B	D	A	C	B	A	B
(Q11)	(Q12)	(Q13)	(Q14)	(Q15)	(Q16)	(Q17)	(Q18)	(Q19)	(Q20)
A	B	A	C	C	D	D	C	B	A
(Q21)	(Q22)	(Q23)	(Q24)	(Q25)	(Q26)	(Q27)	(Q28)	(Q29)	(Q30)
A	D	D	C	A	C	B	A	A	A
(Q31)	(Q32)	(Q33)	(Q34)	(Q35)	(Q36)	(Q37)	(Q38)	(Q39)	(Q40)
B	B	C	C	A	C	D	C	C	A
(Q41)	(Q42)	(Q43)	(Q44)	(Q45)	(Q46)	(Q47)	(Q48)	(Q49)	(Q50)
C	B								



## CHAPTER – 2.3 LAW OF SUPPLY AND ELASTICITY OF SUPPLY

### Type 1:- Question Bank from ICAI Study Material

1. Suppose that workers in a steel plant managed to force a significant increase in their wage package. How would the new wage contract be likely to affect the market supply of steel, other things remaining the same?
  - (a) Supply curve will shift to the left
  - (b) Supply curve will shift to the right
  - (c) Supply will not shift, but the quantity of cars produced per month will decrease
  - (d) Supply will not shift, but the quantity of cars produced per month will increase
2. If a short run supply curve is plotted for the following table which presents price and quantity of fighter aircrafts, what will be its shape?
 

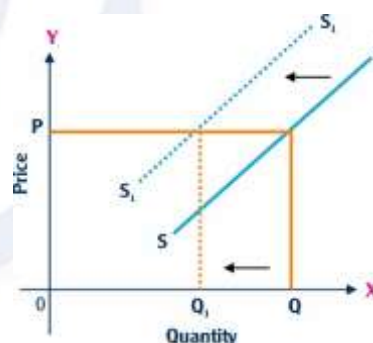
Price In millions \$	Number of Aircraft
124	28
140	28
150	28
160	28
175	28

  - (a) Horizontal straight line parallel to the quantity axis
  - (b) Steeply rising with elasticity less than one
  - (c) Vertical straight line parallel to Y axis
  - (d) A perfectly elastic supply curve
3. A vertical supply curve parallel to Y axis implies that the elasticity of supply is:
  - (a) Zero.
  - (b) Infinity.
  - (c) Equal to one.
  - (d) Greater than zero but less than infinity.
4. An increase in the supply of a good is caused by:
  - (a) improvements in its technology.
  - (b) fall in the prices of other goods which can be produced using the same inputs
  - (c) fall in the prices of factors of production used in its production
  - (d) all of the above
5. Elasticity of supply refers to the degree of responsiveness of supply of a good to changes in its:
  - (a) demand.
  - (b) price.
  - (c) cost of production.
  - (d) state of technology.
6. 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.
7. Contraction of supply is the result of:
  - (a) decrease in the number of producers.
  - (b) decrease in the price of the good concerned.
  - (c) increase in the prices of other goods.
  - (d) decrease in the outlay of sellers.
8. An increase in the demand for computers, other things remaining same, will:
  - (a) Increase the number of computers bought.
  - (b) Decrease the price but increase the number of computers bought.
  - (c) Increase the price of computers.
  - (d) Increase the price and number of computers bought.
9. The quantity supplied of a good or service is the amount that
  - (a) is actually bought during a given time period at a given price.
  - (b) producers wish they could sell at a higher price
  - (c) producers plan to sell during a given time period at a given price.
  - (d) people are willing to buy during a given time period at a given price.
10. Supply is the
  - (a) limited resources that are available with the seller.

- (b) cost of producing a good.  
 (c) entire relationship between the quantity supplied and the price of good.  
 (d) Willingness to produce a good if the technology to produce it becomes available.
- 11.** In the book market, the supply of books will decrease if any of the following occurs except  
 (a) a decrease in the number of book publishers.  
 (b) a decrease in the price of the book.  
 (c) an increase in the future expected price of the book.  
 (d) an increase in the price of paper used.
- 12.** If price of computers increases by 10% and supply increases by 25%. The elasticity of supply is :  
 (a) 2.5  
 (b) 0.4  
 (c) (-) 2.5  
 (d) (-) 0.4
- 13.** An increase in the number of sellers of bikes will increase the  
 (a) the price of a bike.  
 (b) demand for bikes.  
 (c) the supply of bikes.  
 (d) demand for helmets.
- 14.** If the supply of bottled water decreases, other things remaining the same, the equilibrium price – ----- and the equilibrium quantity -----  
 (a) increases; decreases.  
 (b) decreases; increases.  
 (c) decreases; decreases.  
 (d) increases; increases.
- 15.** A decrease in the demand for cameras, other things remaining the same will.  
 (a) increase the number of cameras bought.  
 (b) decrease the price but increase the number of cameras bought.  
 (c) increase the price of cameras.  
 (d) decrease the price and decrease in the number of cameras bought.
- 16.** In a very short period, the supply  
 (a) can be changed.  
 (b) can not be changed.  
 (c) can be increased.  
 (d) none of the above.
- 17.** When supply curve moves to the left, it means  
 (a) lesser quantity is supplied at a given price.  
 (b) larger quantity is supplied at a given price.  
 (c) prices have fallen and quantity is supplied at a lower price.  
 (d) none of the above.
- 18.** When supply curve moves to right, it means  
 (a) supply increases and more quantity is supplied at a given price  
 (b) supply decreases and less quantity is supplied at a given price  
 (c) supply remains constant at a given price  
 (d) none of the above.
- 19.** The elasticity of supply is defined as the  
 (a) responsiveness of the quantity supplied of a good to a change in its price.  
 (b) responsiveness of the quantity supplied of a good without change in its price.  
 (c) responsiveness of the quantity demanded of a good to a change in its price.  
 (d) responsiveness of the quantity demanded of a good without change in its price.
- 20.** 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.
- 21.** Elasticity of supply is zero means  
 (a) perfectly inelastic supply.  
 (b) perfectly elastic supply.  
 (c) imperfectly elastic supply.  
 (d) none of the above.
- 22.** Elasticity of supply is greater than one when  
 (a) proportionate change in quantity supplied is more than the proportionate change in price.  
 (b) proportionate change in price is greater than the proportionate change in quantity supplied.  
 (c) change in price and quantity supplied are equal.  
 (d) None of the above

23. If the quantity supplied is exactly equal to the relative change in price then the elasticity of supply is
- less than one.
  - greater than one.
  - one.
  - none of the above.
24. The supply function is given as  $Q = -100 + 10P$ . Find the elasticity using point method, when price is ₹ 15.
- 4
  - 3
  - 5
  - 3
25. The supply curve shifts to the right because of---
- improved technology.
  - increased price of factors of production.
  - increased excise duty.
  - all of the above.
26. Which of the following statements is correct?
- When the price falls the quantity demanded falls.
  - Seasonal changes do not affect the supply of a commodity.
  - Taxes and subsidies do not influence the supply of the commodity.
  - With lower cost, it is profitable to supply more of the commodity.
27. If the demand is more than supply, then the pressure on price will be
- upward
  - downward
  - constant
  - none of the above
28. The supply curve for perishable commodities during very short period is generally \_\_\_\_\_.
- elastic
  - inelastic
  - perfectly elastic

- perfectly inelastic
29. Supply is a \_\_\_\_\_ concept.
- stock
  - flow and stock
  - flow
  - none of the above
30. Data on production of vegetables for the past two years showed that, despite stable prices, there is a substantial decline in output of cabbage leading to lower supply into the market. Which of the following can possibly be the reason?
- An increase in the price of cauliflower which is equally preferred by consumers
  - Announcement of a subsidy by government on vegetable production
  - More farmers producing cabbage and the increasing competition among them
  - A substantial decrease in the price of capsicum
31. Which of the following alternatives would be true if the event presented in the following diagram occurs



- A fall in wage costs of the firm along with a fall in consumer incomes
- A shortage of raw materials and consequent increase in raw material price
- An increase in subsidy by the government and a reduction in taxes
- Decrease in the market price of the commodity in question

### Additional Questions from Previous Edition of ICAI Study Material

32. Yesterday, seller A supplied 400 units of a good X at ₹ 10 per unit. Today, seller A supplies the same quantity of units at ₹ 5 per unit. Based on this evidence, seller A has experienced a (an)
- Decrease in supply.
  - Increase in supply.
  - Increase in the quantity supplied.
  - Decrease in the quantity supplied.
33. If a fisherman must sell all of his daily catch before it spoils for whatever price he is offered, once the fish are caught the fisherman's price elasticity of supply for fresh fish is \_\_\_\_\_.
- zero.
  - infinite.
  - one.
  - unable to be determined from this information.
34. Elasticity of supply refers to the degree of responsiveness of supply of a good to changes in its:
- demand
  - price
  - costs of production
  - state of technology

## Answers to ICAI Question Bank

Q1	Q2	Q3	Q4	Q5	Q6	Q7	Q8	Q9	Q10
(a)	(c)	(a)	(d)	(b)	(b)	(b)	(d)	(c)	(c)
Q11	Q12	Q13	Q14	Q15	Q16	Q17	Q18	Q19	Q20
(b)	(b)	(a)	(a)	(d)	(b)	(a)	(a)	(a)	(c)
Q21	Q22	Q23	Q24	Q25	Q26	Q27	Q28	Q29	Q30
(a)	(a)	(c)	(d)	(a)	(d)	(a)	(d)	(c)	(a)
Q31	Q32	Q33	Q34	Q35	Q36	Q37	Q38	Q39	Q40
(b)	(b)	(a)	(b)						

## Type 2:- Question Bank from ICAI Past Year Papers and MTP

**Q1)** Contraction of supply implies \_\_\_\_\_

**(June 2019)**

- (a) Decrease in cost of production
- (b) Decrease in price of the good concerned
- (c) Decrease in price of related good
- (d) Increase in price of the good concerned

**Q2)** Perishable commodities will have \_\_\_\_\_

**(June 2019)**

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

**Q3)** Which of the following statement is correct?

**(June 2019)**

- (a) Supply is inversely related to its cost of production
- (b) Price and quantity demand of a good have direct relation ship
- (c) Taxes and subsidy has no impact on the supply of the product
- (d) Seasonal changes have no impact on the supply of the commodity

**Q4)** When the supply of a product is perfectly inelastic then the curve will be **(June 2019)**

- (a) Parallel to y – axis
- (b) parallel to x – axis
- (c) At the angle of 45o
- (d) Sloping upwards

**Q5)** When price increases from Rs. 200 to Rs. 300 and supply increases from 2000 units to 5000 units, then calculate elasticity of supply ? **(Nov 2018)**

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

**Q6)** A Vertical supply curve parallel to Y axis implies that the elasticity of supply is: **(MTP Nov 21)**

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

**Q7)** The supply function is given as  $Q = -100 + 10P$ . Find the elasticity using point method, when price is ₹15. **(MTP Oct 2020)**

- (a) 4
- (b) -3
- (c) -5
- (d) 3

**Q8)** If the price of Banana rises from Rs. 30 per dozen to Rs. 40 per dozen and the supply increases from 240 dozen to 300 dozens elasticity of supply is: (use arc elasticity Method) **(MTP Mar 2018)**

- (a) .7
- (b) -.67
- (c) .65
- (d) .77

**Q9)** A horizontal supply curve parallel to the quantity axis implies that the elasticity of supply is:

**(MTP Mar 2019, Oct 2018)**

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

**Q10)** Which of the following has the lowest price elasticity of supply? **(MTP Apr 2019)**

- (a) Luxury
- (b) Necessities
- (c) Salt
- (d) Perishable goods



**Q11)** Which of the following statements is correct?

**(MTP May 2020)**

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

**Read the below table and answer Questions number 12-14**

	% Change in price	% change in quantity demanded (quantity supplied)	Elasticity
Demand for salt	20	-1	X
Demand for bananas	15	Y	3
Supply of chicken	Z	14	1

**Q12)** Refer the above table and find the value of x.

**(MTP May 2020, MTP Oct 2018)**

- (a) -20
- (b) -0.05
- (c) -1
- (d) Can not be determined

**Q13)** Refer the above table and find the value of y.

**(MTP May 2020, MTP Oct 2018)**

- (a) -5
- (b) 15
- (c) -45
- (d) -3

**Q14)** Refer the above and find the value of z.

**(MTP May 2020, MTP Oct 2018)**

- (a) 14

(b) 1

(c) 0.07

(d) 5

**Q15)** When price of a good rises from Rs. 20 to Rs. 30 the producer supplies 20 percent more the Price elasticity of supply is **(MTP April 2021)**

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

**Q16)** Suppose we are drawing a supply curve of a farmer which of the following will not be held constant **(MTP March 2022)**

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

**Q17)** The supply curve for perishable commodities is- **(MTP Oct 2019)**

- (a) elastic
- (b) inelastic
- (c) perfectly elastic
- (d) perfectly inelastic

**Q18)** The supply curve shifts to the right because of- **(MTP Oct 2019)**

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

**Q19)** Which of the following factors is not a determinant of Supply?

- (a) Government's industrial and foreign policies
- (b) Market Structure
- (c) State of Technology
- (d) Income Levels of Consumers

Refer the following supply function to answer 0.

Nos. 20 to 22

$$Q_s = -10 + 2p$$

**Q20)** How much quantity is supplied at a price of Rs. 10?

- (a) 10 units
- (b) 8 units
- (c) 12 units
- (d) 6 units

**Q21)** At which price, the supply would be zero?

- (a) Rs. 1
- (b) Rs. 3
- (c) Rs. 4
- (d) Rs. 5

**Q22)** Calculate the price at which, the firm is willing to supply 100 units

- (a) Rs. 55
- (b) Rs. 50
- (c) Rs. 45

(d) Rs. 40

**Q23)** When more quantity is supplied at the same price or same quantity is supplied at lower prices. It is consider as–

- (a) Contraction of supply
- (b) Decrease in supply
- (c) Expansion of supply
- (d) Increase in supply

**Q24)** Expectation of substantial rise in price in future will –

- (a) Make the sellers respond higher sales in current.
- (b) Make the seller respond lower sales in current.
- (c) Make the seller respond lower in future.
- (d) Does not respond seller at all

### Answers to ICAI Past Year Papers and MTP Questions

(Q1)	(Q2)	(Q3)	(Q4)	(Q5)	(Q6)	(Q7)	(Q8)	(Q9)	(Q10)
B	B	A	A	A	C	D	D	A	D
(Q11)	(Q12)	(Q13)	(Q14)	(Q15)	(Q16)	(Q17)	(Q18)	(Q19)	(Q20)
B	B	C	A	B	D	D	A	D	A
(Q21)	(Q22)	(Q23)	(Q24)	(Q25)	(Q26)	(Q27)	(Q28)	(Q29)	(Q30)
D	A	D	B						

## Type 3:- Additional Questions for Practice

1. Which of the following is not true in case of supply?
  - (a) Supply is a flow concept
  - (b) Supply is a stock concept
  - (c) Supply is directly related to price
  - (d) Market supply is horizontal summation of the individual supply curves
2. Movement along the supply curve occurs due to-
  - (a) rise in price of the commodity
  - (b) fall in price of the commodity
  - (c) factors other than own price of the commodity
  - (d) both 'a' and 'b'
3. Supply curve shifts rightward due to-
  - (a) increase in the number of firms
  - (b) fall in the price of factors of production
  - (c) new and better technology
  - (d) all the above
4. Total revenue of a firm rises from ₹ 50 to ₹ 100 when the price rises from ₹ 5 pu to ₹ 10 pu. The co-efficient of  $E_s$  =
  - (a) 0
  - (b) 0.8
  - (c) 1
  - (d) 1.2
5. If the demand is more than supply, then the pressure on price will be-
  - (a) upward
  - (b) downward
  - (c) constant
  - (d) none of the above
6. In case of failure of rains, floods, etc. the supply of agricultural goods will-
  - (a) Increase
  - (b) Decrease
  - (c) Remain constant
  - (d) Become zero
7. When price of a commodity falls by 20%, the quantity supplied falls by 25%, the price elasticity of supply is-
  - (a) 0.75
  - (b) 1.25
  - (c) 1.50
  - (d) 1.75

## Answers to Additional Questions

(Q1)	(Q2)	(Q3)	(Q4)	(Q5)	(Q6)	(Q7)	(Q8)	(Q9)	(Q10)
B	D	D	A	A	B	B			

## CHAPTER – 3.1 THEORY OF PRODUCTION

### Type 1:- Question Bank from ICAI Study Material

1. Which of the following is considered production in Economics?
  - (a) Tilling of soil.
  - (b) Singing a song before friends.
  - (c) Preventing a child from falling into a manhole on the road.
  - (d) Painting a picture for pleasure.
2. Which of the following is not a characteristic of land?
  - (a) Its supply for the economy is limited.
  - (b) It is immobile.
  - (c) Its usefulness depends on human efforts.
  - (d) It is produced by our forefathers.
3. Which of the following statements is true?
  - (a) 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
4. Which of the following is a function of an entrepreneur?
  - (a) Initiating a business enterprise.
  - (b) Risk bearing.
  - (c) Innovating.
  - (d) All of the above.
5. 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.
6. The most important function of an entrepreneur is to \_\_\_\_\_.
  - (a) Innovate
  - (b) Bear the sense of responsibility
  - (c) Finance
  - (d) Earn profit
7. In the production of wheat, all of the following are variable factors that are used by the farmer except:
  - (a) the seed and fertilizer used when the crop is planted.
  - (b) the field that has been cleared of trees and in which the crop is planted.
  - (c) the tractor used by the farmer in planting and cultivating not only wheat but also corn and barley.
  - (d) the number of hours that the farmer spends in cultivating the wheat fields.
8. 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.
9. The short run, as economists use the phrase, is characterized by:
  - (a) at least one fixed factor of production and firms neither leaving nor entering the industry.
  - (b) generally a period which is shorter than one year.
  - (c) all factors of production are fixed and no variable inputs.
  - (d) all inputs are variable and production is done in less than one year.

10. The marginal, average, and total product curves encountered by the firm producing in the short run exhibit all of the following relationships except:
- when total product is rising, average and marginal product may be either rising or falling.
  - when marginal product is negative, total product and average product are falling.
  - when average product is at a maximum, marginal product equals average product, and total product is rising.
  - when marginal product is at a maximum, average product equals marginal product, and total product is rising.
11. To economists, the main difference between the short run and the long run is that:
- In the short run all inputs are fixed, while in the long run all inputs are variable.
  - In the short run the firm varies all of its inputs to find the least-cost combination of inputs.
  - In the short run, at least one of the firm's input levels is fixed.
  - In the long run, the firm is making a constrained decision about how to use existing plant and equipment efficiently.
12. Which of the following is the best definition of "production function"?
- The relationship between market price and quantity supplied.
  - The relationship between the firm's total revenue and the cost of production.
  - The relationship between the quantities of inputs needed to produce a given level of output.
  - The relationship between the quantity of inputs and the firm's marginal cost of production.

Use the following information to answer questions 13-14.

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

- |   |     |   |
|---|-----|---|
| 3 | 240 | - |
|---|-----|---|
13. What is the total output when 2 hours of labour are employed?
- 80
  - 100
  - 180
  - 200
14. What is the marginal product of the third hour of labour?
- 60
  - 80
  - 100
  - 240
15. What is the average product of the first three hours of labour?
- 60
  - 80
  - 100
  - 240
16. In describing a given production technology, the short run is best described as lasting:
- up to six months from now.
  - up to five years from now.
  - as long as all inputs are fixed.
  - as long as at least one input is fixed.
17. If the marginal product of labour is below the average product of labour, it must be true that:
- the marginal product of labour is negative.
  - the marginal product of labour is zero.
  - the average product of labour is falling.
  - the average product of labour is negative.
18. The average product of labour is maximized when marginal product of labour:
- equals the average product of labour.
  - equals zero.
  - is maximized.
  - none of the above.
19. The law of variable proportions is drawn under all of the assumptions mentioned below except the assumption that:
- the technology is changing.
  - there must be some inputs whose quantity is kept fixed.
  - we consider only physical inputs and not economically profitability in monetary terms.



- (d) the technology is given and stable.
20. What is a production function?
- Technical relationship between physical inputs and physical output.
  - Relationship between fixed factors of production and variable factors of production.
  - Relationship between a factor of production and the utility created by it.
  - Relationship between quantity of output produced and time taken to produce the output.
21. Laws of production does not include .....
- returns to scale.
  - law of diminishing returns to a factor.
  - law of variable proportions.
  - least cost combination of factors.
22. The production function:
- Is the relationship between the quantity of inputs used and the resulting quantity of product.
  - Tells us the maximum attainable output from a given combination of inputs.
  - Expresses the technological relationship between inputs and output of a product.
  - All the above.
23. The production process described below exhibits.
- | No. of Workers | Output |
|----------------|--------|
| 0              | 0      |
| 1              | 23     |
| 2              | 40     |
| 3              | 50     |
- constant marginal product of labour.
  - diminishing marginal product of labour.
  - increasing return to scale.
  - increasing marginal product of labour.
24. In the short run, the firm's product curves show that
- Total product begins to decrease when average product begins to decrease but continues to increase at a decreasing rate.
  - When marginal product is equal to average product, average product is decreasing but at its highest.
  - When the marginal product curve cuts the average product curve from below, the average product is equal to marginal product.
  - In stage two, total product increases at a diminishing rate and reaches maximum at the end of this stage.
25. A fixed input is defined as
- That input whose quantity can be quickly changed in the short run, in response to the desire of the company to change its production.
  - That input whose quantity cannot be quickly changed in the short run, in response to the desire of the company to change its production.
  - That input whose quantities can be easily changed in response to the desire to increase or reduce the level of production.
  - That input whose demand can be easily changed in response to the desire to increase or reduce the level of production.
26. Average product is defined as
- total product divided by the total cost.
  - total product divided by marginal product.
  - total product divided by the number of units of variable input.
  - marginal product divided by the number of units of variable input.
27. Which of the following statements is true?
- After the inflection point of the production function, a greater use of the variable input induces a reduction in the marginal product.
  - Before reaching the inevitable point of decreasing marginal returns, the quantity of output obtained can increase at an increasing rate.
  - The first stage corresponds to the range in which the AP is increasing as a result of utilizing increasing quantities of variable inputs.
  - All the above.
28. Marginal product, mathematically, is the slope of the
- total product curve.
  - average product curve.
  - marginal product curve.
  - implicit product curve.

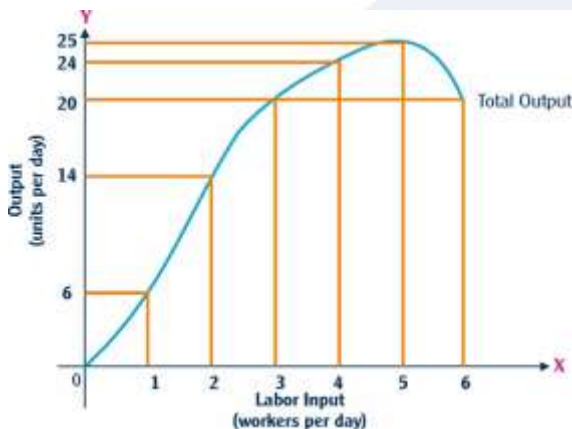
29. Suppose the first four units of a variable input generate corresponding total outputs of 200, 350, 450, 500. The marginal product of the third unit of input is:

(a) 50  
(b) 100  
(c) 150  
(d) 200

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

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

31. Use the following diagram to answer the question given below it



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

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

32. 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

33. 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

34. Which of the following statements is true?

(a) Accumulation of capital depends solely on income of individuals.

(b) Savings can be influenced by government policies.

(c) External economies go with size and internal economies with location.

(d) The supply curve of labour is an upward slopping curve.

35. 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.

36. Diminishing returns occur:

(a) when units of a variable input are added to a fixed input and total product falls.

(b) when units of a variable input are added to a fixed input and marginal product falls.

(c) when the size of the plant is increased in the long run.

(d) when the quantity of the fixed input is increased and returns to the variable input falls.

37. 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%.

38. An iso quant shows

(a) All the alternative combinations of two inputs that can be produced by using a given set of output fully and in the best possible way.

(b) All the alternative combinations of two products among which a producer is indifferent because they yield the same profit.

- (c) All the alternative combinations of two inputs that yield the same total product.
- (d) Both (b) and (c).
39. Economies of scale exist because as a firm increases its size in the long run:
- (a) Labour and management can specialize in their activities more.
- (b) As a larger input buyer, the firm can get finance at lower cost and purchase inputs at a lower per unit cost.
- (c) The firm can afford to employ more sophisticated technology in production.
- (d) All of these.
40. In the long run, if a very small factory were to expand its scale of operations, it is likely that it would initially experience
- (a) an increase in pollution level.
- (b) diseconomies of scale.
- (c) economies of scale.
- (d) constant returns to scale.
41. Which of the following statements describes increasing returns to scale?
- (a) Doubling of all inputs used leads to doubling of the output.
- (b) Increasing the inputs by 50% leads to a 25% increase in output.
- (c) Increasing inputs by  $\frac{1}{4}$  leads to an increase in output of  $\frac{1}{3}$ .
- (d) None of the above.
42. Which one of the following is an external economies of scale in long run?
- (a) Risk bearing economies
- (b) Financial economies
- (c) Development of skill labour
- (d) None of the above
43. 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.

### Additional Questions from Previous Edition of ICAI Study Material

44. Production may be defined as an act of -----.
- (a) creating utility
- (b) earning profit
- (c) destroying utility
- (d) providing services
45. An isoquant slopes :
- (a) downward to the left
- (b) downward to the right
- (c) upward to the left
- (d) upward to the right

### Answers to ICAI Question Bank

Q1	Q2	Q3	Q4	Q5	Q6	Q7	Q8	Q9	Q10
(a)	(d)	(a)	(d)	(b)	(a)	(b)	(b)	(a)	(d)
Q11	Q12	Q13	Q14	Q15	Q16	Q17	Q18	Q19	Q20
(c)	(c)	(c)	(a)	(b)	(d)	(c)	(a)	(a)	(a)
Q21	Q22	Q23	Q24	Q25	Q26	Q27	Q28	Q29	Q30
(d)	(d)	(b)	(d)	(b)	(c)	(d)	(a)	(b)	(d)

Q31	Q32	Q33	Q34	Q35	Q36	Q37	Q38	Q39	Q40
(d)	(b)	(a)	(b)	(a)	(b)	(c)	(c)	(d)	(c)
Q41	Q42	Q43	Q44	Q45					
(c)	(c)	(d)	(a)	(b)					

### Type 2:- Question Bank from ICAI Past Year Papers and MTP

**Q1)** Which of the following is considered as production in economics ? **(June 2019)**

- (a) Helping a blind person in crossing the road
- (b) Group dance performance in a college annual function
- (c) Holding a child who is falling from a wall
- (d) Performing an art in a theatre

**Q2)** Which of the following statement about factors of production is not true? **(Nov 2018)**

- (a) Land is a passive factor
- (b) Land is a free gift of nature
- (c) Land is immobile
- (d) Land is perishable

**Q3)** The concept of “innovative entrepreneurship” was given by **(Dec 2020)**

- (a) Marshall
- (b) Schumpeter
- (c) JK Mehta
- (d) Adam smith

**Q4)** Factor of Production which is active:

**(MTP Nov 21)**

- (a) Labour
- (b) Land
- (c) Capital
- (d) None of these

**Q5)** Which of the following is not the characteristic of Labour? **(MTP Mar 2019)**

- a) Labour is highly ‘Perishable’ in the sense that a day’s labour lost cannot be completely recovered

- (b) Labour is inseparable from the labourer himself
- (c) Labour has a strong bargaining power
- (d) The supply of labour and wage rate are directly related in the initial stages

**Q6)** Which of the following is considered production in Economics? **(MTP Oct 2020, MTP Apr 2019)**

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

**Q7)** Which is not the function of an entrepreneur? **(MTP Apr 2019)**

- (a) Initiating a business enterprise and resource co-ordination
- (b) Risk bearing or uncertainty bearing
- (c) Innovation
- (d) Mobilisation of savings

**Q8)** Which of the following is not included in the stages of capital formation? **(MTP Apr 2019)**

- (a) Savings
- (b) Mobilisation of Income
- (c) Mobilisation of saving
- (d) Investment

**Q9)** The most important function of an entrepreneur is to \_\_\_\_\_ **(MTP March 2022)**

- (a) Bear the sense of responsibility
- (b) Finance
- (c) Innovate

(d) None of these

**Q10)** Which of the following statements is incorrect?

**(MTP Mar 2019)**

- (a) The services of doctors, lawyers, teachers etc. are termed as production
- (b) Man cannot create matter
- (c) Accumulation of capital does not depend solely on income
- (d) None of the above

**Q11)** Capital is a :

**(MTP Apr 2019)**

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

**Q12)** Goodwill, patents etc are benefits, which cannot be perceived by senses are which capital –

- (a) Tangible
- (b) Fixed
- (c) Real
- (d) Intangible

**Q13)** Production is defined as :

- (a) Creation of matter
- (b) Creation of utility in matter
- (c) Creation of infrastructural facilities
- (d) None of these

**Q14)** Marginal product is the slope of:

**(Nov 2019, MTP May 2020, MTP March 2021)**

- (a) Total Product
- (b) Average Product
- (c) Marginal Product
- (d) Implicit Product

**Use the following information to answer Q15-Q17**

Output	TP	MP
0	-	-
1	10	10

2	-	8
3	24	-

**Q15)** What is the MP of 3rd unit of output?

**(Nov 2019)**

- (a) 6
- (b) 8
- (c) 10
- (d) 11

**Q16)** What is the total product of producing 2nd unit of output?

**(Nov 2019)**

- (a) 8
- (b) 10
- (c) 18
- (d) 24

**Q17)** What is the AP of 1st three units of output?

**(Nov 2019)**

- (a) 8
- (b) 10
- (c) 18
- (d) 72

**Q18)** Diminishing returns occur – **(Nov 2019)**

- (a) When units of a variable input are added to a fixed input and total product fall
- (b) When units of a variable input are added to a fixed input and marginal product falls
- (c) When the size of the plant is increased in the long run.
- (d) When the quantity of the fixed input is increased and returns to the variable input falls.

**Q19)** The "law of diminishing returns" applies to :

**(Nov 2019)**

- (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.



**Q20)** Diminishing marginal returns for the first four units of a variable input is exhibited by the total product sequence **(Nov 2019)**

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

**Q21)** A functional relationship between inputs and output is called \_\_\_\_\_ **(Dec 2020)**

- (a) Cost function
- (b) Revenue function
- (c) Consumption function
- (d) Production function

**Q22)** Marginal product will be \_\_\_\_\_ at the point of inflexion **(Dec 2020, MTP Mar 2018)**

- (a) Maximum
- (b) Minimum
- (c) Negative
- (d) Zero

**Q23)** Reason for operating the law of diminishing returns is \_\_\_\_\_ **(MTP Oct 21)**

- (a) Imperfect Substitution between factors
- (b) Scarcity of factors
- (c) Both (a) and (b)
- (d) None of these

**Q24)** A Rational Producer operates in short run production in which stage? **(MTP Oct 21)**

- (a) First Stage
- (b) Second Stage
- (c) Third Stage
- (d) None of these

**Q25)** Law of variable proportion is related to : **(MTP Oct 21)**

- (a) Long Run
- (b) Short Run
- (c) Both (a) and (b)
- (d) None of these

**Q26)** What are the assumptions of Production Function: **(MTP Nov 21)**

- (a) Relationship between inputs and output exists for a specific period of time.
- (b) There is a given 'state of the art' in the production technology.
- (c) Both (a) and (b)
- (d) None of these

**Q27)** The marginal product of a variable input is best described as: **(MTP Mar 2018)**

- (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) None of the above

**Q28)** The Law of variable proportions examines the Production function with: **(MTP Mar 2019)**

- (a) One factor variable and only one factor fixed
- (b) One factor variable keeping quantities of other factors fixed
- (c) All factors variable
- (d) None of the above

**Q29)** In Law of negative returns (Third stage of Law of variable proportions) **(MTP Apr 2019)**

- (a) Total Product declines, MP is positive
- (b) Total Product declines, MP is Zero
- (c) Total Product declines, MP is negative
- (d) Total Product in constant, MP is constant

**Q30)** Law of Production does not include \_ **(MTP March 2021)**

- (a) least cost combination of factors
- (b) law of variable proportion
- (c) law of diminishing returns to a factor
- (d) return to scale



**Q31)** In case of diminishing return to a factor:

**(MTP March 2021)**

- (a) marginal product diminishes
- (b) total product increase at increasing rate
- (c) total product increases at diminishing rate
- (d) both a and c

**Q32)** What are the main assumption of Production Function:

**(MTP March 2022)**

- (a) Relationship between inputs and output exists for a specific period of time
- (b) There is a given state of the art in production Technology.
- (c) Input consideration Included in a particular function output resulting from their utilization is at the maximum level.
- (d) All the above

**Q33)** The law of diminishing returns:

**(MTP Aug 2018)**

- (a) States that beyond some level of a variable input, the average product of that variable input begins to increase steadily.
- (b) Assumes that there is technological improvement over time.
- (c) States that beyond some level of a variable input, the marginal product of that variable begins to decrease steadily.
- (d) Informs a firm whether or not to use a factor input.

**Q34)** A production function is an expression of \_\_\_\_\_ relation between inputs and outputs.

- (a) monetary
- (b) economic
- (c) quantitative
- (d) qualitative

**Q35)** The following table exhibits:

Number of workers	Output
0	0
1	23

2

40

3

50

- (a) increasing marginal product of labour.
- (b) diminishing marginal product of labour.
- (c) increasing returns to scale.
- (d) diminishing returns to scale.

**Q36)** Cobb - Douglas production function represents \_\_\_\_\_ returns to scale **(Nov 2018)**

- (a) Constant
- (b) Increase
- (c) Decrease
- (d) None of these

**Q37)** When output increases more than the increase in input, it occurs due to **(Dec 2020)**

- (a) External and internal diseconomies
- (b) External and internal economies
- (c) External diseconomies and internal economies
- (d) External economies and internal diseconomies

**Q38)** Among the following statements which is incorrect in relation to isoquants **(Dec 2020)**

- (a) Isoquants are negatively sloped
- (b) Isoquants are concave to origin
- (c) Isoquants are not intersecting
- (d) Isoquants are convex to origin

**Q39)** Increasing return of scale is applied in **(MTP Oct 21)**

- (a) Long Run
- (b) Short Run
- (c) Both (a) and (b)
- (d) None of these

**Q40)** When  $\alpha = 3/5$  and  $\beta = 2/5$  the return to scale for Cobb Douglas Production function are:

**(MTP Nov 21)**

- (a) Increasing

- (b) Decreasing
- (c) Constant
- (d) First decreasing and then increasing

**Q41)** When the output increased by more than double if firm doubles its input is known as:

**(MTP Nov 21)**

- (a) Constant return to scale
- (b) Economies to scale
- (c) Diseconomies of scale
- (d) Violation of the law of diminishing return

**Q42)** If as a result of 90 per cent increase in all inputs, the output increase by 75 per cent this is a case of

**(MTP Mar 2018)**

- (a) Increasing return of a factor
- (b) Decreasing return of a factor
- (c) Diminishing returns to scale
- (d) None of the above

**Q43)** If decreasing returns to scale are present, then if all inputs are increased by 10% then:

**(MTP Mar 2019)**

- (a) Output will increase by less than 10%
- (b) Output will increase by 10%
- (c) Output will decrease by 10%
- (d) Output will increase by more than 10%

**Q44)** In the long run, if a very small factory were to expand its scale of operations, it is likely that it would initially experience

**(MTP May 2020)**

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

**Q45)** In the Cobb Douglas function the change in output due to increase in one additional unit of an input is called?

- (a) elasticity
- (b) return to scale
- (c) total product

- (d) marginal revenue

**Q46)** The slope of isoquant is : **(MTP March 2021)**

- (a) upward to the left
- (b) downward to the right
- (c) downward to the left
- (d) upward to the right

**Q47)** Linear homogeneous function means:

**(MTP April 2021)**

- (a) Input and output increases by same proportions.
- (b) Input increases by some proportions and output increase more than proportionately
- (c) Input increase by some proportion and output less than the proportionately
- (d) None of these

**Q48)** Suppose production function is given by:  $Q_2 = 15\sqrt{Lk}$  what type of return does it exhibit?

**(MTP April 2021)**

- (a) Constant return
- (b) Increasing return
- (c) Decreasing return
- (d) None of these

**Q49)** Isoquant are also called:

**(MTP March 2022)**

- (a) Equal product curves
- (b) Production Indifference curves
- (c) ISO product curves
- (d) All of the above

**Q50)** Economies of scale exist because as a firm increases its size in the long run-

**(MTP Oct 2019)**

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

(d) All of these

**Q51)** If one unit of labour and one unit of capital give 200 units of output, two units of labour and two units of capital give 400 units of output and 5 units of labour and five units of capital give 1000 units of output then this is a case of: **(MTP Aug 2018)**

- (a) Constant returns to scale
- (b) Increasing returns to scale
- (c) Decreasing returns to scale
- (d) None of these

**Q52)** An isoquant slopes: **(MTP Aug 2018)**

- (a) Downward to the left
- (b) Downward to the right
- (c) Upward to the left
- (d) Upward to the right

**Q53)** The firm operates in the \_\_\_\_\_, but plans in the \_\_\_\_\_.

- (a) long-run; short-run
- (b) long-run; long-run
- (c) short-run; long-run
- (d) short-run; short-run

**Q54)** The above equations shows that-

$$50_x = f(5_L, 4\bar{k})$$

$$55_x = f(6_L, 4\bar{k})$$

- (a) One factor is fixed and another variable

(b) Both factors are fixed

(c) Both factors are variable

(d) Both factors are semi-variable

**Q55)** Returns to scale will said to be in operation when quantity of :

- (a) All inputs are changed
- (b) All inputs are changed in already established proportion
- (c) All inputs are not changed
- (d) One inputs is changed while quantity of all other inputs remain the same

**Q56)** The period of time in which the plant capacity can be varied is known as

- (a) The short period
- (b) The market period
- (c) The long period
- (d) All of the above

**Q57)** If all inputs are trebled and the resultant output is doubled, this is a case of:

- (a) constant returns to scale
- (b) increasing returns to scale
- (c) diminishing returns to scale
- (d) negative returns to scale

## Answers to ICAI Past Year Papers and MTP Questions

(Q1)	(Q2)	(Q3)	(Q4)	(Q5)	(Q6)	(Q7)	(Q8)	(Q9)	(Q10)
D	D	B	A	C	A	D	B	C	D
(Q11)	(Q12)	(Q13)	(Q14)	(Q15)	(Q16)	(Q17)	(Q18)	(Q19)	(Q20)
A	D	B	A	A	C	A	B	A	D
(Q21)	(Q22)	(Q23)	(Q24)	(Q25)	(Q26)	(Q27)	(Q28)	(Q29)	(Q30)
D	A	C	B	B	B	B	B	C	A

(Q31)	(Q32)	(Q33)	(Q34)	(Q35)	(Q36)	(Q37)	(Q38)	(Q39)	(Q40)
D	D	C	C	B	A	B	B	A	C
(Q41)	(Q42)	(Q43)	(Q44)	(Q45)	(Q46)	(Q47)	(Q48)	(Q49)	(Q50)
B	C	A	C	B	B	A	A	D	D
(Q51)	(Q52)	(Q53)	(Q54)	(Q55)	(Q56)	(Q57)			
A	B	C	A	B	C	C			





### Type 3:- Additional Questions for Practice

1. Making use of personal skill of doctors, lawyers, actors, etc. results in the creation of-
  - (a) form utility
  - (b) place utility
  - (c) personal/service utility
  - (d) time utility
2. Which of the following can be considered as labour in economics-
  - (a) Singing for pleasure
  - (b) A teacher teaching his own child at home
  - (c) Looking after, a sick friend
  - (d) A teacher teaching in school
3. Which of the following statement is incorrect?
  - (a) Mobilisation of savings is done through network of banking and other financial institutions.
  - (b) Land lacks geographical mobility but has occupational mobility.
  - (c) Entrepreneur is also called the organizer, the manager or the risk taker.
  - (d) Labour can be stored
4. A production function is an expression of \_\_\_\_ relation between inputs and outputs.
  - (a) monetary
  - (b) economic
  - (c) quantitative
  - (d) qualitative
5. When MP is negative-
  - (a) TP and AP are falling
  - (b) TP and AP are rising
  - (c) TP and AP are constant
  - (d) Only TP is falling
6. The stage of production where the marginal product is greater than the average product is-.
  - (a) stage of increasing returns
  - (b) stage of diminishing returns
  - (c) stage of negative returns
  - (d) stage of constant returns
7. When the ideal factor ratio is violated in short run-
  - (a) diminishing returns to a factor set in
  - (b) MP of the variable factor starts falling
  - (c) TP increases at a diminishing rate

(d) All the above

8. The production process described below exhibits

Number of Labourers	Output
0	0
1	20
2	50
3	90

- (a) increasing marginal product of labour
  - (b) increasing returns to scale
  - (c) diminishing marginal product of labour
  - (d) constant marginal product of labour
9. Diminishing marginal returns for the first four doses of inputs when all factors of production are increased in the same proportion is revealed by the total product sequence
  - (a) 50, 50, 50, 50
  - (b) 50, 100, 150, 200
  - (c) 50, 90, 120, 140
  - (d) 50, 110, 180, 260
10. Economies of localization, cheaper inputs, growth of ancillary industries, etc. are examples of-
  - (a) Internal economies
  - (b) Internal diseconomies
  - (c) External economies
  - (d) External diseconomies
11. At a point near the right hand below the corner of isoquant curve, the MRTS of factor 'X' for factor 'Y' is -
  - (a) very high
  - (b) very low
  - (c) zero
  - (d) neither high nor low
12. Where the slope of isoquant = the slope of isocost line, it is the \_\_\_\_ combination of inputs.
  - (a) maximum cost
  - (b) least cost
  - (c) balanced cost
  - (d) cost-production
13. When a firm's dependence on external sources of funds increase and it finds difficulty to repay, it is a case of-

- (a) financial diseconomies  
(b) financial economies  
(c) managerial diseconomies  
(d) technical diseconomies
14. The production function of a firm is-  
 $Q = 5L^{\frac{1}{2}} K^{\frac{1}{2}}$   
 What would be the maximum possible output the firm can produce with 100 units of L and 100 units of K.  
 (a) 500  
 (b) 400  
 (c) 600  
 (d) None of the above
15. From the following find out AP and MP of 4th unit of Labour.

Labour	0	1	2	3	4	5
TP of Labour	0	15	35	50	40	48

- (a) 15; 15  
 (b) 10; 15  
 (c) 10;-15  
 (d) 10;-10

### Answers to Additional Questions

(Q1)	(Q2)	(Q3)	(Q4)	(Q5)	(Q6)	(Q7)	(Q8)	(Q9)	(Q10)
C	D	D	C	A	A	D	A	C	C
(11)	(Q12)	(Q13)	(Q14)	(Q15)	(Q16)	(Q17)	(Q18)	(Q19)	(Q20)
B	B	A	A	D					

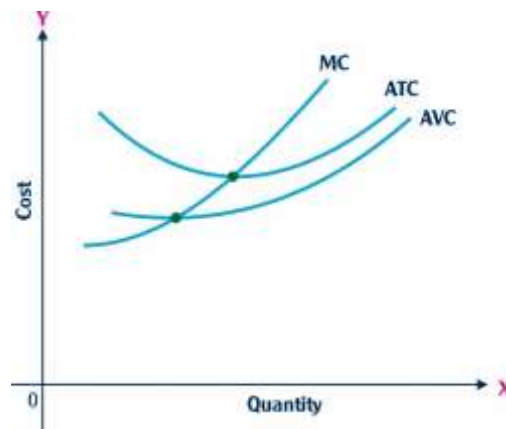
## CHAPTER – 3.2 THEORY OF COST

### Type 1:- Question Bank from ICAI Study Material

1. Diminishing marginal returns implies:
    - (a) decreasing average variable costs.
    - (b) decreasing marginal costs.
    - (c) increasing marginal costs.
    - (d) decreasing average fixed costs.
  2. Which cost increases continuously with the increase in production?
    - (a) Average cost.
    - (b) Marginal cost.
    - (c) Fixed cost.
    - (d) Variable cost.
  3. 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.
  4. 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.
  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 "explicit cost"?
    - (a) The wages a proprietor could have made by working as an employee of a large firm.
    - (b) The income that could have been earned in alternative uses by the resources owned by the firm.
    - (c) The payment of wages by the firm.
    - (d) The normal profit earned by a firm.
  8. Which of the following is an example of an "implicit cost"?
    - (a) Interest that could have been earned on retained earnings used by the firm to finance expansion.
    - (b) The payment of rent by the firm for the building in which it is housed.
    - (c) The interest payment made by the firm for funds borrowed from a bank.
    - (d) The payment of wages by the firm.
- Use the following data to answer questions 9-11.**
- | Output (O)      | 0  | 1  | 2  | 3  | 4  | 5  | 6  |
|-----------------|----|----|----|----|----|----|----|
| Total Cost (TC) | 24 | 33 | 41 | 48 | 54 | 61 | 69 |
|                 | 0  | 0  | 0  | 0  | 0  | 0  | 0  |
9. The average fixed cost of 2 units of output is :
    - (a) ₹ 80
    - (b) ₹ 85
    - (c) ₹ 120
    - (d) ₹ 205
  10. The marginal cost of the sixth unit of output is :
    - (a) ₹ 133
    - (b) ₹ 75

- (c) ₹ 80  
(d) ₹ 450
11. Diminishing marginal returns start to occur between units:  
(a) 2 and 3.  
(b) 3 and 4.  
(c) 4 and 5.  
(d) 5 and 6.
12. Marginal cost is defined as:  
(a) the change in total cost due to a one unit change in output.  
(b) total cost divided by output.  
(c) the change in output due to a one unit change in an input.  
(d) total product divided by the quantity of input.
13. 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.
14. 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)  $AFC = ATC - AVC$ .
15. Which of the following is not a determinant of the firm's cost function?  
(a) The production function.  
(b) The price of labour.  
(c) Taxes.  
(d) The price of the firm's output.
16. Which of the following statements is correct concerning the relationships among the firm's cost functions?  
(a)  $TC = TFC - TVC$ .  
(b)  $TVC = TFC - TC$ .  
(c)  $TFC = TC - TVC$ .  
(d)  $TC = TVC - TFC$ .
17. Suppose output increases in the short run. Total cost will:  
(a) increase due to an increase in fixed costs only.  
(b) increase due to an increase in variable costs only.  
(c) increase due to an increase in both fixed and variable costs.  
(d) decrease if the firm is in the region of diminishing returns.
18. A firm's average total cost is ₹ 300 at 5 units of output and ₹ 320 at 6 units of output. The marginal cost of producing the 6th unit is :  
(a) ₹ 20  
(b) ₹ 120  
(c) ₹ 320  
(d) ₹ 420
19. A firm producing 7 units of output has an average total cost of ₹ 150 and has to pay ₹ 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
20. A firm has a variable cost of ₹1000 at 5 units of output. If fixed costs are ₹ 400, what will be the average total cost at 5 units of output?  
(a) ₹ 280  
(b) ₹ 60  
(c) ₹ 120  
(d) ₹ 1400
21. A firm's average fixed cost is ₹ 20 at 6 units of output. What will it be at 4 units of output?

- (a) ₹ 60  
(b) ₹ 30  
(c) ₹ 40  
(d) ₹ 20
22. Which of the following is a variable cost in the short run?  
(a) rent of the factory.  
(b) wages paid to the factory labour.  
(c) interest payments on borrowed financial capital.  
(d) payment on the lease for factory equipment.
23. The efficient scale of production is the quantity of output that minimizes  
(a) average fixed cost.  
(b) average total cost.  
(c) average variable cost.  
(d) marginal cost.
24. 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.
25. The marginal cost for a firm of producing the 9th unit of output is ₹ 20. Average cost at the same level of output is ₹ 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
26. Implicit cost can be defined as  
(a) Money payments made to the non-owners of the firm for the self-owned factors employed in the business and therefore not entered into books of accounts.  
(b) Money not paid out to the owners of the firm for the self-owned factors employed in a business and therefore not entered into books of accounts.  
(c) Money payments which the self-owned and employed resources could have earned in their next best alternative employment and therefore entered into books of accounts.  
(d) Money payments which the self-owned and employed resources earn in their best use and therefore entered into book of accounts.
27. 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
28. 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.
29. Marginal cost changes due to changes in ---  
--
- (a) Total cost
- (b) Average cost
- (c) Variable cost
- (d) Quantity of output
30. Which of the following statements is correct?
- (a) Fixed costs vary with change in output.
- (b) If we add total variable cost and total fixed cost we get the average cost.
- (c) Marginal cost is the result of total cost divided by number of units produced.
- (d) Total cost is obtained by adding up the fixed cost and total variable cost.
31. The vertical difference between TVC and TC is equal to-
- (a) MC
- (b) AVC
- (c) TFC
- (d) None of the above
32. 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.
33. 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.
34. The falling part of long run average cost curve is tangent to the \_\_\_\_\_ of corresponding short run average cost curve(s).
- (a) falling part
- (b) rising part
- (c) minimum point
- (d) None of the above
35. 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.
36. 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.
37. Which of the following statements is false in respect of fixed cost of a firm?
- (a) As the fixed inputs for a firm cannot be changed in the short run, the TFC are constant, except when the prices of the fixed inputs change.
- (b) TFC continue to exist even when production is stopped in the short run, but they exist in the long run even when production is not stopped.

- (c) Total Fixed Costs (TFC) can be defined as the total sum of the costs of all the fixed inputs associated with production in the short run.
- (d) In the short run, a firm's fixed cost cannot be escaped even when production is stopped.
38. A firm's long-run average total cost curve is
- Identical to its long-run marginal-cost curve.
  - Also its long-run supply curve because it explains the relationship between price and quantity supplied.
  - In fact the average total cost curve of the optimal plant in the short run as it tries to produce at least cost.
  - Tangent to all the curves of short-run average total cost.
39. A firm's long-run average total cost curve is.
- Identical to its long-run marginal-cost curve as all factors are variable.
  - Also its long-run total cost curve because it explains the relationship cost and quantity supplied in the long run.
  - In fact the average total cost curve of the optimal plant in the short run as it tries to produce at least cost.
  - Tangent to all short-run average total cost the curves and represents the lowest average total cost for producing each level of output.
40. Which of the following statements is incorrect?
- The LAC curve is also called the planning curve of a firm.
  - Total revenue = price per unit  $\times$  number of units sold.
  - Opportunity cost is also called alternative cost.
  - If total revenue is divided by the number of units sold we get marginal revenue
41. The positively sloped (i.e. rising) part of the long run average total cost curve is due to which of the following?
- Diseconomies of scale.
  - Increasing returns.
  - The firm being able to take advantage of large-scale production techniques as it expands its output.
  - The increase in productivity that results from specialization.

## Additional Questions from Previous Edition of ICAI Study Material

**Use Table 1 to answer questions 42-44.**

Output	Total Cost
0	240
1	330
2	410

3	480
4	540
5	610
6	690

42. The average fixed cost of 2 units of output is:

- (a) ₹ 80  
(b) ₹ 85  
(c) ₹ 120  
(d) ₹ 205
43. The marginal cost of the sixth unit of output is:  
(a) ₹ 133  
(b) ₹ 75  
(c) ₹ 80  
(d) ₹ 450
44. Average Variable Cost of 4 units of output is:  
(a) 75  
(b) 135  
(c) 60  
(d) insufficient data

**Read the following paragraph and answer question 45-47.**

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

45. What will be the implicit cost of the firm?  
(a) ₹ 3,00,000  
(b) ₹ 2,50,000  
(c) ₹ 7,50,000  
(d) insufficient data
46. The above mentioned firm is earning:  
(a) Accounting profit of ₹ 2,50,000.  
(b) Economic loss of ₹ 50,000  
(c) Both a and b are correct  
(d) None of the above is correct
47. Suppose in the above mentioned question, the owner had invested ₹ 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 ₹ 75,000  
(b) economic loss of ₹ 75,000  
(c) economic profit of ₹ 2,50,000  
(d) economic loss of ₹ 2,50, 000
48. Which cost increases continuously with the increase in production?  
(a) Average cost  
(b) Marginal cost  
(c) Fixed cost  
(d) Variable cost
49. Which of the following is a variable cost in the short run?  
(a) Wages paid to factory labor  
(b) Payment on the lease for factory equipment  
(c) Rent on the factory  
(d) Interest payments on borrowed financial capital
50. You are given the following data:

Output	0	1	2	3	4	5
Total Costs	0	15	30	45	60	75

The above data is an example of:

- (a) Constant returns to scale.  
(b) Decreasing returns to scale.  
(c) Increasing returns to scale.  
(d) Globalization

### Answers to ICAI Question Bank

Q1	Q2	Q3	Q4	Q5	Q6	Q7	Q8	Q9	Q10
(c)	(d)	(d)	(b)	(a)	(c)	(c)	(a)	(c)	(c)
Q11	Q12	Q13	Q14	Q15	Q16	Q17	Q18	Q19	Q20
(c)	(a)	(c)	(d)	(d)	(c)	(b)	(d)	(d)	(a)
Q21	Q22	Q23	Q24	Q25	Q26	Q27	Q28	Q29	Q30
(b)	(b)	(b)	(b)	(b)	(b)	(d)	(d)	(c)	(d)



<b>Q31</b>	<b>Q32</b>	<b>Q33</b>	<b>Q34</b>	<b>Q35</b>	<b>Q36</b>	<b>Q37</b>	<b>Q38</b>	<b>Q39</b>	<b>Q40</b>
(c)	(a)	(a)	(a)	(c)	(d)	(b)	(d)	(d)	(d)
<b>Q41</b>	<b>Q42</b>	<b>Q43</b>	<b>Q44</b>	<b>Q45</b>	<b>Q46</b>	<b>Q47</b>	<b>Q48</b>	<b>Q49</b>	<b>Q50</b>
(a)	(c)	(c)	(a)	(a)	(c)	(b)	(d)	(a)	(a)



## Type 2:- Question Bank from ICAI Past Year Papers and MTP

**Q1)** 1. A firm producing 15 units of output has average cost of Rs. 250 and Rs. 125 as per unit cost for fixed factors of production. Then average variable cost will be \_\_\_\_\_

(June 2019)

- (a) 180
- (b) 150
- (c) 125
- (d) None of the above

**Q2)** Diminishing marginal returns implies \_\_\_\_\_

(June 2019, Nov 2019)

- (a) Decreasing average fixed cost
- (b) Decreasing average variable cost
- (c) Decreasing marginal cost
- (d) Increasing marginal cost

From the following table , answer Q3-Q4

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

**Q3)** The shape of AFC curve is:

(Nov 2018)

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

**Q4)** Accounting cost will be ..... economic cost.

(Nov 2018)

- (a) Greater than
- (b) less than
- (c) Equal to

(d) None of these

**Q5)** If Average cost of a firm is minimum, then Marginal cost will be ..... ..

(Nov 2018)

- (a) Greater than average cost
- (b) Equal to average cost
- (c) Less than average cost
- (d) None of these

**Q6)** Which of the following is correct :

(Nov 2019)

- (a)  $TFC = TVC - TC$
- (b)  $TC = TVC - TFC$
- (c)  $TFC = TC - TVC$
- (d)  $TC = TFC - TVC$

**Q7)** Total Cost = Explicit cost + Implicit cost + .....

(Nov 2019)

- (a) Super Normal Profit
- (b) Normal Profit
- (c) Super Normal Losses
- (d) Average Fixed Cost

**Q8)** If average variable cost of 5 units of output is 100 and total fixed cost is 40. Find average cost at 5 units of output.

(Nov 2019)

- (a) 8
- (b) 100
- (c) 108
- (d) 540

**Q9)** Average fixed cost for producing 8 units of output was 60, what is the average Fixed cost at 6 units of output



(Nov 2019)

- (a) 40
- (b) 60
- (c) 80
- (d) 50

**Q10)** Which of the following curve is never U shape

(Nov 2019)

- (a) Average cost
- (b) Average Variable Cost
- (c) Average Fixed cost
- (d) Marginal Cost

**Q11)** 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?

(Nov 2019, MTP Mar 19)

- (a) ₹ 200
- (b) ₹ 60
- (c) ₹ 100
- (d) ₹ 1,400

**From the following information answer Q12-Q14**

Output	0	1	2	3	4	5
Total Cost	100	180	250	310	360	420

**Q12)** The average fixed cost of 4 units of output is

(Dec 2020)

- (a) 80
- (b) 90
- (c) 25
- (d) 350

**Q13)** The average variable cost of 5 units of output

(Dec 2020)

- (a) 84
- (b) 64
- (c) 420
- (d) 104

**Q14)** The marginal cost of 5th unit of output is

(Dec 2020)

- (a) 60
- (b) 70
- (c) 540
- (d) 90

**Q15)** Marginal Cost can be directly derived from

(MTP Oct 21)

- (a) Total Variable Cost
- (b) Total Fixed Cost
- (c) Average Cost
- (d) Average Fixed Cost

**Q16)** Curve which are intersected by marginal cost curve at their minimum points is

(MTP Oct 21)

- (a) AVC and AFC
- (b) AC and AVC
- (c) AC and AFC
- (d) AC and TVC

**Q17)** What will be the situation if factor prices and factor quantities move in the same direction

(MTP Oct 21)

- (a) A decreasing Cost Industry
- (b) Increasing Cost Industry
- (c) Constants Cost Industry
- (d) All of these

**Q18)** Suppose that an owner is earning total revenue of ₹1,00,000 and is increasing explicit cost of

₹ 60,000. If the owner could work for another company for ₹ 30,000 a year, we would conclude that:

(MTP Oct 20, MTP Mar 18, MTP Apr 19)

- (a) The firm is earning economic profit or ₹ 10,000
- (b) The firm is earning accounting profit or ₹ 40,000
- (c) The firm is earning economic profit of ₹ 40,000
- (d) Both (a) and (b)

**Q19)** If a firm's average variable cost curve is rising, its marginal cost curve must be –

(MTP Oct 2020)

- (a) Constant
- (b) Above the total cost curve
- (c) Above the average variable cost curve
- (d) All of the above

**Q20)** Indicate which of the following is a variable cost? (MTP Mar 2018, MTP Mar 19)

- (a) Payment of rent on building
- (b) Cost of Machinery
- (c) Interest payment on Loan taken from bank
- (d) Cost of raw material

**Q21)** Suppose the short run cost function can be written as  $TC = 250 + 10Q$ . Average Fixed cost equals: (MTP Mar 2018)

- (a)  $250/Q$
- (b) 250
- (c) 10
- (d)  $250/Q+10$

**Q22)** Gopal inherited 1 acre of land from his father in 1960. Today the value of that land is Rs. 90 lakh per acre. What is the opportunity cost of

Gopal for keeping that land? His father paid Rs. 50,000 for this land.

(MTP Mar 2018)

- (a) Nothing, since the land was inherited
- (b) Rs. 50,000 which his father paid
- (c) Rs. 90 lakh, since the amount Gopal is getting now if he sells it
- (d) Both (b) and (c)

**Q23)** Variable cost includes the cost of

(MTP Apr 2019)

- (a) Buying land and building
- (b) Hire charges of machinery
- (c) Insurance premium
- (d) Material bought

**Q24)** Which of the following is correct?

(MTP Apr 2019)

- (a) Marginal cost is always less than the average cost.
- (b) Marginal cost is always more than the average cost.
- (c) Marginal cost is always equal to the average cost at its minimum point.
- (d) Marginal cost is always equal to the average cost.

**Q25)** The vertical difference between TVC and TC is equal to:

(MTP Apr 2019, MTP April 2022)

- (a) MC
- (b) AVC
- (c) AFC
- (d) None of the above

**Q26)** \_\_\_\_\_ is an implicit cost of production

(MTP Apr 2019)

- (a) Wages of the labour
- (b) Charges for electricity
- (c) Interest on owned money capital

(d) Payment for raw material

**Q27)** Economic costs of production differ from accounting costs of production because

**(MTP May 2020)**

- (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.

**Q28)** Which of the following statements is correct?

**(MTP May 2020)**

- (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.

**Q29)** The Interest on own capital is:

**(MTP March 2021)**

- (a) implicit cost
- (b) future cost
- (c) explicit cost
- (d) past cost

**Q30)** When output of a firm increases in the short run, its average fixed cost:

**(MTP April 2021)**

- (a) Decreases
- (b) Increases
- (c) Remain constant
- (d) First rises then decline

**Q31)** The firm's Cost function is not a determinant of:

**(MTP April 2021)**

- (a) The price of the labour
- (b) The price of the firm's output
- (c) Taxes
- (d) The production functions

**Q32)** Relative price of goods reflects their:

**(MTP April 2021)**

- (a) Opportunity Cost
- (b) Fixed Cost
- (c) Average Cost
- (d) None of these

**Q33)** The total cost of producing 30 units of output is Rs. 300. If average fixed cost at this level of output is Rs. 7, then the total variable cost will be –

**(MTP Oct 2019)**

- (a) Rs. 160
- (b) Rs. 140
- (c) Rs. 90
- (d) Rs. 120

**Q34)** 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:

**(MTP Aug 2018)**

- (a) Rs. 20
- (b) Rs. 120
- (c) Rs. 320
- (d) Rs. 420

**Q35)** Which of the following is an example of an "explicit cost"?

**(MTP Aug 2018)**

- (a) The wages a proprietor could have made by working as an employee of a large firm
- (b) The income that could have been earned in alternative uses by the resources owned by the firm
- (c) The payment of wages by the firm

(d) The normal profit earned by a firm

(a) Rs.30,000

**Q36)** Which cost increases continuously with the increase in production?

(b) Rs.50,000

(MTP Oct 2018)

(c) Rs.80,000

(a) Average cost

(d) Rs.75,000

(b) Marginal cost

(c) Fixed cost

(d) Variable cost

**Read the following paragraph and answer questions 44-47**

Nicole owns a small pottery factory. She can make 1,000 pieces of pottery per year and sell them for Rs. 100 each. It costs Nicole Rs. 20,000 for the raw materials to produce the 1,000 pieces of pottery. She has invested Rs. 1,00,000 in her factory and equipment: Rs. 50,000 from her savings and Rs. 50,000 borrowed at 10 percent. (Assume that she could have loaned her money out at 10 per cent too.) Nicole can work at a completing pottery factory for Rs. 40,000 per year.

**Q37)** The accounting cost at Nicole's pottery factory is:

(MTP Oct 2018)

(a) Rs.25,000

(a) 50 ; 15

(b) 40 ; 50

(c) 50 ; 70

(d) 110 ; 50

(b) Rs.50,000

(c) Rs.80,000

(d) Rs.75,000

**Q38)** The economic cost at Nicole's factory is:

(MTP Oct 2018)

(a) Rs.75,000

(b) Rs.70,000

(c) Rs.80,000

(d) Rs.30,000

**Q39)** The accounting profit at Nicole's pottery factory is:

(MTP Oct 2018)

**Q40)** The total cost curve makes an intercept of Rs. 50 on y-axis, Calculate total fixed cost and total variable cost of 3rd unit of output :

Output	Total Cost
1	65
2	90
3	120
4	160

**Q41)** A firm producing 5 units of output has AC of Rs. 150 and it pays Rs. 200 to its fixed factors of production. What is the AVC?

(a) Rs. 100

(b) Rs. 50

(c) Rs. 110

(d) Rs. 150

**Q42)** The following is the marginal cost schedule. Find the average cost of production of 4 unit of Output

Output(units)	1	2	3	4	5
Marginal Cost	6	5	4	5	7

(a) Rs. 4

(b) Rs. 6

(c) Rs. 5

(d) Rs. 7

**Q43)** \_\_\_\_\_ refers to cost incurred in past on acquisition of productive asset-

(a) Historical

(b) Replacement

- (c) Incremental
- (d) Sunk

**Q44)** Social cost is equal to –

- (a) Explicit plus implicit
- (b) private plus external
- (c) Direct plus indirect
- (d) Economic plus real

**Q45)** Cost of advertisement is –

- (a) Discretionary cost
- (b) Compulsory Cost
- (c) Any of the above
- (d) None of the above

**Q46)** Electricity charges are –

- (a) Fixed
- (b) Variable
- (c) Semi variable
- (d) None of the above

**Q47)** Cost function is mathematical relation between–

- (a) Cost and output
- (b) Cost and factors of output
- (c) Cost and determinants of cost
- (d) Short run and long run cost

**Q48)** If the Long Run Average Cost Curve falls as output expands is due to :

**(MTP Oct 21)**

- (a) The law of diminishing return
- (b) Diseconomies of scale
- (c) Economies of scale
- (d) None of these

**Q49)** The below data is an example of:

**(MTP Mar 2018, MTP Aug 2018)**

Output	Total cost
0	0

1	15
2	30
3	45
4	60
5	75

- (a) Constant returns to scale.
- (b) Decreasing returns to scale
- (c) Increasing returns to scale
- (d) Globalization

**Q50)** The LAC curve

**(MTP Apr 2019)**

- (a) Falls when the LMC curve falls
- (b) Rises when the LMC curve rises
- (c) (c)Goes through the lowest point of the LMC curve
- (d) Falls when  $LMC < LAC$  and rises when  $LMC > LAC$ .

**Q51)** The rising part of the long run average cost curve is due to:

**(MTP March 2022)**

- (a) Increasing return
- (b) Diseconomies of scale
- (c) Increase in productivity due to Specialization
- (d) None of these

**Q52)** Now a days, in the long run the modern firms faces \_\_\_\_\_ cost curve when technology changes.

- (a) U- Shaped
- (b) Boat Shaped
- (c) L Shaped
- (d) Inverted U shaped



## Answers to ICAI Past Year Papers and MTP Questions

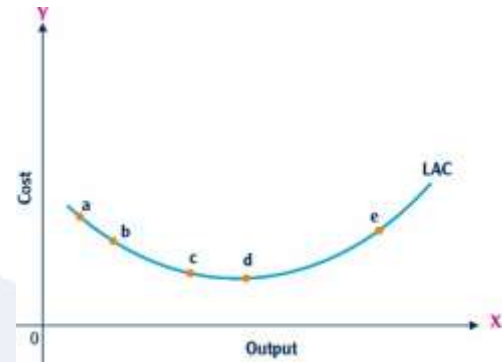
(Q1)	(Q2)	(Q3)	(Q4)	(Q5)	(Q6)	(Q7)	(Q8)	(Q9)	(Q10)
C	D	B	B	B	C	B	C	C	C
(Q11)	(Q12)	(Q13)	(Q14)	(Q15)	(Q16)	(Q17)	(Q18)	(Q19)	(Q20)
C	C	B	A	A	B	B	D	C	D
(Q21)	(Q22)	(Q23)	(Q24)	(Q25)	(Q26)	(Q27)	(Q28)	(Q29)	(Q30)
A	C	D	C	C	C	D	D	A	A
(Q31)	(Q32)	(Q33)	(Q34)	(Q35)	(Q36)	(Q37)	(Q38)	(Q39)	(Q40)
B	A	C	D	C	D	A	B	D	C
(Q41)	(Q42)	(Q43)	(Q44)	(Q45)	(Q46)	(Q47)	(Q48)	(Q49)	(Q50)
C	C	A	B	A	C	C	C	A	D
(Q51)	(Q52)	(Q53)	(Q54)	(Q55)	(Q56)	(Q57)	(Q58)	(Q59)	(Q60)
B	C								

### Type 3:- Additional Questions for Practice

1. Which of the following are implicit costs?
  - (i) A shop taken on rent by entrepreneur
  - (ii) Savings invested to start business
  - (iii) An individual is both owner and manager of business
  - (iv) A farmer takes a farm on rent
  - (a) i and ii
  - (b) iii and iv
  - (c) ii and iii
  - (d) i and iv
2. Which one of the following is the dependent variable in a cost function?
  - (a) Level of capacity utilization
  - (b) Lot size of output
  - (c) Scale of operations
  - (d) Total Cost
3. All but one are true about opportunity cost. Which one is not true?
  - (a) Opportunity costs are recorded in the books of account.
  - (b) Opportunity costs are applicable to those factors which have alternative uses.
  - (c) Opportunity cost is also known as 'alternative cost'.
  - (d) Opportunity costs are considered part of Economic Cost.
4. When output is increased total variable cost also rises initially at \_\_\_\_ rate and later at \_\_\_\_ rate.
  - (a) diminishing; constant
  - (b) increasing; constant
  - (c) diminishing; increasing
  - (d) constant; increasing
5. TVC can be calculated as-
  - (a)  $\frac{AVC}{Q}$
  - (b)  $TC - TFC$
  - (c)  $\sum MC$
  - (d) both 'b' and 'c'
6. Total cost curve shoots from a point on Y-axis means-
  - (a) we are referring to the short period
  - (b) we are referring to the long period
  - (c) we are referring to the market period
  - (d) we are referring to the secular period
7. Average Fixed Cost curve will never touch-
  - (a) X-axis
  - (b) Y-axis
  - (c) both 'a' and 'b'
  - (d) none of the above
8. Which of the following falls continuously?
  - (a) Marginal Cost
  - (b) Average Fixed Cost
  - (c) Average Variable Cost
  - (d) Total Fixed Cost
9. \_\_\_\_ and \_\_\_\_ curves start from the same point on Y-axis which is above the origin.
  - (a) TFC and TVC
  - (b) TVC and TC
  - (c) TFC and TC
  - (d) None of the above
10. Since AFC can never be zero, \_\_\_\_ and \_\_\_\_ curves never intersect each other
  - (a) AC and MC
  - (b) AC and AFC
  - (c) AC and AVC
  - (d) None of the above
11. Production at the loss of \_\_\_\_ may continue in short run.
  - (a) Variable Cost
  - (b) Fixed Cost
  - (c) Marginal Cost
  - (d) Direct Cost
12. Production at the loss of \_\_\_\_ cannot be continued in short run.
  - (a) Direct Cost
  - (b) Fixed Cost
  - (c) Marginal Cost

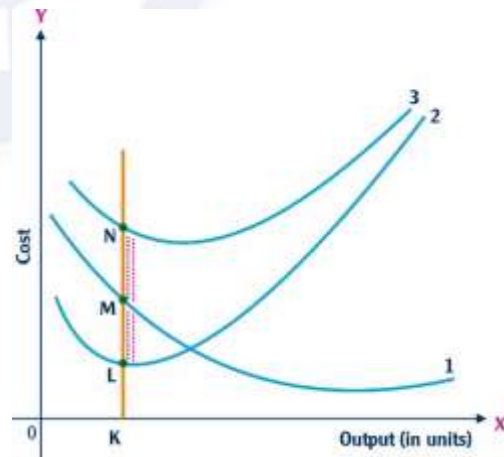
- (d) Variable Cost
13. Any change in Marginal Cost will lead to a change in firm's \_\_\_\_
- total fixed cost
  - total variable cost
  - average fixed cost
  - both 'a' and 'c'
14. The point at which marginal cost equate average cost shows-
- The maximum profit
  - The equilibrium point of the consumer
  - The plant capacity
  - The minimum price of the product
15. Which of the following is incorrectly matched?
- MC – 'U' shaped
  - AFC - Rectangular Hyperbola
  - TC – 'U' shaped
  - AVC – 'U' shaped
16. MC is greater than AC when production is in a state of \_\_\_\_
- increasing returns
  - diminishing returns
  - constant returns
  - None of the above
17. Decreasing average costs for a firm, as it expands plant size and output-
- results from decreasing returns to scale
  - results usually from the effects of increased mechanism and specialization
  - results from increased complexity of rapid expansion
  - None of the above
18. The Long Run Average Curve shows the average cost of production when \_\_\_\_ in supply
- all factors are fixed
  - all factor are variable
  - some factors are fixed while some are variable
  - one factor is fixed while all others are variable

19. Which one of the following is also known as PLANT CURVE?
- LAC curve
  - SAC curve
  - AVC curve
  - ATC curve
20. Consider the figure and answer which region represents diseconomies



- Region 'c' to 'd'
- Region 'a' to 'b'
- Region 'd' to 'e'
- Region 'b' to 'd'

**Consider the following diagram to answer questions 21 to 27.**



21. In the above diagram curve numbers 1, 2 and 3 are \_\_\_\_ respectively
- AVC ; AFC ; AC
  - AFC ; AVC ; AC
  - AC; AFC; AVC
  - AC ; AVC ; AFC

22. In the above diagram at OK level of output, the average cost equals-
- KN
  - KM
  - KL
  - MN
23. In the diagram above at OK level of output, KL denotes-
- AFC
  - MC
  - AVC
  - AC
24. In the diagram above at OK level of output, KM denotes-
- AC
  - AVC
  - MC
  - AFC
25. In the diagram above at OK level of output, the vertical distance shaded between LN denotes-
- AFC
  - AVC
  - AC
  - None of these
26. In the above diagram, on the right side curve 3 becomes closer to curve 2 means-
- component of AFC shrinks
  - component of AFC increases
  - component of AVC increases
  - component of AVC shrinks
- i and iii
  - ii and iv
  - ii and iii
  - none of the above
- 27.. In the above diagram on the right side curve 1 gets away from curve 3 means-
- component of AFC increases but component of AVC shrinks
  - component of both AFC and AVC increases
  - component of AFC shrinks but component of AVC increases

- None of the above
28. Considering the following information of firm's production department for a week, the TVC, AVC and ATC would be-

No. of workers employed	50
No. of units produced	100
Weekly wage of each worker	200
Weekly rent of shed	400
Raw-materials used	1,600
Power	300

- ₹ 11,900 ; ₹ 119 and ₹ 123 respectively
  - ₹ 11,600 ; ₹ 116 and ₹ 123 respectively
  - ₹ 11,900 ; ₹ 119 and ₹ 119 respectively
  - None of these
29. What would be the economic cost considering the following-

Purchase of raw materials	₹ 200
Payment of wages and salaries	₹ 500
Payment of rent	₹ 50
Estimated value of owner's services	₹ 300
Expected minimum profit	₹ 40
Estimated super normal profit	₹ 240

- 1000
  - 1,180
  - 1,090
  - 2000
30. A firm is producing 20 units. At this level of output, ATC and AVC are equal to ₹40 and ₹37 respectively. What is the total fixed cost of the firm?
- ₹ 3
  - ₹ 60
  - ₹40
  - ₹ 20
31. When a bus with a seating capacity of 50 passengers is carrying on 40 passengers. The cost of passenger ticket is ₹ 100. What would be the Marginal Cost of carrying one additional passenger?
- ₹ 100

- (b) zero  
(c) ₹ 4,100  
(d) ₹ 4,000

- (a) ₹ 250  
(b) ₹ 260  
(c) ₹ 258  
(d) ₹ 252

32. The total cost curve makes an intercept of ₹ 50 on y-axis, Calculate total fixed cost and total variable cost of 3rd unit of output:

Output (units)	1	2	3	4
TC ₹	65	90	120	160

- (a) 50 ; 15  
(b) 40 ; 50  
(c) 50; 70  
(d) 110; 50
33. A firm's average fixed cost is ₹ 40 at 12 units of output. What will it be at 8 units of output.
- (a) ₹ 120  
(b) ₹60  
(c) ₹ 80  
(d) ₹40
34. What is the Average Cost of producing 20 units if the Total Fixed Cost is ₹ 5,000 and AVC is ₹ 2?

### Answers to Additional Questions

(Q1)	(Q2)	(Q3)	(Q4)	(Q5)	(Q6)	(Q7)	(Q8)	(Q9)	(Q10)
C	D	A	C	D	A	C	B	C	C
(Q11)	(Q12)	(Q13)	(Q14)	(Q15)	(Q16)	(Q17)	(Q18)	(Q19)	(Q20)
B	D	B	C	C	B	B	B	B	C
(Q21)	(Q22)	(Q23)	(Q24)	(Q25)	(Q26)	(Q27)	(Q28)	(Q29)	(Q30)
B	A	C	D	A	A	C	A	C	B
(Q31)	(Q32)	(Q33)	(Q34)	(Q35)	(Q36)	(Q37)	(Q38)	(Q39)	(Q40)
B	C	B	D						



## CHAPTER – 4.1 MEANING AND TYPES OF MARKETS

### Type 1:- Question Bank from ICAI Study Material

1. In the table below what will be equilibrium market price?

Price (₹)	Demand (tonnes per annum)	Supply (tonnes per annum)
1	1000	400
2	900	500
3	800	600
4	700	700
5	600	800
6	500	900
7	400	1000
8	300	1100

- (a) ₹ 2  
(b) ₹ 3  
(c) ₹ 4  
(d) ₹ 5
2. With a given supply curve, a decrease in demand causes
- (a) an overall decrease in price but an increase in equilibrium quantity.  
(b) an overall increase in price but a decrease in equilibrium quantity.  
(c) an overall decrease in price and a decrease in equilibrium quantity.  
(d) no change in overall price but a reduction in equilibrium quantity.
3. Assume that consumers' incomes and the number of sellers in the market for good A both decrease. Based upon this information, we can conclude, with certainty, that the equilibrium:
- (a) price will increase.  
(b) price will decrease.  
(c) quantity will increase.  
(d) quantity will decrease.
4. If supply increases in a greater proportion than demand
- (a) The new equilibrium price and quantity will be greater than the original equilibrium price and quantity.  
(b) The new equilibrium price will be greater than the original equilibrium price but equilibrium quantity will be higher.  
(c) The new equilibrium price and quantity will be lower than the original equilibrium price and quantity.  
(d) The new equilibrium price will be lower than the original equilibrium and the new equilibrium quantity will be higher
5. Assume that in the market for good Z there is a simultaneous increase in demand and the quantity supplied. The result will be :
- (a) an increase in equilibrium price and quantity.  
(b) a decrease in equilibrium price and quantity.  
(c) an increase in equilibrium quantity and uncertain effect on equilibrium price.  
(d) a decrease in equilibrium price and increase in equilibrium quantity.
6. Suppose the technology for producing personal computers improves and, at the same time, individuals discover new uses for personal computers so that there is greater utilisation of personal computers. Which of the following will happen to equilibrium price and equilibrium quantity?
- (a) Price will increase; quantity cannot be determined.  
(b) Price will decrease; quantity cannot be determined.  
(c) Quantity will increase; price cannot be determined.  
(d) Quantity will decrease; price cannot be determined.
7. 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
8. Time element was conceived by

- (a) Adam Smith  
(b) Alfred Marshall  
(c) Pigou  
(d) Lionel Robinson
9. In Economics, the term 'market' refers to a:  
(a) place where buyer and seller bargain a product or service for a price  
(b) place where buyer does not bargain  
(c) place where seller does not bargain  
(d) none of the above
10. 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
11. Secular period is also known as  
(a) very short period  
(b) short period  
(c) very long period  
(d) long period
12. Stock exchange market is an example of  
(a) unregulated market  
(b) regulated market  
(c) spot market  
(d) none of the above
13. The market for the ultimate consumers is known as  
(a) whole sale market  
(b) regulated market  
(c) unregulated market  
(d) retail market
14. For market the essential condition is –  
(a) A particular geographical place  
(b) Control of the government  
(c) Close contact between buyers and sellers  
(d) None of these
15. Example of a commodity said to have an International Market.  
(a) Perishable Goods.  
(b) High Value and Small Bulk Commodities.  
(c) Product whose trading is restricted by government  
(d) Bulky Articles.
16. Stock Exchange is example of \_\_\_\_\_ Market:  
(a) Regulated Market  
(b) Spot Market  
(c) Forward Market  
(d) Retail Market

### Answers to ICAI Question Bank

Q1	Q2	Q3	Q4	Q5	Q6	Q7	Q8	Q9	Q10
(c)	(c)	(d)	(d)	(c)	(c)	(a)	(b)	(a)	(b)
Q11	Q12	Q13	Q14	Q15	Q16	Q17	Q18	Q19	Q20
(c)	(b)	(d)	(c)	(b)	(a)				

### Type 2:- Question Bank from ICAI Past Year Papers and MTP

- Q1) Market consists of \_\_\_\_\_  
(June 2019)
- (a) Buyer and seller  
(b) One Price for one product at a given time



(c) Both a and b

(d) None

**Q2)** Which of the following statements is incorrect?  
(MTP May 2020)

(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

**Q3)** If the supply of a commodity does not change then with every increase in demand price will..  
(Nov 2018)

(a) Remain same

(b) Increase

(c) Decrease

(d) Becomes zero

**Q4)** If there is a increase in supply without any change in demand, equilibrium price will  
(Nov 2018)

(a) Increase

(b) Decrease

(c) Remain unchanged

(d) Becomes zero

**Q5)** On the basis of nature of transaction, a market may be classified into  
(Dec 2020)

(a) Regulated and unregulated market

(b) Wholesale and retail market

(c) Spot and forward rate

(d) National and international market

**Q6)** A market where goods are exchanged for money payable either immediately or within short span of time  
(Dec 2020)

(a) Forward market

(b) Regulated market

(c) Spot market

(d) Wholesale market

**Q7)** The elements of market does not necessarily include:  
(MTP Nov 21)

(a) Buyers and Sellers

(b) A Product or Service

(c) Geographical Area

(d) Bargaining for a price

**Q8)** A market refers to \_\_\_\_\_.  
(MTP Nov 21)

(a) Meeting place of buyer and seller

(b) Does not necessarily refer to meeting place between buyer and seller

(c) Extends over a city

(d) Extends over the entire nation.

**Q9)** Generally, perishable goods like butter, eggs, milk, vegetables etc., will have  
(MTP Oct 2020)

(a) International market

(b) Local market

(c) National market

(d) None of the above

**Q10)** If the demand is more than supply, then the pressure on price will be-  
(MTP Oct 2019)

(a) Upward

(b) Downward

(c) Constant

(d) None of the above

**Q11)** If good growing conditions increases the supply of strawberries and hot weather increases the demand for strawberries, the quantity of strawberries bought  
(MTP May 2020)

(a) increases and the price might rise, fall or not change.

- (b) does not change but the price rises.
- (c) does not change but the price falls.
- (d) increases and the price rises

**Q12)** When a market is in equilibrium:

**(MTP May 2020, MTP Aug 2018)**

- (a) No shortages exist.
- (b) Quantity demanded equals quantity supplied.
- (c) A price is established that clears the market.
- (d) All of the above are correct.

**Q13)** Secular period is also known as

**(MTP May 2020)**

- (a) very short period
- (b) short period
- (c) very long period
- (d) long period

**Q14)** A drought in India leads to unusually low level of wheat production. This would lead to a rise in price of wheat and fall in the quantity of wheat demanded due to:

**(MTP Oct 2018)**

- (a) excess demand at the original price.
- (b) excess supply at the original price.
- (c) the supply curve shifting to the right.
- (d) the demand curve shifting to the left.

**Q15)** A rise in supply and demand in equal proportion will result in

**(MTP March 2021)**

(a) increase in equilibrium price and decrease in equilibrium quantity

(b) decrease in equilibrium price and increase in equilibrium quantity

(c) no change in equilibrium price and increase in equilibrium quantity

(d) increase in equilibrium price and no change in equilibrium quantity

**Q16)** Wild Animals had destroyed the entire crops of a farmer what effect it will have on the price in perfect competition:

**(MTP April 2021)**

- (a) Price will remain constant
- (b) Price will decrease
- (c) Price will increase
- (d) None of these

**Q17)** Which of the following situation does not lead to an increase in equilibrium price?

**(MTP Aug 2018)**

- (a) An increase in demand, without a change in supply
- (b) A decrease in supply accompanied by an increase in demand
- (c) A decrease in supply without a change in demand
- (d) An increase in supply accompanied by a decrease in demand

### Answers to ICAI Past Year Papers and MTP Questions

(Q1)	(Q2)	(Q3)	(Q4)	(Q5)	(Q6)	(Q7)	(Q8)	(Q9)	(Q10)
(c)	(d)	(b)	(b)	(c)	(c)	(c)	(b)	(b)	(a)
(Q11)	(Q12)	(Q13)	(Q14)	(Q15)	(Q16)	(Q17)	(Q18)	(Q19)	(Q20)
(a)	(d)	(c)	(a)	(c)	(a)	(d)			

## CHAPTER – 4.2 REVENUE FUNCTION AND RELATED CONCEPTS

### Type 1:- Question Bank from ICAI Study Material

1. 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 units to 10 units.
  - (a) ₹ 20
  - (b) ₹ 19
  - (c) ₹ 10
  - (d) ₹ 1
2. Assume that when price is ₹ 20, the quantity demanded is 15 units, and when price is ₹ 18, the quantity demanded is 16 units. Based on this information, what is the marginal revenue resulting from an increase in output from 15 units to 16 units?
  - (a) ₹ 18
  - (b) ₹ 16
  - (c) ₹ 12
  - (d) ₹ 28
3. Marginal Revenue is equal to:
  - (a) The change in price divided by the change in output.
  - (b) The change in quantity divided by the change in price.
  - (c) The change in  $P \times Q$  due to a one unit change in output.
  - (d) Price, but only if the firm is a price searcher.
4. Suppose that a sole proprietorship is earning total revenues of ₹ 1,00,000 and is incurring explicit costs of ₹ 75,000. If the owner could work for another company for ₹ 30,000 a year, we would conclude that :
  - (a) The firm is incurring an economic loss.
  - (b) Implicit costs are ₹ 25,000.
  - (c) The total economic costs are ₹ 1,00,000.
  - (d) The individual is earning an economic profit of ₹ 25,000.
5. Which of the following statements is false?
  - (a) Economic costs include the opportunity costs of the resources owned by the firm.
  - (b) Accounting costs include only explicit costs.
  - (c) Economic profit will always be less than accounting profit if resources owned and used by the firm have any opportunity costs.
  - (d) Accounting profit is equal to total revenue less implicit costs.
6. It is assumed in economic theory that
  - (a) decision making within the firm is usually undertaken by managers, but never by the owners.
  - (b) the ultimate goal of the firm is to maximise profits, regardless of firm size or type of business organisation.
  - (c) as the firm's size increases, so do its goals.
  - (d) the basic decision making unit of any firm is its owners.
7. Average revenue curve is also known as:
  - (a) Profit Curve
  - (b) Demand Curve
  - (c) Average Cost Curve
  - (d) Indifference Curve
8. A firm encounters its "shutdown point" when:
  - (a) average total cost equals price at the profit-maximising level of output.



- (b) average variable cost equals price at the profit-maximising level of output.
- (c) average fixed cost equals price at the profit-maximising level of output.
- (d) marginal cost equals price at the profit-maximising level of output.
9. 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 shutdown in order to minimise 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.
10. When price is less than average variable cost at the profit-maximising level of output, a firm should:
- (a) produce where marginal revenue equals marginal cost if it is operating in the short run.
- (b) produce where marginal revenue equals marginal cost if it is operating in the long run.
- (c) shutdown, since it will lose nothing in that case.
- (d) shutdown, since it cannot even cover its variable costs if it stays in business.
11. When \_\_\_\_\_, we know that the firms are earning just normal profits.
- (a)  $AC = AR$
- (b)  $MC = MR$
- (c)  $MC = AC$
- (d)  $AR = MR$
12. Total revenue =
- (a) price  $\times$  quantity
- (b) price  $\times$  income
- (c) income  $\times$  quantity
- (d) none of the above
13. Average revenue is the revenue earned
- (a) per unit of input
- (b) per unit of output
- (c) different units of input
- (d) different units of output
14. AR can be symbolically written as:
- (a)  $MR / Q$
- (b) Price  $\times$  quantity
- (c)  $TR / Q$
- (d) none of the above
15. AR is also known as:
- (a) price
- (b) income
- (c) revenue
- (d) none of the above
16. Marginal revenue can be defined as the change in total revenue resulting from the:
- (a) purchase of an additional unit of a commodity
- (b) sales of an additional unit of a commodity
- (c) sale of subsequent units of a product
- (d) none of the above
17. When  $e > 1$  then MR is
- (a) zero
- (b) negative
- (c) positive
- (d) one
18. When  $e = 1$  then MR is
- (a) positive
- (b) zero
- (c) one
- (d) negative
19. When  $e < 1$  then MR is
- (a) negative
- (b) zero
- (c) positive
- (d) one

20. If the average cost is higher than the average revenue then the firm incurs \_\_\_\_\_
- Normal profit
  - Abnormal profit
  - Loss
  - No profit, no loss
21. Assume that when Price is ₹10, the quantity demanded is 5 units and when Price is ₹12 the quantity demanded is 4 units. Based on this information, what is the Marginal Revenue resulting from increase in output from 4 units to 5 units.
- ₹5
  - ₹4
  - ₹2
  - ₹3
22. Average revenue is equal to.
- The change in P & Q due to a one unit change in output.
  - Nothing but price of one unit of output.
  - The change in quantity divided by change in price.
  - Graphically it denotes the firm's supply curve.
23. Conditions for equilibrium of a firm are:
- MR = MC
  - MC should cut MR from below.
  - MR = AR and MC should cut MR from below.
  - MR = MC and MC should have a positive slope
24. If a seller realizes ₹ 10,000 after selling 100 units and ₹ 14,000 after selling 120 units. What is the marginal revenue here?
- ₹ 4000
  - ₹ 450
  - ₹ 200
  - ₹ 100

### Answers to ICAI Question Bank

Q1	Q2	Q3	Q4	Q5	Q6	Q7	Q8	Q9	Q10
(c)	(c)	(c)	(a)	(d)	(b)	(b)	(b)	(d)	(d)
Q11	Q12	Q13	Q14	Q15	Q16	Q17	Q18	Q19	Q20
(a)	(a)	(b)	(c)	(a)	(a)	(b)	(c)	(a)	(c)
Q21	Q22	Q23	Q24	Q25	Q26	Q27	Q28	Q29	Q30
(c)	(b)	(d)	(c)						

### Type 2:- Question Bank from ICAI Past Year Papers and MTP

- Q1) Which of the following is true, when the firm is at equilibrium ? **(June 2019)**
- MC < MR
  - MC Curve cuts the MR curve from below
  - Both a & b
  - None of the above
- Q2) According to behavioral Principles. **(June 2019)**
- A firm should not produce at all its total variable costs are not met.

(b) A firm will be making maximum profits by expanding output to the level where marginal revenue is equal to marginal cost.

(c) Both (a) and (b)

(d) None of these

**Q3)** Which of the following is correct?

**(MTP Oct 2018)**

(a) Firms that earn accounting profits are economically profitable.

(b) Opportunity cost plus accounting cost equals economic cost.

(c) When a firm's demand curve slopes down marginal revenue will rise as output rises.

(d) Firms increase profits by selling more output than their rivals

**Q4)** Which is the other name that is given to the demand curve?

**(Nov 2018)**

(a) Profit curve

(b) Average Revenue curve

(c) Average Cost Curve

(d) Indifference curve

**Q5)** Which of the following condition is for profit maximization?

**(Nov 2018)**

(a)  $MC < MR$

(b)  $MC = MR$

(c)  $MC > MR$

(d) None of these

**Q6)** Given the relation  $MR = p \left( \frac{e-1}{e} \right)$  if the demand for a product is unitary elastic then \_\_\_\_

**(June 2019)**

(a)  $MR = 0$

(b)  $MR > 0$

(c)  $MR < 0$

(d) None of the above

**Q7)** Assume that when price is Rs. 40, the quantity demanded is 15 units and when price is Rs. 38, the quantity demanded is 16 units. Based on this information, what is the marginal revenue resulting from a increase in output from 15 units to 16 units. (Use Arc method for price elasticity)

**(Nov 2019, MTP May 2020)**

(a) ₹ 6

(b) ₹ 32

(c) ₹ 24

(d) ₹ 08

**Q8)** If a seller obtains Rs. 6,000 after selling 50 units and Rs. 6,204 after selling 53 units, then marginal revenue will be

**(Dec 2020)**

(a) Rs. 204

(b) 68

(c) 120

(d) 118

**Q9)** 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

**(Dec 2020)**

(a) Rs. 6

(b) Rs. 4

(c) Rs. 5

(d) Rs. 8

**Q10)** 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

**(Dec 2020)**

(a) 6,000

(b) 6,050

(c) 50

(d) 100

**Q11)** In above question, When ABC Ltd. Sells 130 units then total revenue will be **(Dec 2020)**

(a) 18,550

(b) 12,050

(c) 6,000

(d) 6,500

**Q12)** Answer the following

Units	0	1	2	3	4	5	6
TR	100	180	250	310	360	400	430

Find the marginal revenue at 5th unit is

**(Dec 2020)**

(a) 60

(b) 55

(c) 45

(d) 40

Use table to answer question 13-16 Mohan sweets is a small restaurant and a price taker. The table below provides the data of Mohan's Sandwich output and costs in Rupees

Quantity	TC	TFC	TVC	AVC	AC	MC
0	100					
10	210					
20	300					
30	400					
40	540					
50	790					
60	1060					

**Q13)** If Sandwiches are being sold for Rs. 14 each, what is Mohan's profit maximizing level of output? **(MTP Mar 2019)**

(a) 10 Sandwiches

(b) 40 Sandwiches

(c) 50 Sandwiches

(d) 60 Sandwiches

**Q14)** What is the total variable cost when 60 sandwich are produced? **(MTP Mar 2019)**

(a) Rs. 690

(b) Rs. 960

(c) Rs. 110

(d) Rs. 440

**Q15)** What is the average fixed cost when 20 sandwiches are produced? **(MTP Mar 2019)**

(a) Rs. 5

(b) Rs. 3.33

(c) Rs. 10

(d) Rs. 2.5

**Q16)** Between 10 to 20 sandwiches, what is the marginal cost per sandwich? **(MTP Mar 2019)**

(a) Rs. 11

(b) Rs. 13

(c) Rs. 14

(d) Rs. 9

**Q17)** At shut down point: **(MTP Mar 2019)**

(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

**Q18)** The shape of TR curve of the monopolist is : **(MTP March 2021)**

(a) u shaped

(b) inverted u shaped

(c) downward sloping

(d) none of these

**Q19)** When the output increases from 20 to 30 units and TR increases from Rs 400 to Rs 500 then MR is **(MTP March 2021)**

- (a) 20
- (b) 10
- (c) 15
- (d) none of these

**Q20)** If total revenue of a firm increases by Rs 65025 due to an increase in sale of good X from 60 units to 75 units, then marginal revenue will be – **(MTP Oct 2019)**

- (a) 3000
- (b) 4335
- (c) 4000
- (d) 3335

**Q21)** Marginal revenue will be negative if elasticity of demand is \_\_\_\_\_. **(MTP Oct 2018)**

- (a) Less than one

(b) More than one.

(c) Equal to one

(d) Equal to zero

**Q22)** 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 shutdown in order to minimise 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

### Answers to ICAI Past Year Papers and MTP Questions

(Q1)	(Q2)	(Q3)	(Q4)	(Q5)	(Q6)	(Q7)	(Q8)	(Q9)	(Q10)
B	C	B	B	B	A	D	B	B	C
(Q11)	(Q12)	(Q13)	(Q14)	(Q15)	(Q16)	(Q17)	(Q18)	(Q19)	(Q20)
D	D	B	B	A	D	D	B	B	B
(Q21)	(Q22)	(Q23)	(Q24)	(Q25)	(Q26)	(Q27)	(Q28)	(Q29)	(Q30)
A	D								



## CHAPTER – 4.3 PRICE-OUTPUT DETERMINATION UNDER DIFFERENT MARKET FORMS

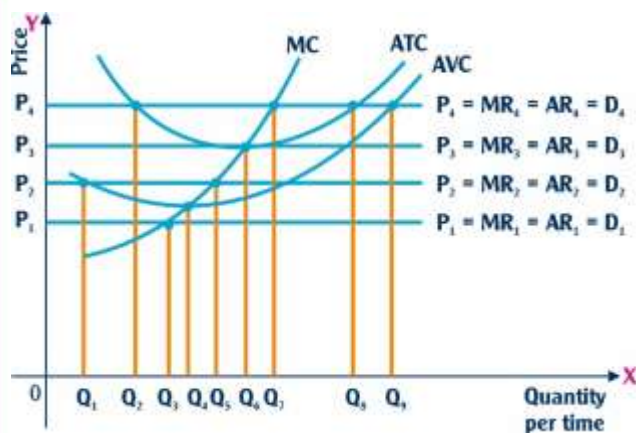
### Type 1:- Question Bank from ICAI Study Material

1. Suppose a firm is producing a level of output such that  $MR > MC$ , what should be firm do to maximize its profits?
  - (a) The firm should do nothing.
  - (b) The firm should hire less labour.
  - (c) The firm should increase price.
  - (d) The firm should increase output.
2. Which of the following is not an essential condition of pure competition?
  - (a) Large number of buyers and sellers
  - (b) Homogeneous product
  - (c) Freedom of entry
  - (d) Absence of transport cost
3. What is the shape of the demand curve faced by a firm under perfect competition?
  - (a) Horizontal
  - (b) Vertical
  - (c) Positively sloped
  - (d) Negatively sloped
4. Which is the first order condition for the profit of a firm to be maximum?
  - (a)  $AC = MR$
  - (b)  $MC = MR$
  - (c)  $MR = AR$
  - (d)  $AC = AR$
5. Which of the following is not a characteristic of a "price-taker"?
  - (a)  $TR = P \times Q$
  - (b)  $AR = \text{Price}$
  - (c) Negatively – sloped demand curve
  - (d) Marginal Revenue = Price
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.
7. Which of the following is not a characteristic of a perfectly competitive market?
  - (a) Large number of firms in the industry.
  - (b) Outputs of the firms are perfect substitutes for one another.
  - (c) Firms face downward-sloping demand curves.
  - (d) Resources are very mobile.
8. Which of the following is not a characteristic of monopolistic competition?
  - (a) Ease of entry into the industry.
  - (b) Product differentiation.
  - (c) A relatively large number of sellers.
  - (d) A homogeneous product.
9. Monopoly may arise in a product market because
  - a) A significantly important resource for the production of the commodity is owned by a single firm.
  - b) The government has given the firm patent right to produce the commodity.
  - c) The costs of production and economies of scale makes production by a single producer more efficient.
  - d) All the above.
10. 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?

- (a) The individual firm must have fewer than 10 employees.
  - (b) The individual firm faces a downward-sloping demand curve.
  - (c) The individual firm has assets of less than ₹ 20 lakhs.
  - (d) The individual firm is unable to affect market price through its output decisions.
11. For a price-taking firm :
    - (a) marginal revenue is less than price.
    - (b) marginal revenue is equal to price.
    - (c) marginal revenue is greater than price.
    - (d) the relationship between marginal revenue and price is indeterminate.
  12. Monopolistic competition differs from perfect competition primarily because
    - (a) in monopolistic competition, firms can differentiate their products.
    - (b) in perfect competition, firms can differentiate their products.
    - (c) in monopolistic competition, entry into the industry is blocked.
    - (d) in monopolistic competition, there are relatively few barriers to entry.
  13. The long-run equilibrium outcomes in monopolistic competition and perfect competition are similar, because in both market structures
    - (a) the efficient output level will be produced in the long run.
    - (b) firms will be producing at minimum average cost.
    - (c) firms will only earn a normal profit.
    - (d) firms realise all economies of scale.
  14. 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.
  15. Suppose that the demand curve for the XYZ Co. slopes downward and to the right. We can conclude that
    - (a) the firm operates in a perfectly competitive market.
    - (b) the firm can sell all that it wants to at the established market price.
    - (c) the XYZ Co. is not a price-taker in the market because it must lower price to sell additional units of output.
    - (d) the XYZ Co. will not be able to maximise profits because price and revenue are subject to change.
  16. 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.
  17. Under perfect competition, in the long run, there will be no \_\_\_\_\_.
    - (a) normal profits
    - (b) supernormal profits.
    - (c) production
    - (d) costs.
  18. When \_\_\_\_\_, we know that the firms 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)  $AR = MR$
  19. When \_\_\_\_\_, there will be allocative efficiency meaning thereby that the cost of the

last unit is exactly equal to the price consumers are willing to pay for it and so that the right goods are being sold to the right people at the right price.

- (a)  $MC = MR$
  - (b)  $MC = AC$
  - (c)  $MC = AR$
  - (d)  $AR = MR$
20. Agricultural goods markets depict characteristics close to
- (a) perfect competition.
  - (b) oligopoly.
  - (c) monopoly.
  - (d) monopolistic competition.
21. Which of the following is not a characteristic of a competitive market?
- (a) There are many buyers and sellers in the market.
  - (b) The goods offered for sales are largely the same.
  - (c) Firms generate small but positive supernormal profits in the long run.
  - (d) Firms can freely enter or exit the market.
22. Which of the following markets would most closely satisfy the requirements for a perfectly competitive market?
- (a) Electricity
  - (b) Cable television
  - (c) Cola
  - (d) Milk
23. Which of the following statements is accurate regarding a perfectly competitive firm?
- (a) Demand curve is downward sloping
  - (b) The demand curve always lies above the marginal revenue curve
  - (c) Average revenue need not be equal to price
  - (d) Price is given and is determined by the equilibrium in the entire market
24. A market structure in which many firms sell products that are similar but not identical is known as
- (a) monopolistic competition
  - (b) monopoly
  - (c) perfect competition
  - (d) oligopoly
25. In the long-run equilibrium of a competitive market, firms operate at
- (a) the intersection of the marginal cost and marginal revenue
  - (b) their efficient scale
  - (c) zero economic profit
  - (d) all of these answers are correct
26. Which of the following is not a characteristic of a monopolistically competitive market?
- (a) Free entry and exit
  - (b) Abnormal profits in the long run
  - (c) Many sellers
  - (d) Differentiated products
27. Under perfect competition a firm is the \_\_\_\_\_
- (a) price-maker and not price-taker
  - (b) price-taker and not price-maker
  - (c) neither price-maker nor price-taker
  - (d) none of the above
28. A Monopolist is a
- (a) price-maker
  - (b) price-taker
  - (c) price-adjuster
  - (d) none of the above
29. Under monopoly, the degree of control over price is:
- (a) none
  - (b) some
  - (c) very considerable
  - (d) none of the above
30. At price  $P_1$ , the firm in the figure would produce



- (a) Zero output  
(b) Q<sub>3</sub>.  
(c) Q<sub>5</sub>.  
(d) Q<sub>6</sub>.
31. 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
32. The firm and the industry are one and the same in \_\_\_\_\_  
(a) Perfect competition  
(b) Monopolistic competition  
(c) Duopoly  
(d) Monopoly
33. The demand curve of a monopoly firm will be \_\_\_\_\_  
(a) Upward sloping  
(b) Downward sloping  
(c) Horizontal  
(d) Vertical
34. Which of the following statements is correct?  
(a) Price rigidity is an important feature of monopoly.  
(b) Selling costs are possible under perfect competition.  
(c) Under perfect competition factors of production do not move freely as there are legal restrictions.  
(d) An industry consists of many firms.
35. Which of the following statements is incorrect?  
(a) Under monopoly there is no difference between a firm and an industry.  
(b) A monopolist may restrict the output and raise the price.  
(c) Commodities offered for sale under a perfect competition will be heterogeneous.  
(d) Product differentiation is peculiar to monopolistic competition..
36. 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
37. Under \_\_\_\_\_ market condition, firms make normal profits in the long run.  
(a) Perfect Competition  
(b) Monopoly  
(c) Oligopoly  
(d) None of the above
38. Which of the following is not a characteristic of a "price-taker"?  
(a)  $TR = P \times Q$   
(b)  $AR = \text{Price}$   
(c) Negatively - sloped demand  
(d)  $\text{Marginal Revenue} = \text{Price}$
39. When the perfectly competitive firm and industry are in long run equilibrium then:  
(a)  $P = MR = SAC = LAC$   
(b)  $D = MR = SMC = LMC$   
(c)  $P = MR = \text{Lowest point on the LAC curve}$   
(d) All of the above
40. 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
41. 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
42. Which of the following statements about price and marginal cost in competitive and monopolized markets is true?  
(a) In competitive markets, price equals marginal cost; in monopolized markets, price equals marginal cost.  
(b) In competitive markets, price exceeds marginal cost; in monopolized markets, price exceeds marginal cost.  
(c) In competitive markets, price equals marginal cost; in monopolized markets, price exceeds marginal cost.  
(d) In competitive markets, price exceeds marginal cost; in monopolized markets, price equals marginal cost.
43. Which of the following statements is correct?  
(a) In a perfectly competitive market, firms are price takers.  
(b) Microeconomics is the study of the behaviour of the economy as a whole.  
(c) Positive economics focuses on welfare of the people of a society  
(d) None of the above
44. A rational person does not act unless \_\_\_\_\_.  
(a) the action is ethical.  
(b) the action produces marginal costs that exceed marginal benefits.  
(c) the action produces marginal benefits that exceed marginal costs.  
(d) the action makes money for the person
45. What is the shape of the demand curve faced by a firm under perfect competition?  
(a) Horizontal  
(b) Vertical  
(c) Positively sloped  
(d) Negatively sloped
46. Oligopolistic industries are characterized by :  
(a) a few dominant firms and substantial barriers to entry.  
(b) a few large firms and no entry barriers.  
(c) a large number of small firms and no entry barriers.  
(d) one dominant firm and low entry barriers.
47. 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
48. In which form of the market structure is the degree of control over the price of its product by a firm very large?  
(a) Monopoly  
(b) Imperfect Competition  
(c) Oligopoly  
(d) Perfect competition
49. Under which of the following forms of market structure does a firm have no control over the price of its product?  
(a) Monopoly  
(b) Monopolistic competition  
(c) Oligopoly  
(d) Perfect competition
50. 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.



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

(a) uniform  
(b) different  
(c) less  
(d) zero

52. 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.

53. 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.

54. 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.

55. One characteristic not typical of oligopolistic industry is

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

56. The structure of the toothpaste industry in India is best described as

(a) perfectly competitive.  
(b) monopolistic.  
(c) monopolistically competitive.  
(d) oligopolistic.

57. The structure of the cold drink industry in India is best described as

(a) perfectly competitive.  
(b) monopolistic.  
(c) monopolistically competitive.  
(d) oligopolistic.

58. 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.  
(d) Kinked demand curve is related to an oligopolistic market.

59. 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

60. When an oligopolist individually chooses its level of production to maximize its profits, it charges a price that is
- more than the price charged by either monopoly or a competitive market
  - less than the price charged by either monopoly or a competitive market
  - more than the price charged by a monopoly and less than the price charged by a competitive market
  - less than the price charged by a monopoly and more than the price charged by a competitive market
61. Price discrimination is one of the features of \_\_\_\_\_
- monopolistic competition
  - monopoly
  - perfect competition
  - oligopoly
62. Pure oligopoly is based on the \_\_\_\_\_ products
- differentiated
  - homogeneous
  - unrelated
  - none of the above
63. In oligopoly, when the industry is dominated by one large firm which is considered as leader of the group, Then it is called:
- full oligopoly
  - collusive oligopoly
  - partial oligopoly
  - syndicated oligopoly
64. When the products are sold through a centralized body, oligopoly is known as
- organized oligopoly
  - partial oligopoly
  - competitive oligopoly
  - syndicated oligopoly
65. When the monopolist divides the consumers into separate sub markets and charges different prices in different sub-markets it is known as
- first degree of price discrimination
  - second degree of price discrimination
  - third degree of price discrimination
  - none of the above.
66. Under \_\_\_\_\_ the monopolist will fix a price which will take away the entire consumers' surplus.
- second degree of price discrimination
  - first degree of price discrimination
  - third degree of price discrimination
  - none of the above.
67. Price discrimination is related to
- time
  - size of the purchase
  - income
  - any of the above
68. Price Discrimination cannot persist under the following market form:
- Perfect Competition
  - Monopoly
  - Monopolistic
  - Oligopoly
69. Sweezy's Model explains the concept of price rigidity relating to following market form:
- Oligopoly Market
  - Perfect Competition Market
  - Monopoly Market
  - Monopolistic Market
70. Combination of Monopoly Market and Monopsony Market is called as:
- Duopoly Market
  - Oligopoly Market
  - Bilateral Monopoly Market
  - Monopolistic Market
71. Price varies by attributes such as location or by Customer Segment is \_\_\_\_\_ degree of Price Discrimination.
- First
  - Second
  - Third

- (d) Fourth
72. Price discrimination is a situation when a producer
- Charges different prices in different markets
  - Charges same price
  - Charges many prices
  - All of the above.
73. New firms are barred from entering the market in
- Perfect competition
  - Oligopoly
  - Monopolistic competition
  - Monopoly
74. If oligopolists engage in collusion and successfully form a cartel, the market outcome is
- The same as if it were served by a monopoly
  - The same as if it were served by competitive firms
  - Efficient because cooperation improves efficiency
  - Known as Nash equilibrium

## Answers to ICAI Question Bank

Q1	Q2	Q3	Q4	Q5	Q6	Q7	Q8	Q9	Q10
(d)	(d)	(a)	(b)	(c)	(c)	(c)	(d)	(d)	(d)
Q11	Q12	Q13	Q14	Q15	Q16	Q17	Q18	Q19	Q20
(b)	(a)	(c)	(b)	(c)	(d)	(b)	(b)	(c)	(a)
Q21	Q22	Q23	Q24	Q25	Q26	Q27	Q28	Q29	Q30
(c)	(d)	(d)	(a)	(d)	(b)	(b)	(a)	(c)	(a)
Q31	Q32	Q33	Q34	Q35	Q36	Q37	Q38	Q39	Q40
(c)	(d)	(b)	(d)	(c)	(c)	(a)	(c)	(d)	(a)
Q41	Q42	Q43	Q44	Q45	Q46	Q47	Q48	Q49	Q50
(b)	(c)	(a)	(c)	(a)	(a)	(c)	(a)	(d)	(d)
Q51	Q52	Q53	Q54	Q55	Q56	Q57	Q58	Q59	Q60
(b)	(b)	(c)	(b)	(a)	(c)	(d)	(c)	(c)	(d)
Q61	Q62	Q63	Q64	Q65	Q66	Q67	Q68	Q69	Q70
(b)	(b)	(c)	(d)	(c)	(b)	(d)	(a)	(a)	(c)
Q71	Q72	Q73	Q74	Q75	Q76	Q77	Q78	Q79	Q80
(c)	(a)	(d)	(a)						

## Type 2:- Question Bank from ICAI Past Year Papers and MTP

**Q1)** Which is the characteristic feature of monopoly? **(June 2019)**

- (a) Homogeneous goods
- (b) Strong barriers to entry
- (c) Perfect Competition
- (d) Perfectly elastic demand curve

**Q2)** Price discrimination is possible only in \_\_\_\_\_. **(June 2019)**

- (a) Monopoly
- (b) Perfect competition
- (c) Oligopoly
- (d) Monopolistic competition

**Q3)** What is the characteristic of monopolistic competition? **(June 2019)**

- (a) Price elasticity is low for the product concerned
- (b) Large number of sellers
- (c) No degree of control over price
- (d) One buyer

**Q4)** When average cost is equal to average revenue of a firm, it gets \_\_\_\_\_. **(MTP March 2021)**

- (a) sub normal profit
- (b) normal profit
- (c) abnormal profit
- (d) super profit

**Q5)** Demand curve of a firm is horizontal in the case of \_\_\_\_\_. **(June 2019)**

- (a) Monopoly
- (b) Perfect competition

(c) Imperfect competition

(d) Monopolistic Competition

**Q6)** Product differentiation is an important feature of : **(Nov 2018)**

- (a) Monopoly
- (b) Imperfect competition
- (c) Perfect competition
- (d) Discriminating monopoly

**Q7)** In a monopoly market which of the following is not found? **(Nov 2018)**

- (a) Single seller
- (b) barriers to entry
- (c) Close substitutes
- (d) All of the above

**Q8)** A monopolist average revenue curve: **(Nov 2018)**

- (a) Falls from left to right
- (b) Is parallel to x-axis
- (c) Is parallel to y-axis
- (d) Rise from left to right

**Q9)** In long run a perfectly competitive firm earns **(Nov 2018)**

- (a) Normal profits
- (b) super normal profits
- (c) Losses
- (d) Neither profits nor losses

**Q10)** Which of the following is not a feature of perfect competition? **(Nov 2018)**

- (a) Homogenous

- (b) Large number of buyers & sellers
- (c) Free entry & exit
- (d) Selling cost

**Q11)** What is true about the perfect competition market **(Nov 2019)**

- (a)  $AR = MR = PRICE$
- (b)  $AR = AC = P$
- (c)  $AR > AC$
- (d) None

**Q12)** If a perfect competition firm is making losses then which condition is suitable to carry on business as long as it covering variable cost. **(Nov 2019)**

- (a) Shutdown
- (b) Expand its plant & machinery
- (c) Do nothing
- (d) Reduce productions

**Q13)** If in a short run perfect competition earn super normal profit then which condition satisfy. **(Nov 2019)**

- (a)  $ATC > MC$
- (b)  $ATC < MC$
- (c)  $MR < AR$
- (d)  $MR > A$

**Q14)** In the long run Monopolistic compition and perfect compition are same because of **(Nov 2019)**

- (a) Normal Profit
- (b) Abnormal Production
- (c) Losses
- (d) None

**Q15)** Suppose that the demand curve for the XYZ Co. slopes downward and to the right. We can conclude **(Nov 2019)**

- (a) The firm operates in perfectly competitive market
- (b) The firm can sell all that it wants to at the established market price.
- (c) The XYZ Co. is not a price taker in the market because it must lower price to sell additional units of output
- (d) The XYZ Co. will not be able to maximize profits because price and revenue are subject to change

**Q16)** Extreme Product differentiation is found in which market? **(Nov 2019)**

- (a) Monopolistic Competition
- (b) Monopoly
- (c) Perfect Competition
- (d) Oligopoly

**Q17)** Nuclear Power represents which type of market structure : **(MTP Oct 21)**

- (a) Government Monopoly
- (b) Perfect Competition
- (c) Monopolistic Competition
- (d) Oligopoly

**Q18)** Long Run Period normal price for a competitive firm will be : **(MTP Oct 21)**

- (a) Equal MC of Production only
- (b) Equal TC of Production only
- (c) Equal AC and MC of Production
- (d) None of these

**Q19)** Monopolistic Competition has features of **(MTP Oct 21)**

- (a) Monopoly and competition with features of monopoly predominating





(b) Monopoly and competition with feature of Competition predominating

(c) Monopoly but not competition

(d) None of these

**Q20)** In case of Perfect Competition how much selling cost are incurred: **(MTP Oct 21)**

(a) Negligible

(b) Zero

(c) Very high

(d) Very less

**Q21)** Marginal revenue is equal to price in which form of market: **(MTP Oct 21)**

(a) Perfect competition

(b) Monopoly

(c) Oligopoly

(d) Monopolistic Competition

**Q22)** Price elasticity of demand under monopoly is \_\_\_\_\_ **(MTP Oct 21)**

(a) Infinity

(b) Equal to one

(c) Less than one

(d) None of these

**Q23)** There is an inverse relation between price and demand for the products of a firm under:

**(MTP Oct 21)**

(a) Monopoly only

(b) Monopolistic Competition only

(c) Both Monopoly and Monopolistic Competition

(d) Perfect competition

**Q24)** The market price cannot be influenced by a seller under : **(MTP Oct 21)**

(a) Monopolistic Competition

(b) Monopoly

(c) Perfect Competition

(d) All the above

**Q25)** Entry of new firm in monopoly is : **(MTP Oct 21)**

(a) Possible only in the long run

(b) Possible only in the Short run

(c) Restricted at all times

(d) Both (a) and (b)

**Q26)** A firm maximizes profit in the short run in Perfect Competition by deciding : **(MTP Oct 21)**

(a) What Price to charge

(b) How much output to produce

(c) To enter a market or not

(d) None of these

**Q27)** The Pure monopolist in the long run can make pure profit due to : **(MTP Oct 21)**

(a) High Selling Price

(b) Advertising

(c) Low LAC Cost

(d) Blocked entry

**Q28)** For a Price taking firm: **(MTP Nov 21, MTP March 2022)**

(a) Marginal revenue is less than Price

(b) Marginal revenue is equal to Price

(c) The relationship between behavior marginal revenue and Price is indeterminate

(d) Marginal revenue is greater than price

**Q29)** Full capacity is utilized only when there is: **(MTP Nov 21)**

- (a) Perfect Competition
- (b) Monopoly
- (c) Monopolistic Competition
- (d) Price discrimination

**Q30)** In monopoly and monopolistic Competition:  
(MTP Nov 21)

- (a) Average Revenue > Marginal Revenue
- (b) Average Revenue < Marginal Revenue
- (c) Average Revenue = Marginal Revenue
- (d) None of these

**Q31)** A Monopolistic Competitive firm advertises:  
(MTP Oct 2020)

- (a) Because it has no control over price of its product.
- (b) To lower its cost of production
- (c) To increase its sales and profits
- (d) Because it cannot raise price of its product.

**Q32)** New firms are barred from entering the market in  
(MTP Oct 2020)

- (a) Perfect competition
- (b) Oligopoly
- (c) Monopolistic competition
- (d) Monopoly

**Q33)** Price taker firms:  
(MTP Oct 2020, MTP Oct 2018)

- (a) Advertise to increase the demand for their products.
- (b) Do not advertise because most advertising is harmful for the society.
- (c) Do not advertise because they can sell as much as they want at the current price.

(d) Who advertise will get more profits than those who do not.

**Q34)** In the long run any firm will eventually leave the industry if:

(MTP Oct 2020, MTP Aug 2018, MTP Mar 2018)

- (a) Price does not at least cover average total cost.
- (b) Price does not equal marginal cost.
- (c) Economies of scale are being reaped.
- (d) Price is greater than long run average cost

**Q35)** In Oligopoly the demand curve is :  
(MTP Oct 21)

- (a) Indeterminate
- (b) Highly Elastic
- (c) Less Elastic
- (d) Perfectly Elastic

**Q36)** In a perfectly competitive firm, MC curve above AVC is the \_\_\_\_ Curve of the firm

- (a) Average cost
- (b) Marginal revenue
- (c) Demand
- (d) Supply

**Q37)** The kinked demand curve of Oligopoly is useful in explaining  
(MTP Oct 21)

- (a) The process by which oligopolistic merge
- (b) How the collusion work
- (c) Price and output are sensitive to change in marginal cost.
- (d) Why oligopolistic price might charge only infrequently

**Q38)** Shares traded in the stock market depict characteristics close to \_\_\_\_\_.

**(MTP Mar 2018)**

- (a) Perfect competition
- (b) Oligopoly
- (c) Monopolistic Competition
- (d) Monopoly

**Q39)** A firm under perfect competition will be making minimum losses (in the short run) at a point where:

**(MTP Mar 2019)**

- (a)  $MC > MR$
- (b)  $MR > MC$
- (c)  $MC = MR$
- (d)  $AC = AR$

**Q40)** In perfect competition utilization of resources in the long run is

**(MTP Mar 2019)**

- (a) Partial
- (b) Moderate
- (c) Full
- (d) Over

**Q41)** Which of the following statements is correct?

**(MTP Mar 2019)**

- (a) Monopolist can earn only profits
- (b) Firms in a perfectly competitive market are price maker
- (c) Industry in a perfectly competitive market is a price taker
- (d) AR curve and demand curve are same

**Q42)** A condition needed for a perfectly competitive industry to exist is that:

**(MTP Mar 2019)**

- (a) Buyers are able to influence the price of the commodity

(b) Any units of commodity are considered by buyers to be different

(c) Buyer discriminates in their purchases based on non-price factors.

(d) There are no obstacles to the free mobility of resources

**Q43)** In the long run under which competition a firm may earn super normal profits?

**(MTP Apr 2019)**

- (a) Monopolistic competition
- (b) Perfect competition
- (c) Oligopoly
- (d) Monopoly

**Q44).** Who gave three degrees of price discrimination –

- (a) Marshall
- (b) Schum Peter
- (c) Adam Smith
- (d) Pigou

**Q45)** ..... is a situation in which a firm bases its market policy on part of the expected behaviour of a few close rivals–

- (a) Monopoly
- (b) Oligopoly
- (c) Perfect competition
- (d) Monopolist

**46)** Which is not the characteristics of monopolistic competition:

**(MTP March 2021)**

- (a) large number of sellers
- (b) homogeneous Product
- (c) freedom of entry and exit

(d) non price discrimination

**Q47)** Demand Curve in the monopolistic competition is – **(MTP March 2021)**

- (a) infinitely elastic
- (b) downward sloping and highly inelastic
- (c) downward sloping and more elastic demand curve.
- (d) none of these.

**Q48)** Foreign Exchange market is an example of – **(MTP March 2021)**

- (a) perfect competition
- (b) oligopoly
- (c) monopoly
- (d) monopolistic competition

**Q49)** The Price elasticity for Monopolistic Firm is : **(MTP March 2021)**

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

**Q50)** Average revenue curve is more elastic under monopolistic competition than monopoly due to

**(MTP March 2021)**

- (a) low degree of governmental control
- (b) lack of close substitute
- (c) availability of close substitute
- (d) none of these

**Q51)** The Shape of TC Curve of the monopolist is — **(MTP April 2021)**

- (a) U Shape
- (b) S Shape

(c) Inverse S Shape

(d) None of these

**Q52)** Unique supply curve in monopoly is not due to \_\_\_\_ **(MTP April 2021)**

- (a)  $P > MC$
- (b)  $P < MC$
- (c)  $P = MC$
- (d) None of these

**Q53)** Raw materials and other factors of production is not monopolised, and labour is not unionised in which form of market structure:

**(MTP April 2021)**

- (a) Monopoly
- (b) Perfect Competition
- (c) Monopolistic Competition
- (d) Oligopoly

**Q54)** AR is different from MR under:

**(MTP April 2021)**

- (a) Monopoly
- (b) Monopolistic competition
- (c) Perfect Competition
- (d) Both a and b

**Q55)** Cross elasticity of Product in Monopoly is:

**(MTP April 2021)**

- (a) Zero
- (b) High
- (c) Infinity
- (d) None of these

**Q56)** In the absence of competition the monopolist **(MTP April 2021)**



(a) The monopolist need not produce at the optimal level

(b) Produce at the optimal level

(c) Either a or b

(d) None of these

**Q57)** Reliance Jio can be described as part of which form to market structure: **(MTP April 2021)**

(a) Oligopoly

(b) Monopoly

(c) Duopoly

(d) Perfect Competition

**Q58)** In the Short run level of output the firm at the optimum will be: **(MTP March 2022)**

(a) Minimizing total losses

(b) Maximizing total profit

(c) Either maximizing total profit or minimizing total losses

(d) None of these

**Q59)** In a monopolistically competitive market: **(MTP March 2022)**

(a) Firm face a perfectly elastic demand for its product

(b) Does not face a perfectly elastic demand for its product

(c) Cannot be determined

(d) None of these

**Q60)** The Average revenue and price are always equal under- **(MTP Oct 2019)**

(a) Monopoly

(b) Monopolistic competition

(c) Perfect competition

(d) All market forms

**Q61)** Dynamic fare charged by Indian railways is an example of : **(MTP March 2021)**

(a) pure monopoly

(b) discriminating monopoly

(c) perfect competition

(d) none of these

**Q62)** Price discrimination is possible when **(MTP March 2021)**

(a) seller should have some control over the supply of the Product

(b) price elasticity of the product should be different in different submarket

(c) seller should be able to divide his market into two or more submarket

(d) all of these

**Q63)** Price discrimination occurs when: **(MTP Mar 2019)**

(a) Producer sells a specific commodity or service to different buyers for the same price

(b) Producer sells specific commodity or service to different buyers at two or more different prices due to difference in cost

(c) Producer sells a specific commodity or service to different buyers at two or more different prices for reasons not associate with difference in cost

(d) Producer under perfect competition sells different goods to consumers at different prices

**Q64)** Which of the following is not the characteristic of Oligopoly market:

**(MTP Nov 21)**

(a) Strategic Independence

(b) Importance of advertising and selling cost



(c) Group behaviour

(d) Regional Market

**Q65)** The AR curve and industry demand curve are same: **(MTP Oct 2018)**

(a) In the case of monopoly

(b) In the case of oligopoly

(c) In the case of perfect competition.

(d) None of the above

**Q66)** Electricity Companies sells electricity at a cheaper rate in rural areas than for industrial use due to : **(MTP Nov 21)**

(a) Price Discrimination

(b) Perfect Competition

(c) Monopolistic Competition

(d) None of these

**Q67)** Monopolies are allocatively inefficient because: **(MTP Oct 2018)**

(a) They restrict the output to keep the price higher than under perfect competition.

(b) They change a price higher than the marginal cost.

(c) Both (a) and (b) are correct.

(d) Both (a) and (b) are incorrect

**Q68)** Monopoly would usually generate \_\_\_\_ when compared to perfect competition market:

(a) Higher quantity at higher price

(b) Lower quantity at lower price

(c) Higher quantity at lower price

(d) Lower quantity at higher price

**Q69)** Under perfect competition, in the long run there will be no.....:

(a) Normal profit

(b) Loss

(c) Abnormal profit

(d) Loss and Abnormal Profit

**Q70)** Kinked demand curve is \_\_\_\_\_ **(June 2019)**

(a) Highly elastic at above the prevailing price

(b) Inelastic at below the prevailing price

(c) both a & b

(d) None of the above

**Q71)** Monopsony means **(June 2019)**

(a) Where there are large firms

(b) There is a single buyer

(c) Small number of large buyers

(d) Single seller and single buyer

**Q72)** A discriminating monopolist to reach equilibrium position, his decision on total output depends upon \_\_\_\_\_ **(June 2019)**

(a) How much total output should be produce

(b) How the total output should be distributed between the two sub-markets?

(c) Both a & b

(d) None of these

**Q73)** Price leadership is used to explain firm's behavior under: **Nov 2018)**

(a) Monopoly

(b) Oligopoly

(c) Perfect competition

(d) Discriminating monopoly



**Q74)** A market which has single buyer and single seller is called ..... . **(Nov 2018)**

- (a) Monopoly
- (b) Bilateral monopoly
- (c) Duopoly
- (d) Monopsony

**Q75)** Which one of the following is not a feature of oligopoly? **(Nov 2018)**

- (a) Inter dependence
- (b) Selling cost
- (c) Group behavior
- (d) Free entry

**Q76)** Under the first degree of price discrimination the monopolist charges different prices, **(Nov 2018)**

- (a) From different persons
- (b) For different quantity sold
- (c) At different markets
- (d) In all of the above situations

**Q77)** Kinked demand hypothesis is designed to explain the \_\_\_\_\_ under oligopolistic market

**Dec 2020, MTP Oct 2019)**

- (a) Collusion between firms
- (b) Price and output determination
- (c) Rigidity of price
- (d) Price leadership

**Q78)** \_\_\_\_\_ is the best example of oligopoly **(Dec 2020)**

- (a) SAARC
- (b) WTO
- (c) GATT

(d) OPEC

**Q79)** Aluminium industry is the example of which type of oligopoly **(Dec 2020)**

- (a) Open oligopoly
- (b) Full oligopoly
- (c) Pure oligopoly
- (d) Syndicated oligopoly

**Q80)** In which market prices are determined by the market forces of demand and supply? **(Dec 2020)**

- (a) Pure Competition
- (b) Perfect Competition
- (c) Monopolistic Competition
- (d) Oligopoly

**Q81)** In kinked demand curve model the Oligopolist **(MTP Oct 21)**

- (a) Do not collude
- (b) Recognise their independence
- (c) Tend to keep price constant
- (d) All the above

**Q82)** Which of the following can be classified as Oligopoly Market : **(MTP Oct 21)**

- (a) Wheat Farming
- (b) Clothing Industry
- (c) Restaurant Industry
- (d) Telecom Service

**Q83)** Price discrimination is desirable as : **(MTP Oct 21)**

- (a) It promotes equity
- (b) It makes production feasible
- (c) Both (a) and (b)

(d) None of these

(b) Oligopoly

Q84) "Competition among few" is described in

(Dec 2020)

(c) Duopoly

(d) Monopsony

(a) Monopoly

## Answers to ICAI Past Year Papers and MTP Questions

(Q1)	(Q2)	(Q3)	(Q4)	(Q5)	(Q6)	(Q7)	(Q8)	(Q9)	(Q10)
B	A	B	B	B	B	C	A	A	D
(Q11)	(Q12)	(Q13)	(Q14)	(Q15)	(Q16)	(Q17)	(Q18)	(Q19)	(Q20)
A	B	B	A	C	B	A	C	B	B
(Q21)	(Q22)	(Q23)	(Q24)	(Q25)	(Q26)	(Q27)	(Q28)	(Q29)	(Q30)
A	C	C	C	C	B	D	B	A	A
(Q31)	(Q32)	(Q33)	(Q34)	(Q35)	(Q36)	(Q37)	(Q38)	(Q39)	(Q40)
C	D	C	A	A	D	D	A	C	C
(Q41)	(Q42)	(Q43)	(Q44)	(Q45)	(Q46)	(Q47)	(Q48)	(Q49)	(Q50)
D	D	D	D	B	B	C	C	A	C
(Q51)	(Q52)	(Q53)	(Q54)	(Q55)	(Q56)	(Q57)	(Q58)	(Q59)	(Q60)
C	A	B	D	A	A	A	C	B	D
(Q61)	(Q62)	(Q63)	(Q64)	(Q65)	(Q66)	(Q67)	(Q68)	(Q69)	(Q70)
B	D	C	D	A	A	C	D	D	C
(Q71)	(Q72)	(Q73)	(Q74)	(Q75)	(Q76)	(Q77)	(Q78)	(Q79)	(Q80)
B	C	B	B	D	A	C	D	C	B
(Q81)	(Q82)	(Q83)	(Q84)	(Q85)	(Q86)	(Q87)	(Q88)	(Q89)	(Q90)
D	D	C	B						

## CHAPTER – 5 BUSINESS CYCLES

### Type 1:- Question Bank from ICAI Study Material

1. The term business cycle refers to
  - (a) the ups and downs in production of commodities
  - (b) the fluctuating levels of economic activity over a period of time
  - (c) decline in economic activities over prolonged period of time
  - (d) increasing unemployment rate and diminishing rate of savings
2. A significant decline in general economic activity extending over a period of time is
  - (a) business cycle
  - (b) contraction phase
  - (c) recession
  - (d) recovery
3. The trough of a business cycle occurs when \_\_\_\_\_ hits its lowest point.
  - (a) inflation in the economy
  - (b) the money supply
  - (c) aggregate economic activity
  - (d) the unemployment rate
4. The lowest point in the business cycle is referred to as the
  - (a) Expansion.
  - (b) Boom.
  - (c) Peak.
  - (d) Trough.
5. A leading indicator is
  - (a) a variable that tends to move along with the level of economic activity
  - (b) a variable that tends to move in advance of aggregate economic activity
  - (c) a variable that tends to move consequent on the level of aggregate economic activity
  - (d) None of the above
6. A variable that tends to move later than aggregate economic activity is called
  - (a) a leading variable.
  - (b) a coincident variable.
  - (c) a lagging variable.
  - (d) a cyclical variable.
7. Industries that are extremely sensitive to the business cycle are the
  - (a) Durable goods and service sectors.
  - (b) Non-durable goods and service sectors.
  - (c) Capital goods and non-durable goods sectors.
  - (d) Capital goods and durable goods sectors.
8. A decrease in government spending would cause
  - (a) the aggregate demand curve to shift to the right.
  - (b) the aggregate demand curve to shift to the left
  - (c) a movement down and to the right along the aggregate demand curve.
  - (d) a movement up and to the left along the aggregate demand curve.
9. Which of the following does not occur during an expansion?
  - (a) Consumer purchases of all types of goods tend to increase.
  - (b) Employment increases as demand for labour rises.
  - (c) Business profits and business confidence tend to increase
  - (d) None of the above.

10. Which of the following best describes a typical business cycle?
  - (a) Economic expansions are followed by economic contractions.
  - (b) Inflation is followed by rising income and unemployment
  - (c) Economic expansions are followed by economic growth and development.
  - (d) Stagflation is followed by inflationary economic growth.
11. During recession, the unemployment rate \_\_\_\_\_ and output \_\_\_\_\_.
  - (a) Rises; falls
  - (b) Rises; rises
  - (c) Falls; rises
  - (d) Falls; falls
12. 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
13. 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
14. When aggregate economic activity is declining, the economy is said to be in
  - (a) Contraction.
  - (b) an expansion.
  - (c) a trough.
  - (d) a turning point.
15. Peaks and troughs of the business cycle are known collectively as
  - (a) Volatility.
  - (b) Turning points.
  - (c) Equilibrium points.
  - (d) Real business cycle events.
16. 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
17. 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.
18. Economic recession shares all of these characteristics except.
  - (a) Fall in the levels of investment, employment
  - (b) Incomes of wage and interest earners gradually decline resulting in decreased demand for goods and services
  - (c) Investor confidence is adversely affected and new investments may not be forthcoming
  - (d) Increase in the price of inputs due to increased demand for inputs
19. The different phases of a business cycle
  - (a) Do not have the same length and severity



- (b) expansion phase always last more than ten years
- (c) last many years and are difficult to get over in short periods
- (d) None of the above
20. 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
21. According to \_\_\_\_\_ trade cycles occur due to onset of innovations.
- (a) Hawtrey
- (b) ADAM Smith
- (c) J M Keynes
- (d) Schumpeter
22. Economic indicators are –
- (a) A one stroke solution to check the phase of economy
- (b) Indicators showing the movement of economy
- (c) Some activities which predict the direction of economy
- (d) Just an illusion
23. 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
24. 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
25. 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
26. 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
27. 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
28. Economists use changes in a variety of activities to measure the business cycle and to predict where the economy is headed towards which are called \_\_\_\_\_.
- (a) Signals
- (b) Indicators
- (c) Barometer
- (d) Clues
29. If the growth rate of population is higher than the rate of economic growth, there will be \_\_\_\_ in the economy.
- (a) more savings
- (b) no effect on savings
- (c) lesser savings
- (d) none of these

30. The cobweb theory was propounded by \_\_\_\_\_
- (a) Hawtrey (b) Adam Smith  
(c) J M Keynes (d) Nicholas Kaldor

## Answers to ICAI Question Bank

1	2	3	4	5	6	7	8	9	10	11	12
B	B	C	D	B	C	D	B	D	A	A	A
13	14	15	16	17	18	19	20	21	22	23	24
B	A	B	C	C	D	A	D	D	C	D	B
25	26	27	28	29	30						
C	A	D	B	C	D						

## Type 2:- Question Bank from ICAI Past Year Papers and MTP

**Q1)** Which is not the characteristic feature of expansion phase in business cycle? **(June 2019)**

- (a) Increase in national output  
(b) Unemployment  
(c) Rise in price and costs  
(d) Boost in business confidence

**Q2)** Even with lower rate of interest, demand for credit declines in –

- (a) Expansion Phase  
(b) Peak  
(c) Contraction  
(d) Depression

**Q3)** Which of the following is not an example of business cycle? **(MTP Oct 2018)**

- (a) During 1920s, UK saw rapid growth in gross domestic Product, production levels and living standards.

(b) Due to bursting of Information Technology bubble stock markets crashed and countries began feeling of down turn in their economies.

(c) The Sub-prime crisis led to chain effect and it had worldwide impact.

(d) The cycle business has seen a slowdown in growth over a period of time.

**Q4)** “Modern business activities are based on the anticipations of business community and are affected by waves of optimism or pessimism”, according to \_\_\_\_\_

**(June 2019, MTP April 2021, MTP March 2022)**

- (a) Pigou  
(b) Keynes  
(c) Hawtrey  
(d) Schumpeter

**Q5)** Economic activities will be declining in the phase of \_\_\_\_\_ **(June 2019)**

- (a) Expansion  
(b) Depression



(c) Contraction

(d) Peak

**Q6)** According to Schumpeter **(MTP Mar 2018)**

(a) Trade cycle is purely monetary phenomenon.

(b) Trade cycles occur as a result of innovations which take place in system.

(c) Trade cycles result due to faulty business decisions of USA.

(d) None of the above

**Q7)** The internal causes of business cycle is **(June 2019)**

(a) Fluctuation in effective demand

(b) Technology shocks

(c) Both a & b

(d) None

**Q8)** According to some economists, \_\_\_\_\_ are the prime causes of business cycles. **(June 2019)**

(a) Fluctuations in aggregate demand

(b) Fluctuations in investments

(c) Macroeconomic policies

(d) All of the above

**Q9)** During 1920s, UK saw rapid growth in GDP, production levels and living standards. The economic growth also caused an unprecedented rise in stock market values. This is an example of:

**(MTP Mar 2018)**

(a) Boom

(b) Recession

(c) Contraction

(d) Trough

**Q10)** Which is not related to great depression of 1930? **(June 2019)**

(a) It started in USA

(b) John Maynard Keynes regarded lower aggregate expenditure as the cause

(c) Excess Money supply

(d) Both a & b

**Q11)** Which of the following is true about leading indicators? **(June 2019)**

(a) Measurable economic factors

(b) Changes after real output

(c) Both (a) and (b)

(d) None

**Q12)** A typical business cycle has ..... distinctive phases. **(Nov 2018)**

(a) 2

(b) 4

(c) 5

(d) Many

**Q13)** Business cycles are contagious & ..... in nature **(Nov 2018)**

(a) Local

(b) Regional

(c) National

(d) International

**Q14)** Which of the following is not correctly matched? **(Nov 2018)**

(a) Keynes : Fluctuations in aggregate effective demand

(b) Hawtrey: Purely monetary phenomena

(c) Schumpeter: Innovations

(d) Pigou: Fluctuations in investment

**Q15)** The world economy suffered the longest, deepest and the most widespread depression of the 20th century during : **(Nov 2018)**

(a) 1930

(b) 1934

(c) 1996

(d) 1936

**Q15)** Which one of the following is an important character of business cycles according to Pigou?

**(Nov 2018)**

(a) Psychological factors

(b) Natural factors

(c) Demographic factors

(d) Monetary factors

**Q16)** Which of the following is the external cause of business cycles?

**(Nov 2018)**

(a) Population growth

(b) Variations in government spending

(c) Money supply

(d) Macroeconomic policies

**Q17)** Feature of business cycles are

**(Nov 2018)**

(a) Occurs periodically

(b) Have four different phases

(c) Generally, originate in a free market economy

(d) All of the above

**Q18)** Businesses whose fortunes are closely linked to the rate of economic growth is referred to as :

**(MTP March 2022)**

(a) Cyclical

(b) Counter Cyclical

(c) Fiscal Policy

(d) None of these

**Q19)** Which statement is incorrect? **(Nov 2019)**

(a) Depression is a Severe form of trough

(b) Depression causes fall in Interest rate

(c) Peak is highest point

(d) All of the above

**Q20)** According to \_\_\_\_\_ trade cycle is purely monetary phenomenon. **(MTP Oct 2020)**

(a) Hawtrey

(b) Adam Smith

(c) J M Keynes

(d) Schumpeter

**Q21)** An unemployment type cause due to structural changes in the economy is which of the following- **(Nov 2019)**

(a) Involuntary

(b) Ethical friction

(c) Full employment

(d) Structural

**Q22)** Great Depression of 1930's is an example of: **(MTP April 2021)**

(a) Business cycle

(b) Consumer sovereignty

(c) Freedom of choice

(d) None of these

**Q23)** According to some economists which is not the prime cause of Business Cycles? **(Nov 2019)**

(a) Fluctuations in investment

(b) Micro Economic policy

(c) Impact on aggregate economic activity

(d) Psychological factors

**Q24)** The four phases of Business Cycle are – **(Nov 2019, MTP Apr 2019)**

(a) Peak, Construction , Depression and Boom

(b) Prosperity, Recession, Depression and Expansion

(c) Boom, Downswing , Expansion and Prosperity

(d) Peak, Recession , Trough and Recovery

**Q25)** China's recent slowdown causes – **(Nov 2019)**



- (a) Cycle of decline and panic across the world
- (b) Countries across the Globe were able to insulate themselves from the crisis
- (c) Stock markets in the Emerging Economics largely remained unaffected
- (d) Old technology fuelled the economic decline

**Q26)** Actual demand stagnates in which stage.  
(Nov 2019)

- (a) Peak
- (b) Trough
- (c) Recovery
- (d) Contraction

**Q27)** Find the odd one out from the following question: Example of coincident indicators are

(Nov 2019, MTP Oct 2020)

- (a) Industrial production
- (b) Inflation
- (c) Retail Sales
- (d) New orders for plant and equipment

**Q28)** Which of the following phase occurs after trough and before peak?  
(Dec 2020)

- (a) Expansion
- (b) Depression
- (c) Boom
- (d) Recession

**Q29)** Which indicators coincide or occur simultaneously with the business cycle movements?  
(Dec 2020)

- (a) Lagging
- (b) Leading
- (c) Concurrent
- (d) Legal

**Q30)** What are the internal causes of business cycle?  
(MTP March 2021)

- (a) fluctuations in effective demand.
- (b) macroeconomic policies
- (c) money Supply
- (d) All the above

**Q31)** During the phase of trough of business cycle, the growth rate becomes—  
(Dec 2020)

- (a) High
- (b) Low
- (c) Negative
- (d) Zero

**Q32)** \_\_\_\_\_ is measurable economic factor that changes before economy starts to follow a particular pattern of trend  
(Dec 2020)

- (a) Lagging indicators
- (b) Coincident indicators
- (c) Leading indicators
- (d) Concurrent indicator

**Q33)** Which of the following does not occur during an expansion?  
(MTP Oct 2020)

- (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.

**Q34)** If demand for goods and services is more than their supply, the resultant inflation is :  
(MTP May 2020)

- (a) Cost push inflation.
- (b) stagflation
- (c) deflation.
- (d) demand pull inflation

**Q35)** Which is more prone to the adverse effects of the business cycle \_\_\_\_\_  
(MTP Oct 21)



- (a) Services
- (b) Industries
- (c) Agriculture
- (d) None of these

**Q36)** When aggregate economic activity is increasing the economy is said to be in

**(MTP Mar 2019, MTP Aug 2018)**

- (a) An expansion
- (b) a contraction
- (c) A peak
- (d) A turning point

**Q37)** Which of the following is the external cause of Business Cycles? **(MTP Oct 2020)**

- (a) Fluctuations in Effective Demand
- (b) Fluctuations in Investment
- (c) Variations in government spending
- (d) War

**Q38)** Variables that change before the real output changes are called: **(MTP Nov 21)**

- (a) Lagging indicator
- (b) Leading Indicator

- (c) Concurrent Indicator
- (d) None of these

**Q39)** Economy's historical performance was reflected by: **(MTP Nov 21)**

- (a) Lagging indicating
- (b) Leading indicating
- (c) Either (a) or (b)
- (d) None of these

**Q40)** Which of the following is not a variable in the index of leading indicators? **(MTP Mar 2019)**

- (a) New consumer goods order
- (b) Delayed deliveries
- (c) New building permits
- (d) Prime Interest rate

### Answers to ICAI Past Year Papers and MTP Questions

(Q1)	(Q2)	(Q3)	(Q4)	(Q5)	(Q6)	(Q7)	(Q8)	(Q9)	(Q10)
B	D	D	A	C	B	A	D	A	C
(Q11)	(Q12)	(Q13)	(Q14)	(Q15)	(Q16)	(Q17)	(Q18)	(Q19)	(Q20)
A	B	D	D	A	A	D	A	A	A
(Q21)	(Q22)	(Q23)	(Q24)	(Q25)	(Q26)	(Q27)	(Q28)	(Q29)	(Q30)
D	A	B	D	A	A	D	A	C	D
(Q31)	(Q32)	(Q33)	(Q34)	(Q35)	(Q36)	(Q37)	(Q38)	(Q39)	(Q40)
C	C	D	D	B	A	D	B	A	D