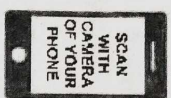


2

THEORY OF DEMAND AND SUPPLY



Scan QR Code for Self Study Notes

Marks of Objective, Short Notes, Distinguish Between, Descriptive & Practical Questions



Objective



Short Notes



Distinguish

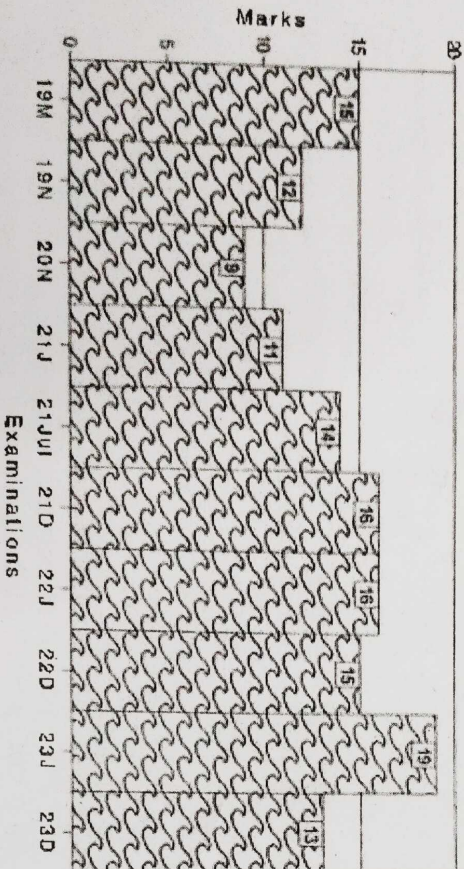


Descriptive



Practical

Legend



4.61

4.62

Scanner CA Foundation Paper - 4 (2023 Syllabus)

PAST YEAR QUESTIONS AND ANSWERS

2018 - MAY

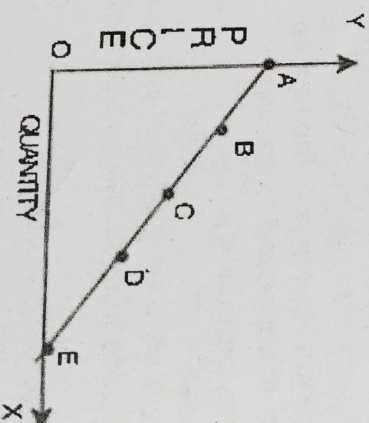
[1] "High priced goods consumed by status seeking rich people to satisfy their need for conspicuous goods" is:

- (a) Veblen effect (1 mark)
 (b) Bandwagon effect
 (c) Snob effect
 (d) Demonstration effect

Answer:

(a) Veblen effect was given by Veblen. Hence, it is called Veblen effect, also known as prestige goods effect. It is related to conspicuous consumption. Veblen effect takes place as some consumers measure the utility by its price i.e. if price rises then they think the commodity has got more utility. Veblen effect is the behavior practiced by rich people to satisfy their needs for conspicuous goods.

[2]



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

[3]

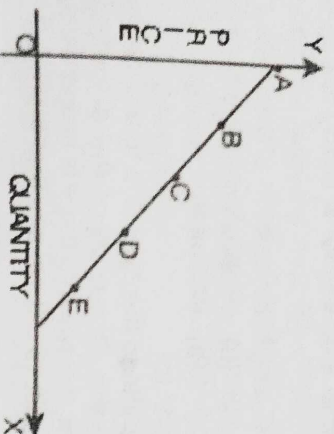
[4]

Am
(a)

[Chapter

Answer:

(a)



- (a) When change in demand is greater than price change then $e > 1$
 (b) When change in demand is less than the price change then $e < 1$
 (c) When change in demand is same as the change in price then it is $e = 1$
 (d) When there is no change in demand as change in price then $e = 0$
 (e) When price changes slightly but demand change is higher then $e = \infty$

Here, C shows $e = 1$ by which we can prove that

$C \Rightarrow e = 1, A \Rightarrow e = \infty, B \Rightarrow e < 1$

$D \Rightarrow e < 1, E \Rightarrow e = 0$

[3] Cardinal approach is related to:

- (a) Indifference curve (b) Equi marginal utility
 (c) Law of diminishing returns (d) None of these. (1 mark)

Answer:

(b) Marginal Utility theory is given by Alfred Marshall. He assumes that the marginal utility theory is related to cardinal approach which means we can measure the utility in terms of money. Marshall says, "Money is the measuring rod of utility".

[4] An increase in demand can result from:

- (a) A decline in the market price
 (b) An increase in income
 (c) A reduction in the price of substitutes
 (d) An increase in the price of complements. (1 mark)

Answer:

(b) Price and demand are inversely related as the price rises demand falls and vice-versa. But income and demand are directly related. Rise in income increases the quantity demanded and fall in income decreases the quantity demanded.

[5] Cross elasticity of perfect substitutes is

- (a) Zero (b) Negative
 (c) One (d) Infinity (1 mark)

Answer:

(d) Cross elasticity of perfect substitutes is infinity as the rise in the price of one good will cause a rise in the demand of its substitutes.

Example: If the price of the tea rises, the demand for coffee rises as these two are perfect substitutes.

Cross elasticity of complementary goods leads to zero.

[6] Supply is a _____ concept.

- (a) flow (b) stock
 (c) flow and stock, both (d) qualitative (1 mark)

Answer:

(a) Supply refers to 'quantity of a good or service that consumers are willing and able to purchase during a given period of time. Supply is a flow concept as quantity supplied is so much per unit of time per day, per week or per year. It is regularly going on supply which means not only those goods which are sold but also those which are in stock.

[7] For what type of goods does demand fall with a rise in income levels of households?

- (a) Inferior goods (b) Substitutes
 (c) Luxuries (d) Necessities (1 mark)

Answer:

(a) Inferior goods are the type of goods which are not of good quality and no one wants to consume these but circumstances force them to consume these. If income rises of households then demand for inferior goods go down or elasticity for these goods becomes negative.

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

- (a) A.C. Pigou
(c) Adam Smith

- (b) Marshall
(d) Robbins

(1 mark)

Answer:

(b) Marginal Utility theory is given by Alfred Marshall. He assumes that the marginal utility theory is related to cardinal approach which means we can measure the utility in terms of money. Marshall says, "Money is the measuring rod of utility".

[9] Elasticity between two points:

- (a) point elasticity
(c) Cross elasticity

- (b) Arc elasticity
(d) None.

(1 mark)

Answer:

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

[10] An indifference curve is L shaped, then two goods will be:

- (a) Perfect substitute goods
(b) Substitute goods

- (c) Perfect complementary goods
(d) Complementary goods

(1 mark)

Answer:

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

[11] The concept of consumer's surplus is derived from:

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

(1 mark)

Answer:

(a) Consumer surplus is a surplus which a consumer would be willing to pay rather than go without a commodity over that which he

actually does pay. Concept of consumer surplus is given by Marshall and it is derived from = what a consumer is willing to pay - what he actually pays.

[12] When supply curve shifts to the right there is:

- (a) an increase
(c) contraction

- (b) expansion
(d) decrease

(1 mark)

[16]

Answer:

(a) When the supply curve shifts to the right due to a change in one or more factors other than the own price of the commodity. When supply curve shifts to right, we say that there is an increase in supply and when supply curve shift to left we say that there is a decrease in supply.

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

- (a) Market price
(c) Maximum retail price

- (b) Showroom price
(d) None of these.

(1 mark)

[17]

Answer:

(b) Short-run price is also known as the market price and it is determined by the temporary equilibrium between the forces of demand and supply.

[14] When supply price increase in the short run, the profit of the producer

[18]

- (a) increases
(c) remains constant

- (b) decreases
(d) decreases marginally

(1 mark)

Answer:

(a) Supply and price are directly related as the supply increase, price increases and as the price decreases, supply decreases. So increase in supply-price will increase the profits of the producer.

[19]

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[15] When Price of a commodity increases what will be the effect on quantity demanded?

- (a) Increases
(c) No change

- (b) Decreases
(d) None of these

(1 mark)

[Ch

Answer:

(b) As per the law of demand, other things being equal, if the price of a commodity falls, the quantity demanded of it will rise and if the price of a commodity rises, its quantity demanded will fall.

[16] According to the law of supply, change in supply is related to?

- (a) Price of goods (b) Price of related goods
(c) Factors of production (d) None of the above (1 mark)

Answer:

(a) According to the law of supply, change in supply is related to the price of goods. As other things remaining constant, the quantity of a good (produced and offered for sale) will increase if the price rises.

[17] In case of inferior goods, with a rise in the income of consumers, demand for Giffen goods will?

- (a) Increases (b) Decreases
(c) No change (d) None of the above (1 mark)

Answer:

(b) In general cases, as consumer income rises, they will prefer high quality goods and, therefore, demand for Giffen goods will decrease.

[18] In case of necessities, consumer surplus is?

- (a) Infinite (b) Zero
(c) Equals to one (d) More than one (1 mark)

Answer:

(a) In case of necessities, the marginal utilities of the first few units are infinitely large. In such cases the consumer surplus is always infinite.

[19] When the price of a commodity rises from 200 to ₹ 300 and Quantity supply increases from 2000 to 5000 units, find the elasticity of supply?

- (a) 3.0 (b) 2.5
(c) 0.3 (d) 3.5 (1 mark)

Answer:

$$(a) \frac{\Delta q}{q} \times \frac{P}{\Delta P} = \frac{3,000}{2,000} \times \frac{200}{100} = 3.0.$$

[20] From the following data given below answer question 20 and 21-

Units	TU	MU
1	200	
2	-	180
3	480	-

Total utility derived from 2nd unit?

- (a) 380 (b) 20
(c) 100 (d) 280 (1 mark)

Answer:

(a) $TU = \sum MU$
therefore, 380

[21] Marginal utility of 3rd unit is?

- (a) 200 (b) 280
(c) 100 (d) 50 (1 mark)

Answer:

(c) $MU = TU_n - TU_{n-1}$
Therefore, $= 480 - 380 = 100$

[22] Which Equation is correct-

- (a) $\frac{MU_x}{MU_y} = \frac{P_x}{P_y}$ (b) $\frac{MU_x}{MU_y} > \frac{P_x}{P_y}$
(c) $\frac{MU_x}{MU_y} < \frac{P_x}{P_y}$ (d) $\frac{MU_x}{MU_y} \neq \frac{P_x}{P_y}$ (1 mark)

Answer:

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

[23] The scope of the indifference curve shows consumer equilibrium at the point where $MRS_{(xy)} = \frac{P_x}{P_y}$ (Price line)

- (a) Less than (b) More than
(c) Equal to (d) None of the above (1 mark)

Answer:

(c) Consumer will be in equilibrium only when $MRS_{(xy)}$ is equal to $\frac{P_x}{P_y}$ (price line).

[24] Which of the following is not the property of the indifference curve?

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

(1 mark)

Answer:

(c) Properties of indifference curve are:

1. Indifference curves slope downward to the right
2. Indifference curves are always convex to the origin.
3. Indifference curves can never intersect each other
4. A higher indifference curve represents higher level of satisfaction
5. Indifference curve will not touch either axes.

[25] In case of Normal goods, rise in price leads to _____?

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

(1 mark)

Answer:

(a) In general cases, when the price of the commodities rise, the purchasing power of customer will fall and therefore demand will fall.

[26] Method of demand forecasting does not include?

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

(1 mark)

Answer:

(a) Method of demand forecasting are:

1. Survey of buyers' intentions
2. Collection opinion method
3. Expert opinion method
4. Statistical method
5. Controlled experiments
6. Barometric method.

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

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

(1 mark)

Answer:

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

[28] An IC shows _____ MRS between the commodity?

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

(1 mark)

Answer:

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

[29] Forecasting of demand is the Art and Science of predicting?

- (a) Actual demand for a product at the same future date
- (b) Probable demand in future
- (c) Total demand in future
- (d) None of these.

(1 mark)

Answer:

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

[30] Addition made to total utility refers to?

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

(1 mark)

Answer:

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

[31] The elasticity of supply is zero means?

- (a) Perfectly inelastic
- (b) Perfectly elastic
- (c) Imperfectly elastic
- (d) All of the above.

(1 mark)

Answer:

(a) The elasticity of supply:

- $e > 1 \rightarrow$ elastic supply
- $e < 1 \rightarrow$ inelastic supply
- $e = 0 =$ Perfectly inelastic supply

$e = \infty \rightarrow$ Perfectly elastic supply

$e = 1 \rightarrow$ Unit elastic

Therefore, the elasticity of supply is zero means, it is perfectly inelastic supply.

2019 - MAY

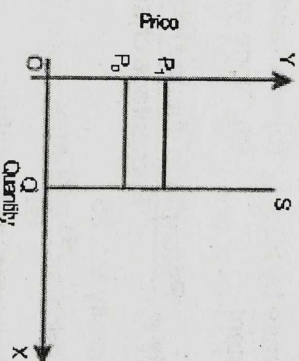
[34] When the supply of a product is perfectly inelastic then the curve will be

- (a) Parallel to Y-axis
- (b) Parallel to X-axis
- (c) At the angle of 45°
- (d) Sloping upwards

Answer :

(1 mark)

(a) If due to a change in the price, the quantity supplied of goods remain unchanged, such goods are said to have inelastic supply i.e. there supply cannot be changed. This is shown by the vertical supply curve i.e. curve parallel to Y-axis.



[35] In the case of _____, there is an inverse relationship between income and demand for a product.

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

Answer :

(1 mark)

(c) Giffen goods are the products for which demand increases as the price increases and falls when the price decreases. These is a special case of inferior goods which people buy less when their income rises. Hence, an inverse relationship is established between income and demand of the product.

[36] If maize has - 0.30 as income elasticity of demand, then maize will be considered as _____.

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

(1 mark)

[32] The Consumer is in equilibrium when the following condition is satisfied:

- (a) Budget line is tangent to the IC curve
- (b) $\frac{MU_x}{P_x} = \frac{MU_y}{P_y} = \frac{MU_z}{P_z}$
- (c) Both (a) and (b)
- (d) None of the above

Answer:

(1 mark)

(c) Condition for consumer attaining equilibrium is the point where the budget line is tangent to the indifference curve and $\frac{MU_x}{P_x} = \frac{MU_y}{P_y}$

Hence, option (c) is correct.

[33] Which of the following statement is correct?

- (a) Supply is inversely related to its cost of production
- (b) Price and quantity demand of a good have a direct relationship
- (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

Answer:

(1 mark)

(a) In economics, supply refers to quantity of product available in market for sale at a specified price at a given point of time.

Supply of a product has an inverse relation with cost of production. **Example** A seller would supply less quantity of product in market when the cost of production exceeds the market-price of the product. In such case, the seller would wait for a rise in the price of the product.

Answer :

(b) Since the income elasticity of maize is $-.30 < 0$, it is an inferior commodity in the eyes of the household. The demand for inferior goods falls as income rises. Also as the elasticity is less than one, it shows that the goods is either relatively less important in the consumer's eye or it is a necessity.

[37] If price decreases from ₹ 80 to ₹ 60 and elasticity of demand is 1.25 then

- (a) demand increase by 25% (b) demand decrease by 25%
(c) remains constant (d) None of the above (1 mark)

Answer:

(d) Price Elasticity = $\frac{\text{Percentage change in quantity demanded}}{\text{Percentage change in price}}$

given, = Elasticity = 1.25

% change in price = $\frac{80 - 60}{80} \times 25\%$

1.25 = $\frac{\% \text{ change in Quantity}}{25\%}$

Increase in Demand = -31.25%

Hence, **option (d)** is correct.

[38] Which of the following is / are the conditions of theory of consumer surplus if the price is same for all the units he purchased?

- (a) The consumer gains extra utility or surplus
(b) Consumer surplus for the last commodity is zero
(c) Both
(d) None (1 mark)

Answer:

(c) The concept of consumer surplus is based on the law of diminishing marginal utility. If a consumer gets extra of something, its marginal utility starts decreasing. Keeping the price same for all the commodities, a consumer gets extra utility for the units consumed by him except the one at the margin i.e. the last unit. The extra utility obtained by the consumer is known as consumer surplus.

[39] Which of the following is not the property of an indifference curve?

- (a) Slopes downwards to the right
(b) Always convex to the origin
(c) Intersects each other
(d) Will not touch either of the axes (1 mark)

Answer:

(c) The following are the properties of an indifference curves:

1. It slopes downwards to the right
2. It is convex to the origin
3. Two ICs never intersect each other
4. Higher IC represents a higher level of satisfaction
5. IC never touches either axes

Thus **option (c)** is not the property of an indifference curve.

[40] Which of the following is correct ?

- (a) Elasticity on the lower segment of demand curve is greater than unity
(b) Elasticity on the upper segment of demand curve is lesser than unity
(c) Elasticity at the middle of the demand curve is equal to unity
(d) Elasticity decreases as one moves from the lower part of demand curve to upper part (1 mark)

Answer:

(c) Point elasticity at any point can be measured by the following formula:

$$PE = \frac{P}{Q} \times \frac{Q}{P} = \frac{\text{lower segment}}{\text{upper segment}}$$

- Elasticity on lower segment of demand curve is less than unity
- Elasticity at the middle of the demand curve is equal to unity
- Elasticity on the upper segment of the demand curve is greater than 1

• Elasticity increases on one moves from the lower part of demand curve to upper part.

[41] Which of the following will affect the demand for non-durable goods?

- (a) Disposable Income
(b) Price
(c) Demography
(d) All of the above (1 mark)

Answer:

(d) Fac

1. Fac

2. Fac

3. Fac

Thi

[42] When

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(a) Co

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Answer:

(b) Su

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[43] Whic

(a) V

(b) V

(c) V

(d) A

Answer:

(d) T

it

Answer:**(d)** Factors affecting the demand for non-durable consumer goods are

1. Disposable income
2. Price
3. Demography

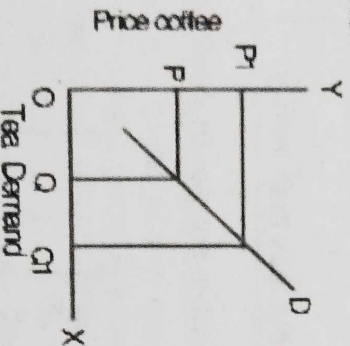
Thus, **option (d)** is the correct answer.

2] When the price of tea decreases, people reduce the consumption of coffee. Then the goods are

- (a) Complementaries
- (c) Inferior goods

- (b) Substitutes
- (d) Normal goods

(1 mark)

Answer:**(b)** Substitute goods are those goods which can be interchangeably used. **Example**, tea and coffee, ink pen and ball pen. If the price of a product falls the people will try it and thus, the demand for the other product will fall.

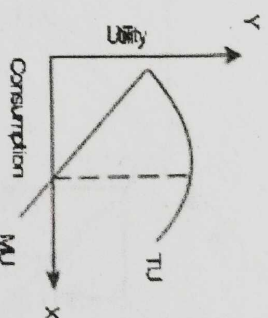
3] Which of the following relation is true with MU?

- (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

(1 mark)

Answer:**(d)** The relationship between marginal utility (MU) and Total Utility (TU) is as follows:
1. When MU decreases TU increases at a decreasing rate

2. When MU is zero, TU is maximum
3. When MU becomes negative, TU declines.

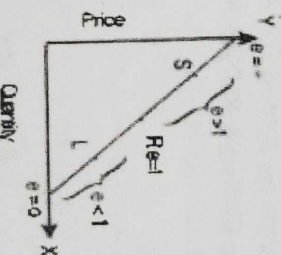


[44] The price elasticity of demand at the midpoint of the straight - line demand curve under point method is _____.

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

(1 mark)

Answer:**(b)** Given a straight line demand curve, point elasticity can be calculated through.
$$\frac{P_t}{P_t - P_{t-1}} \times \frac{Q_t - Q_{t-1}}{Q_t}$$

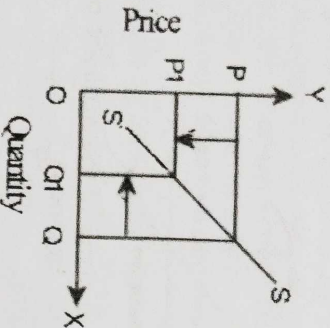
Elasticity at various points:Thus, price elasticity of demand at mid point under point method is 1.
[45] Contraction of supply implies _____.

- (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

(1 mark)

Answer:

- (b) Contraction in supply is the result of decrease in price of the goods concerned.



46] Perishable commodities will have _____

- (a) Perfectly elastic curve (b) Perfectly inelastic curve
(c) Elastic (d) Inelastic (1 mark)

Answer:

- (b) The supply curve of perishables goods is perfectly inelastic. Perishable goods cannot be stored for a long time, if stored, the same will be wasted, thus, its supply is limited and cannot be changed in short run.

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[47] Supply is a _____ concept.

- (a) Flow (b) Stock
(c) Both (a) and (b) (d) None of the above (1 mark)

Answer:

- (a) Supply refers to what a firm offer for sale in the market, not necessarily to what they succeed in selling. What is offered may not get sold.

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

[48] Total utility is also known as

- (a) Total satiety (b) Aggregate satiety (1 mark)
(c) Full satiety (d) Half satiety

Answer:

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

$$TU = MU_1 + MU_2 + \dots + MU_n$$

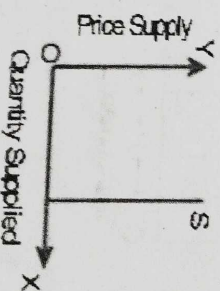
We can say that total utility is also known as total satiety.

[49] A vertical supply curve parallel to y-axis implies the elasticity of supply is _____

- (a) Zero (b) Infinity
(c) Equal to one (d) Greater than zero but less than infinity (1 mark)

Answer:

- (a) A Vertical supply curve parallel to y-axis implies that elasticity of supply is Zero.



[50] Budget line is also called

- (a) Price line (b) Iso cost line (1 mark)
(c) Iso-quant (d) None

Answer:

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

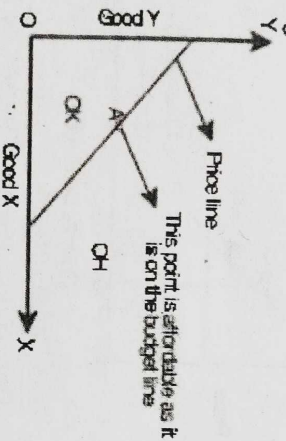
$$\therefore P_x Q_x + P_y Q_y \leq B$$

Where Budget line is also called price line.

$$\therefore P_x Q_x \rightarrow \text{Price and Quantity of good X}$$

$$P_y Q_y \rightarrow \text{Price and Quantity of good Y}$$

B is the Budget



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

[51] The Quantity supplied of a goods or services is the amount that _____

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

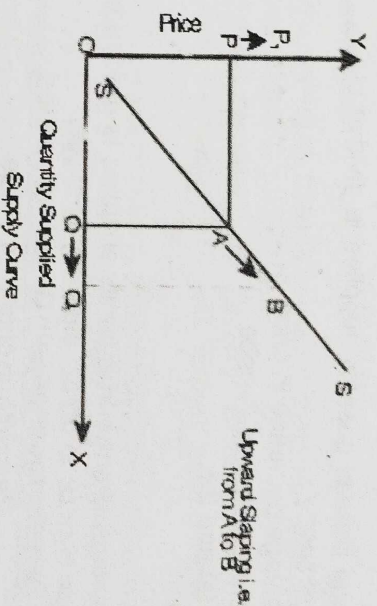
Answer:

(1 mark)

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

The quantity supplied of a good also depends upon government's industrial and foreign policies, goals of the firm, infrastructural facilities etc.

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



[52] Luxury goods have income elasticity _____

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

Answer:

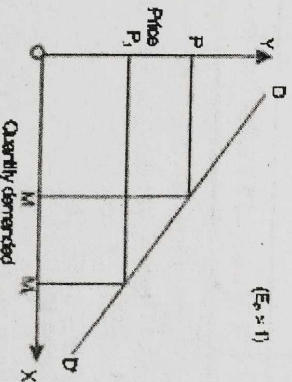
(1 mark)

(b) Luxury goods have income elasticity is positive and greater than one. i.e. ($E_p > 1$)

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

Eg.: Car, TV etc.

Elasticity greater than one when the percentage change in quantity demanded is greater than percentage change in price.



Elasticity is greater than one

[53] Percentage change quantity supplied is divided by _____ to obtain elasticity of supply

- (a) Percentage decrease in price
- (b) Percentage change in price
- (c) Both (a) and (b)
- (d) None

(1 mark)

Answer:

(b) Percentage change in quantity supplied is divided by percentage change in price to obtain elasticity of supply.

$$E_s = \frac{\text{Percentage change in Quantity Supplied}}{\text{Percentage change in Price}}$$

[54] If the price of the product is ₹ 20 per unit and if the price decreases by 5% as a result of which quantity demanded increases by 10% find MR-_n { old quantity is 10 units}

- (a) 9
- (b) 13
- (c) 10
- (d) 12

(1 mark)

Answer:

(a)

Price (P) (₹)	Quantity units	Total Revenue TR = P × Q
20	10	200
19	11	209

$$MR_n = TR_n - TR_{n-1}$$

$$MR_{11} = TR_{11} - TR_{10}$$

$$MR_{11} = 209 - 200$$

$$MR_{11} = 9$$

[55] Law of demand relates to:

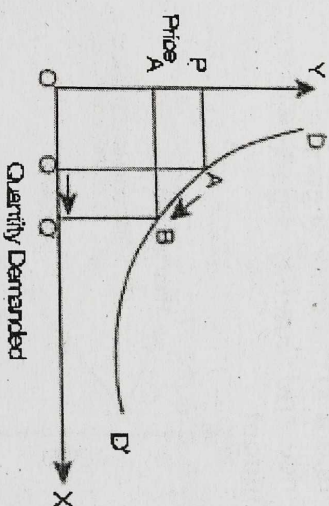
- (a) Price only
- (b) Price and quantity demanded of a good
- (c) Quantity demanded only
- (d) Supply

(1 mark)

Answer:

(b) Law of demand relates to price and quantity demanded of a good.

As "Prof. Alfred Marshall" defined Law of Demand as -
The greater the amount to be sold, the smaller must be the price at which it is offered in order that it may find purchasers or in other words the amount demanded increases with a fall in price and diminishes with a rise in price.



Demand Curve for Commodity X

[56] An indifference curve slopes down towards right since more of one commodity and of another commodity result in

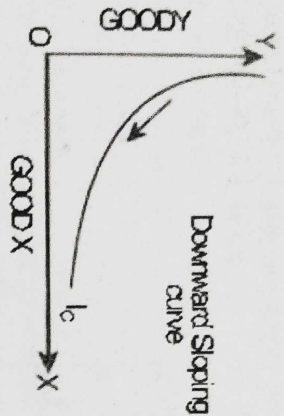
- (a) Same level of satisfaction
- (b) Maximum satisfaction
- (c) Greater satisfaction
- (d) Less satisfaction

(1 mark)

Answer:

(a) Indifference curve slopes down towards right since more of one commodity and of another commodity result in same level of satisfaction.

The downward slope of indifference curve states that two commodities can be substituted for each other and when the amount of one good in the combination is increased, the amount of the other good is reduced. This is essential if the level of satisfaction is to remain the same on an indifference curve.



[57] Elasticity for habitual goods is

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

Answer:

(d) Elasticity for habitual goods is inelastic. Elasticity is less than one when the percentage change in quantity demanded is less than the percentage change in price. In such case demand is said to be inelastic.

$$E_p = \frac{\text{Percentage Change in Quantity Demanded}}{\text{Percentage Change in Price}}$$

[58] Diminishing marginal returns for the first four units of variable inputs is exhibited by the total product sequences.

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

Answer:

- (d) 50, 90, 120, 140

	2 unit	3 unit	4 unit
50 unit	90	120	140
90-50	120-90	140-120	
=40	=30	=20	

$$\text{As } MP_n = TP_n - TP_{n-1}$$

2020 - NOVEMBER

[59] Demand forecasting by means of asking customer what they are going to buy comes under:

- (a) Survey of buyers intentions
- (b) Statistical method
- (c) Grass roots method
- (d) Expert opinion method

Answer:

(a) Survey of buyer's intention - a forecasting technique in which known purchasers of a product are asked to predict their requirements for a given future period.

[60] When the price of petrol decreases, people reduce the consumption of diesel then the goods are:

- (a) Mixed
- (b) Complementary
- (c) Superior
- (d) Substitutes

Answer:

(d) Substitute goods are two alternative goods that could be used for the same purpose. When the price of petrol decreases, people reduce the consumption of diesel.

[61] When price of apple is ₹ 120 per kg. Ram buys one kg. of apples at that price. Now if other things remains the same but the price of apples falls to ₹ 90 per kg. Now Ram buys 2 kg of apples. It is called as:

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

Answer:

(b) Expansion in demand refers to a rise in the quantity demanded due to a fall in the price of commodity, other factors remaining constant. It leads to a downward movement along the same demand curve.

[62] To know the base price and quantity, which method of elasticity is used?

- (a) Arc Elasticity
- (b) Cross Elasticity
- (c) Point Elasticity
- (d) Zero Elasticity

Answer:

(a) In Arc elasticity, it can be calculated by using the formula:

$$E_p = \frac{q_1 - q_2}{q_1 + q_2} \times \frac{P_1 + P_2}{P_1 - P_2}$$

[Chapter - 2] Theory of Demand and Supply

4.85

This is because elasticities found by using original price and quantity figures as base will be different from the one derived by using new price and quantity figures.

- [63] The price elasticity of demand for X is 1 and the average quantity demand of X is 90 units. If the price of X decreases from ₹ 300 to ₹ 180 per unit, calculate the new quantity demand of X is:

- (a) 126 units (b) 36 units (1 mark)
(c) 144 units (d) 120 units

Answer:

- (a) It can be calculated by using formula:

$$e = \frac{Q_1 - Q_0}{Q_0} \times \frac{P_0}{P_1 - P_0} \Rightarrow 1 = \frac{Q_1 - 90}{90} \times \frac{300}{300 - 180} \Rightarrow Q_1 = 126 \text{ units}$$

- [64] If the quantity supply changes substantially in response to small changes in price of the good then it is:

- (a) Relatively greater elastic supply
(b) Relatively less elastic supply
(c) Unitary elastic
(d) Perfect elastic (1 mark)

Answer:

- (a) If elasticity of supply is greater than one i.e., when the quantity supplied of a good changes substantially in response to a small change in the price of the good we say that supply is relatively elastic.

- [65] If Indifference curve is L shaped, means two goods will be:

- (a) Perfect complementary goods
(b) Perfect substitute goods
(c) Perfect inferior goods
(d) Perfect superior goods (1 mark)

Answer:

- (a) When two goods are perfect complements, they are represented by a 'L' shaped indifference curve.

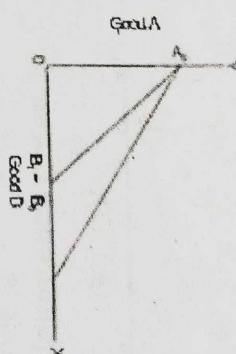
- [66] Let us assume that in OY axis we have good A and on OX axis good B. If the price of good B increases by ₹ 1 but the price of good A remains constant and income also remains unchanged, the budget line will shift:

4.86

- (a) Right on OY axis (b) Right on OX axis (1 mark)
(c) Left on OY axis (d) Left on OX axis

Answer:

- (d)



Left on ox axis

In this diagram, we can clearly see that good B has shifted leftward towards ox-axis.

- [67] Purushotham wanted to buy laptop by paying ₹ 60,000 but the actual price is ₹ 55,000 then the consumer surplus is:

- (a) ₹ 60,000 (b) ₹ 55,000 (1 mark)
(c) ₹ 5,000 (d) ₹ 6,500

Answer:

- (c) Consumer's surplus = What a consumer is ready to pay – What he actually pays

$$\therefore \text{Consumer's Surplus} = 60,000 - 55,000 = ₹ 5,000$$

2021 - JANUARY

- [68] Effective demand depends on.

- (a) Price (b) Cost (1 mark)
(c) Desire (d) Product

Answer:

- (a) Price

Effective demand depends upon various factors but according to the given question it mainly depends upon price.

59] Why does demand curve slopes downwards?

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

(1 mark)

Answer:

- (b) Arrival of old consumers

Generally, demand curve slopes downward from left to right. It is due to many reasons such as law of diminishing marginal utility, price effect, substitution effect arrival of old consumers and many uses of a commodity.

60] What is not a determinant of demand?

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

(1 mark)

Answer:

- (d) Prices of unrelated goods

Demand depends upon various determinants such as price, income, taste and preferences, price of related commodity, climatic factors etc.

61] What are exceptions to Law of Demand?

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

(1 mark)

Answer:

- (c) Conspicuous goods

Generally law of demand slopes downward but sometimes it slopes upward which is known as an exception to the law of demand. The various reasons are Giffen goods conspicuous goods, during emergencies etc.

[72] Identify the factor which generally keeps the price elasticity of a good low:

- (a) Variety of uses for that good
- (b) Very low price of a commodity
- (c) Close substitutes for that good
- (d) High proportion of the consumer's income spent on it.

(1 mark)

Answer:

- (b) Very low price of a commodity

Price elasticity of a good is low if the price of a commodity is very low i.e. it is inelastic.

[73] In the case of inferior goods, the income elasticity of demand is:

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

(1 mark)

Answer:

- (c) Negative

In the case of inferior goods, the income elasticity of demand is Negative which means that due to the increase in income the quantity consumed (inferior goods) decreases.

[74] What is numerical measure of elasticity for "Perfectly Elastic"

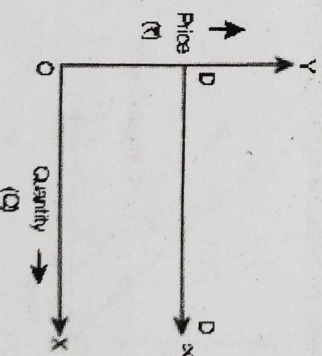
- (a) Zero
- (b) Infinity
- (c) Greater than one and less than infinity
- (d) Less than one

(1 mark)

Answer:

- (b) Infinity

The numerical value of elasticity of perfect elastic = (∞)



[75] The price of 1 kg. of tea is ₹ 30 demand at this price is 5 kg. If price of coffee rises from 25 to 35 per kg. the quantity demanded of tea rises from 5kg. to 8 kg. Find out cross elasticity of tea?

- (a) -1.5
(b) 1.5
(c) 3
(d) 1

Answer:

- (b) 1.5

Demand	Price
5 kg.	₹ 30
8 kg.	₹ 35

$$\begin{aligned} \text{Cross Elasticity} &= \frac{\Delta Q_x}{Q_x} \times \frac{P_y}{P_x} \times \frac{Q_y}{Y} \quad X=\text{tea} \\ &= \frac{5-8}{-10} \times \frac{25}{5} = \frac{+3}{+10} \times \frac{25}{5} = +1.5 \end{aligned}$$

[76] Supply is _____ concept.

- (a) Flow
(c) Flow and Stock

Answer:

- (b) Stock
(d) None of the above.

(1 mark)

- (a) Flow

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

[77] When supply curves moves to right, it means:

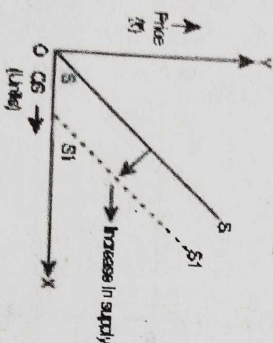
- (a) Supply increases
(b) Supply decreases
(c) Supply remains constant
(d) Supply expands

(1 mark)

Answer:

- (a) Supply increases

When supply curves moves to right it means increase in supply.



[78] The second glass of lemonade gives lesser satisfaction to a thirsty boy. This is a clear case of:

- (a) Law of demand
(b) Law of diminishing returns
(c) Law of diminishing marginal utility
(d) Law of supply.

(1 mark)

Answer:

- (c) Law of diminishing marginal utility
The second glass of lemonade gives lesser satisfaction to a thirsty boy. This is a clear case of diminishing marginal utility.

2021 - JULY

[79] The quantity demanded of coffee increases by 2% when the price of tea increases by 8%, the cross elasticity of demand between two product are:

- (a) - 0.30
(b) + 0.30
(c) + 0.25
(d) - 0.25

(1 mark)

Answer:

- (c) Cross elasticity =

$$\begin{aligned} \text{Percentage change in quantity demanded} \\ \text{Percentage change in Price} \\ &= \frac{2\%}{8\%} = 0.25 \\ &= 0.25 \end{aligned}$$

Hence, option (c) is correct.

[80] Goods which are inferior, with no close substitutes easily available and which occupy a substantial place in consumer's budget are called _____ goods.

- (a) Giffen
(b) Conspicuous
(c) Speculative
(d) Prestige

(1 mark)

Answer:

- (a) Such goods which exhibits direct price-demand relationship are called Giffen goods. Giffen goods are those inferior goods whose

demand increase as this price increase. Those goods which are inferior, with no close substitutes easily available and which occupy a substantial place in consumer's budget.

[81] Suppose the demand for automobile decreases due to increase in price of petrol both the goods are:

- (a) Normal (b) Substitute
(c) Perishable (d) Complementary (1 mark)

Answer:

(d) Complementary goods are those goods which are consumed together or simultaneously for example automobile and Petrol. When two commodities are complements, a fall in the price of one will cause the demand for the other to rise.

[82] Marshall defined the concept of consumer surplus as the _____.

- (a) Area covered in between the average revenue and marginal revenue curve
(b) Difference between maximum amount a person is willing to pay for a goods and the amount he actually pays
(c) Area inside the budget line
(d) Difference between the minimum amount a person is willing to pay for a good and its market price (1 mark)

Answer:

(b) Marshall defined the concept of consumer's Surplus as the difference between what a consumer is ready to pay and what he actually pays.

[83] Of the following who developed the Delphi technique of Demand forecasting?

- (a) Olaf Helmer (b) David Richardson
(c) Michael Porter (d) J.M. Keynes (1 mark)

Answer:

(a) Delphi technique, developed by Olaf Helmer at the Rand Corporation of the USA, provides a useful way to obtain informed judgement from diverse expert by avoiding the disadvantages of conventional panel meeting.

[84] Indifference curve analysis is based on which approach?

- (a) Nominal (b) Cardinal
(c) Marginal (d) Ordinal (1 mark)

Answer:

(d) Indifference curve analysis is based on ordinal approach. The indifference curve analysis assume that utility is only ordinally expressible. The consumer is capable of ranking all conceivable combination of goods according to the satisfaction.

[85] Read the following table and answer question no (32 – 33)

Quantity consumed	Total utility
0	0
1	300
2	500
3	650
4	750
5	830
6	890
7	930
8	960

What is Marginal utility when consumption increases from 4 units to 5 units?

- (a) 130 (b) 80
(c) 160 (d) 100 (1 mark)

Answer:

$$\begin{aligned} \text{Marginal utility} &= Tu_n - Tu_{n-1} \\ &= Tu_5 - Tu_4 \\ &= 830 - 750 \\ &= ₹ 80 \end{aligned}$$

Hence, (b) is correct.

[86] What is Marginal utility when consumption increases from 7 units to 8 units?

- (a) 60
(b) 100
(c) 40
(d) 30

(1 mark)

Answer:

$$(d) \text{ Marginal utility} = TU_n - TU_{n-1}$$

$$= TU_8 - TU_{(8-1)}$$

$$= TU_8 - TU_7$$

$$= 960 - 930$$

$$= 30$$

Hence, option (d) is correct.

[87] The price of a commodity decreases from ₹ 200 to ₹ 120 per unit. If the price elasticity of Demand for this commodity is 2 and the original quantity demanded is 60 units calculate the new quantity demanded.

- (a) 48 units
(b) 100 units
(c) 120 units
(d) 108 units

(1 mark)

Answer:

(d) Original quantity demanded = 60 units

elasticity = 2 times

original price = ₹ 200

new prices = ₹ 120

$$\text{Price elasticity} = \frac{\Delta Q}{\Delta P} \times \frac{P}{Q}$$

$$2 = \frac{\Delta Q}{80} \times \frac{200}{60}$$

$$\Delta Q = 48$$

$$\text{New quantity} = \text{original quantity} + \Delta Q$$

$$= 60 \text{ units} + 48 \text{ units}$$

$$= 108 \text{ units.}$$

[88] A group of people decreases or altogether stop consumption of a common product due to which of the following effect?

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

(1 mark)

Answer:

(d) When a product becomes common among all, some people decreases or altogether stop its consumption, this is called snob effect.

[89] Highly price goods are consumed by Status seeking rich people to satisfy their need for conspicuous consumption. This is called:

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

(1 mark)

Answer:

(a) Veblen effect was given by Veblen. Hence, it is called Veblen effect, also known as prestige goods effect. Veblen effect takes place as some consumers measure the utility by its price i.e. if price rises them they think that commodity has got more utility. Veblen effect is the behavior practiced by rich people to satisfy their need for conspicuous goods.

[90] For which of the following product elasticity of demand is highly elastic?

- (a) Salt
(b) Jewellery
(c) Life saving medicines
(d) Water.

(1 mark)

Answer:

(b) Jewellery have elasticity of demand is highly elastic because due to increase in price of jewellery more will be demand on the other hand necessities goods like salt, water, medicines have in elastic in nature.

[91] The indifference curve for two perfect complementary goods is

- (a) Z shaped
(b) L shaped
(c) U shaped
(d) Straight line

(1 mark)

Answer:

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

[92] Assume that wheat have (-) 0.4 as income elasticity by this we can say:

- (a) wheat is normal good
(b) wheat is an inferior good
(c) wheat is a superior good
(d) wheat is a luxurious good

(1 mark)

Answer:

(b) Since the income elasticity of wheat is $-0.4 < 0$, it is an inferior goods. The demand for inferior goods falls as income rises. Also the elasticity is less than one it shows the goods is either relatively less important in the consumer eye or it is a necessity.

2021 - DECEMBER

[93] Equation of supply is given as $Q = 20p - 200$.
If price is ₹ 30, then find the elasticity.

- (a) $+1.5$
(b) -0.5
(c) $+0.66$
(d) -0.66

(1 mark)

Answer:

(a) Elasticity of demand measures how the quantity demanded of a commodity will change in response to the changes in its price. Elasticity of a good depends on the factors like nature of the good, availability of substitutes, income level, share in the expenditure etc.

Hence,

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

$$\text{Since, } \frac{dq}{dp} = 20,$$

$$p = 30,$$

$$q = 20 \times 30 - 200$$

$$q = 400$$

$$\therefore Es = \frac{20 \times 30}{400} = 1.5$$

[94] Who coined the term 'Demonstration effect'?

- (a) Adam Smith
(b) Veblen
(c) James Duesenberry
(d) Alfred Marshall

(1 mark)

Answer:

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

[95] MRS from X to Y can be defined as _____

- (a) Change in Y to change in X
(b) P_x / P_y
(c) P_y / P_x
(d) Change in X to change in Y

(1 mark)

Answer:

(b) MRS is calculated between two goods placed on an indifference curve, displaying a frontier of utility for each combination of "good X" and "good Y." The slope of this curve represents quantities of good X and good Y that you would be happy substituting for one another.

[96] In case of _____ goods, the demand will rise to the fall of price only if substitution effect outweighs the income effect.

- (a) Inferior goods
(b) Necessaries
(c) Giffen goods
(d) Luxury goods.

(1 mark)

Answer:

(a) The increase in demand on account of an increase in real income is known as income effect. When the price of a commodity falls, the consumer can buy the same quantity of the commodity with lesser money or he can buy more of the same commodity with the same amount of money. In other words, as a result of fall in the price of the commodity, consumer's real income or purchasing power increases. A part or whole of the resulting increase in real income can now be used to buy more of the commodity in question, given that the good is normal. Therefore, the demand for that commodity (whose price has fallen) increases. However, there is one exception. In the case of inferior goods, the income effect works in the opposite direction to the substitution effect. In the case of inferior goods, the expansion in demand due to a price fall will take place only if the substitution effect outweighs the income effect.

[97] The value of demand elasticity can be taken from _____

- (a) -1 to $+1$
- (b) -1 to ∞
- (c) 0 to ∞
- (d) -1 to 0

(1 mark)

Answer:

- (a) The elasticity of demand for a given good or service is calculated by dividing the percentage change in quantity demanded by the percentage change in price. If the elasticity quotient is greater than or equal to one, the demand is considered to be elastic.

[98] Consumer surplus is derived from which concept?

- (a) Law of Diminishing Marginal Utility
- (b) Law of consumer surplus
- (c) Law of indifference curve
- (d) Maximization of Profits

(1 mark)

Answer:

- (a) Consumer surplus is derived from the law of Diminishing Marginal utility. Consumer surplus is based on the economic theory of marginal utility, which is the additional satisfaction a consumer gains from one more unit of a good or service. Consumer surplus always increases as the price of a good falls and decreases as the price of a good rises.

[99] Law of Diminishing Marginal Utility is derived from _____

- (a) indifference curve
- (b) consumer surplus
- (c) maximization of profits.
- (d) expansion of firm

(1 mark)

Answer:

- (b) The law of diminishing marginal utility states that all else equal, as consumption increases, the marginal utility derived from each additional unit declines. Marginal utility is the incremental increase in utility that results from the consumption of one additional unit i.e., consumer surplus.

[100] Hicks and Allen believed that utility _____

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

(1 mark)

Answer:

- (a) Hicks and Allen believed that utility can be measured in ordinal numbers. The ordinal analysis of demand is based on indifference curve which represent the consumer's preferences graphically. An indifference curve is a curve which represents all those combinations of two goods which give same satisfaction to the consumer.

[101] At the point of satiation, TU is _____ and MU is _____

- (a) Maximum, zero
- (b) Minimum, minimum
- (c) Zero, Maximum
- (d) Maximum, Maximum.

(1 mark)

Answer

- (a) When Marginal Utility is Zero, Total Utility is the maximum and it is the point of maximum satisfaction. i.e., point of satiation.

[102] Demand refers to _____

- (a) Need for a commodity
- (b) Use for a commodity
- (c) Unlimited wants
- (d) It is a desire backed by purchasing power, ability and willingness to pay.

(1 mark)

Answer

- (d) The effective demand for a thing depends on (i) desire (ii) means to purchase and (iii) willingness to use those means for that purchase. Unless desire is backed by purchasing power or ability to pay and willingness to pay, it does not constitute demand. Effective demand alone would figure in economic analysis and business decisions.

[103] Budget Line will be affected by _____

- (a) change in demand
- (b) change in income
- (c) change in supply
- (d) change in equilibrium

(1 mark)

Answer:

- (b) The budget constraint can be explained by the budget line or price line. In simple words, a budget line shows all those combinations of two goods which the consumer can buy spending his given money income on the two goods at their given prices. All those

combinations which are within the reach of the consumer (assuming that he spends all his money income) will lie on the budget line.

[104] Utility can be measured in _____

- (a) Units (b) Utills
(c) Points (d) Numbers

(1 mark)

Answer:

(b) According to the neoclassical economists, utility is a cardinal concept i.e., utility is a measurable and quantifiable entity. It implies that utility can be measured in cardinal numbers and may be assigned a cardinal number like 1, 2, 3 etc. Marshall and some other economists used a psychological unit of measurement of utility called utils. According to Marshall, utility is the numerical score in terms of 'utils' representing the satisfaction that a consumer obtains from the consumption of a particular good. (Utils refer to the hypothetical measuring unit of utility).

[105] Which of the following is the property of IC?

- (a) IC is concave to the origin
(b) ICs intersect each other
(c) IC slopes upward to the left
(d) IC does not touch either x-axis or y-axis

(1 mark)

Answer:

(d) The four properties of indifference curves are:

1. indifference curves can never cross
2. the farther out an indifference curve lies, the higher the utility it indicates
3. indifference curves always slope downwards, and
4. indifference curves are convex.

[106] The dealings of Aeroplanes as given below are _____

Price (in ₹ lakhs)	Quantity Demanded (No. of Aeroplanes)
250	52
252	52

259	52
268	52
272	52

This represents _____

- (a) Perfectly inelastic demand
(b) Perfectly Elastic demand
(c) Unit Elastic
(d) Relative Inelastic.

(1 mark)

Answer:

(a) Perfectly inelastic demand

[107] During lockdown due to covid 19 a consumer finds the vegetable vendors selling vegetables in the streets have raised the prices of

vegetables than usual prices. She will buy _____ vegetable than / as her usual demand showing the demand of vegetable is _____

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

(1 mark)

Answer:

(b) During lockdown due to covid 19 a consumer finds the vegetable vendors selling vegetables in the streets have raised the prices of vegetables than usual prices. She will buy **same** vegetable than/as her usual demand showing the demand of vegetables is **inelastic demand**.

[108] For given goods the angle curve is:

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

(1 mark)

Answer:

(c) For Giffen goods the angle curve is negatively sloped. A Giffen good is a low income, non-luxury product that defies standard economic and consumer demand theory. Demand for Giffen goods rises when the price rises and falls when the price falls. In econometrics, this results in an upward-sloping demand curve, contrary to the fundamental **laws of demand** which create a downward sloping demand curve.

2022 - JUNE

[109] Elasticity measured at a given point on supply curve:

- (a) Point elasticity (b) Arc elasticity (1 mark)
(c) Cross elasticity (c) None of the above

Answer:

- (a) The point elasticity of demand is the price elasticity of demand at a particular point on the demand curve. The change in price elasticity when is infinitesimal (very negligible) we use point elasticity.

[110] Change in price is larger than proportionate to change in demand which type of elasticity?

- (a) Elastic (b) Infinite
(c) Zero (d) Inelastic (1 mark)

Answer:

- (c) Demand is inelastic when change in price is larger than proportionate change in demand.
Elasticity < 1

Demand curve of elasticity less than one.

[111] Veblen effect slopes toward:

- (a) Downward to (b) Upward
(c) Negative (d) Positive (1 mark)

Answer:

- (b) The demand curve for a veblen good is upward sloping, contrary to a normal demand curve, which is downward sloping.
When price of a veblen good goes up, demand goes up.

[112] Advertising elasticity of demand is always:

- (a) Positive (b) Negative
(c) Constant (d) All of the above (1 mark)

Answer:

- (a) Advertisement elasticity of demand is most of the time positive. Advertisement elasticity is typically positive.
Advertisement elasticity varies between zero and infinity.

[113] The graph of perfect complimentary goods is:

- (a) Straight line (b) L shaped
(c) U shaped (d) None of the above (1 Mark)

Answer:

- (b) When goods are perfect compliments, consumers consume them in fixed proportions. The indifference curve will consist of straight lines with a right angle bent, convex to origin.
Hence, it will be 'L' shaped.

[114] Which of the following is not a exception of law of demand?

- (a) Giffen goods (b) Conspicuous goods (1 Mark)
(c) White goods (d) None of the above

Answer:

- (c) While goods are heavily priced slow moving goods.
Ex- Computers, radios, washing machines etc.
Every other good example giffen goods, conspicuous goods and speculative goods are exceptions to law of demand.

[115] When price increases fewer units are sold which tends to lower the revenue?

- (a) Income effect (b) Price effect
(c) Quantity effect (d) Substitution effect (1 mark)

Answer:

- (c) Quantity effect, after a price increase, fewer units are sold, which tends to lower the revenue.
If the quantity effect, which sends to reduce total revenue, is the stronger, total revenue reduces.

[116] The price of sugar falls from ₹ 10,000 to ₹ 8,000 & Quantity decrease from 2500 to 2000 find elasticity of supply

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

Answer:

$$(b) E(s) = \frac{\Delta Q}{Q} \times \frac{P}{\Delta P} = \frac{2,000}{10,000} \times \frac{2,500}{500} = 1$$

[117] The law of demand states that the quantity purchased _____

- (a) Varies Inversely with price.
(b) Varies directly proportional with price

- (c) Varies similarly with price
(d) None of the above

(1 mark)

Answer:

- (a) Varies inversely with price

Reason: The law of demand states that the quantity purchased varies inversely with price. In other words, the higher the price, the lower the quantity demanded. This occurs because of diminishing marginal utility.

[118] If the quantity demanded of mutton increases by 5 % when the price of chicken increase by 25% the price elasticity of demand is -

- (a) 0.2 (b) -1
(c) 0 (d) 0.8

(1 mark)

Answer:

- (a) Cross Price elasticity is - $\frac{\text{Demand of Good X (\%)}}{\text{Price of Good Y (\%)}} = \frac{5\%}{25\%} = 0.2$

[119] A vertical supply curve parallel to y axis implies that the elasticity of supply is -

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

(1 mark)

Answer:

- (a) A vertical supply curve parallel to y axis implies that the elasticity of supply is inelastic (highly) and is zero.

\therefore No change in demand when price changes

[120] If customer is a habitual customer then elasticity is -

- (a) Relative elastic (b) Negative
(c) Zero (d) Inelastic

(1 mark)

Answer:

- (d) If a customer has habitual use of a commodity, no matter how much its price changes, the demand for the commodity will be inelastic. If buyer have preference demand will be inelastic.

[121] Consumer surplus what he is willing to pay less-

- (a) What he actually pays (b) The price of the goods
(c) Money spent on goods (d) All of the above

(1 mark)

Answer:
(a) Consumer Surplus:

= What the consumer is willing to pay - What he actually pays.

[122] If advertisement is increased by 25% & demand is only increased by 5%. Find advertisement elasticity.

- (a) -1 (b) 1
(c) 0.2 (d) -0.2

(1 mark)

Answer:

- (c) Advertisement elasticity = $\frac{\text{Increase in Demand}}{\text{Advertisement Exp.}} = \frac{5\%}{25\%} = 0.02$

[123] When demand decrease due to price increase it is?

- (a) Change in demand (b) Increase in demand
(c) Contraction in demand (d) Decrease in demand

(1 mark)

Answer:

- (c) When demand decreases due to price increase it is contraction of demand.

[124] An indifference curve is L shaped, then two goods will be .

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

(1 mark)

Answer:

- (c) When two goods are perfect complimentary goods, Indifference curve will be L shaped.

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[125] When the elasticity of supply is infinite, the curve will be:

- (a) Parallel to X-axis
(b) Parallel to Y-axis
(c) Upward sloping
(d) Downward sloping

(1 mark)

Answer:

- (a) When elasticity of supply is:
 (i) Perfectly elastic ($E_s = \infty$) : Curve is parallel to x - axis
 (ii) Perfectly inelastic ($E_s = 0$) : Curve is parallel to y - axis
 (iii) Unit elastic ($E_s = 1$) : Curve is upward sloping and cuts the origin
 (iv) Less elastic ($0 < E_s < 1$) : Curve is more steeper and cuts x-axis
 (v) Greaver elastic ($1 < E_s < \infty$) : Curve is more flatter and cuts y-axis

[126] Ram and sons are going for heavy advertisement campaign to enhance their sales. When analysed it was realised that the expenditure on advertisement by the company has gone up from ₹ 2,00,000 to 3,00,000 and the sales of this product increased from 10 lakh units to 20 lakh units. What is the advertising elasticity of demand?

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

Answer:

(c) Advertisement elasticity = $\frac{\text{Increase in demand}}{\text{advertisement Exp.}}$

$$= \frac{\Delta Q}{Q} \times \frac{A}{\Delta A}$$

$$= \frac{10,00,000 \times 2,00,000}{10,00,000 \times 1,00,000} = 2$$

[127] 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:

- (a) 0.25 (b) -4
 (c) 4 (d) -0.25 (1 mark)

Answer:

(a) $E_d = \frac{\% \text{ change in quantity demanded}}{\% \text{ change in price}}$

$$= \frac{\Delta Q}{Q} \times \frac{P}{\Delta P} = \frac{5\%}{20\%} = 0.25$$

[128] The household income rises by 20% in a year consequently the demand of TV sets rises by 30% what is income elasticity of demand?

- (a) 1.5 (b) 0.5
 (c) 0.4 (d) 5 (1 mark)

Answer:

(a) Income elasticity = $\frac{\% \text{ change in demanded}}{\% \text{ change in income}}$

$$= \frac{30}{20} = 1.5$$

[129] Which of the following methods calculates elasticity of demand by using formula?

- lower segment of demand curve
upper segment of demand curve
 (a) They are elasticity method
 (b) Cross elasticity method
 (c) The income elasticity method
 (d) The point elasticity method (1 mark)

Answer: (d)

(d) Point elasticity of demand = $\frac{\text{Lower segment of demand curve}}{\text{Upper segment of demand curve}}$

[130] When marginal utility is zero then total utility is:

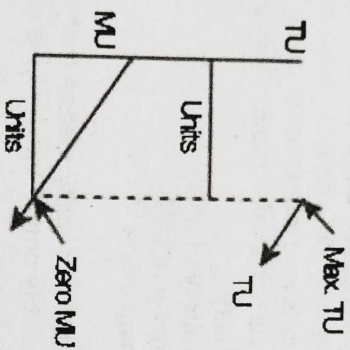
- (a) Maximum (b) Lower
 (c) Negative (d) Increasing (1 mark)

Answer:

(a) Relationship between TU and MU:

- (i) TU rises as long as MU is positive, but at a diminishing rate because MU is diminishing
 (ii) MU diminishes throughout
 (iii) When MU = 0, TU is maximum it is the satiation point
 (iv) When MU is negative, TU is diminishing
 (v) MU is the rate of change of total utility or it is the slope of TU curve

(vi) MU can be positive, zero or negative.



131] The extent to which the demand for a consumers' good is decreased owing to the fact that others are also consuming the same commodity refers to:

- (a) Bandwagon effect (b) Snob effect (1 mark)
(c) Veblen effect (d) None of the above

Answer:

(b) By Snob effect, we refer to two extent to which the demand for a consumer's good is decreased owing to the fact that others are also consuming the same commodity.

132] Suppose the income elasticity of air conditioners is +1.8, which kind of good is an air conditioner?

- (a) Conspicuous goods (b) Normal good (1 mark)
(c) Inferior good (d) Superior good

Answer:

(b) Income elasticity will be positive in case of a normal goods. As Air conditioner is a luxury goods and there is no precise definition of a luxury, but one might expect the income elasticity to be greater than +1.

133] Change in demand due to increase in real income of a consumer is called:

- (a) Income effect (b) Substitution effect (1 mark)
(c) Marginal effect (d) Price effect

Answer:

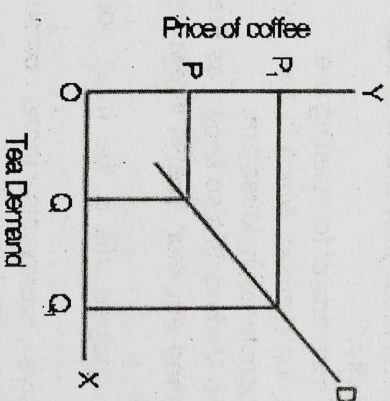
(a) The increase in demand on account of an increase in real income is known as income effect.

134] If the price of good X increases, demand of good Y also increases, the two goods are:

- (a) substitutes (b) complementary goods (1 mark)
(c) normal goods (d) giffen goods

Answer:

(a) Substitute goods are those goods which can be interchangeably used. **Example,** tea and coffee, ink pen and ball pen. If the price of a product falls the people will try it and thus, the demand for the other product will fall.



135] The Delphi technique of demand forecasting is also called:

- (a) Expert opinion method (b) Collective opinion method (1 mark)
(c) Controlled experiments (d) Barometric method

Answer:

(a) The Delphi technique which is also known as Expert Opinion method is developed by Olaf Helmer at the Rand Corporation of the USA, provides a useful way to obtain informed judgements from diverse experts by avoiding the disadvantages of conventional panel meeting. Under his method, instead of

depending upon the opinions of buyers and salesman, firm solicit the opinion of specialists or experts through a series of carefully designed questionnaires. Experts are asked to provide forecasts and reasons for their forecasts.

[136] Which of the following is not a statistical method of forecasting?

- (a) Survey of buyers' intentions
- (b) Regression Analysis
- (c) Freehand projection method
- (d) Least square method

(1 mark)

Answer:

- (a) Statistical method have proved to be very useful in forecasting demand. Forecasting using statistical methods are considered as superior methods because they are more scientific, reliable and free from subjectivity.

Import statistical methods of forecasting are:

- (i) Trend projection method, which is also known as classical method, its popular techniques are:

- (a) Graphical Method, is also known as **Free hand**.
- (b) Fitting trend equation is also known as **Least Square**

Method

- (ii) Regression Analysis this is the most popular method of forecasting.

[137] An Indifference curve represents those combination of two commodities which give consumer:

- (a) Equal satisfaction
- (b) Greater satisfaction
- (c) Less satisfaction
- (d) No satisfaction

(1 mark)

Answer:

- (a) An Indifference curve of two commodities represent those combination which given consumer **Equal Satisfaction**.

[138] Which of the following is NOT meant by liberalisation?

- (a) Decentralisation
- (b) Disinvestment of PSU's
- (c) Freedom to do business
- (d) Deregulation

(1 mark)

Answer:

- (b) In an economy liberalisation aims for running a business without any barriers like without having any control, without any regulations. There is no hindrance for doing any business.

[139] Which of the following is not an assumption of marginal utility analysis?

- (a) Consumer rationality
- (b) Cardinal measurability of utility
- (c) Ordinal measurability of utility
- (d) Continuity in consumption

(1 mark)

Answer:

- (c) Ordinal measurability of utility means that utility can be ranked, which can be possible only in indifference curve analysis and not marginal utility analysis.

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[140] If demand of Bajra decreases due to decrease in its price, then Bajra is a:

- (a) Superior Good
- (b) Inferior Good
- (c) Necessity Good
- (d) Luxury Good

(1 mark)

Answer:

- (b) **Inferior Goods**

If the price of Bajra decreases, there will be increase in real income of consumers that will lead to decrease in demand for Bajra. Hence, it is inferior good.

[141] There is decrease in price of LED TV after budget announcement from ₹ 60,000 to ₹ 50,000. As a result to which demand for it has increases from 1500 units to 2000 units. Elasticity of demand for LED TV will be:

- (a) 1.27
- (b) 1.57
- (c) 0.63
- (d) 0.67

(1 mark)

Answer:

- (b) 1.57

$P_0 = ₹ 60,000$, $P_1 = ₹ 50,000$, $\Delta P = 50,000 - 60,000 = -10,000$
 $Q_0 = 1500$ units, $Q_1 = 2000$ units, $\Delta Q = 2,000 - 1,500 = 500$ units

$$\text{Elasticity of Demand} = \frac{\Delta Q}{\Delta P} \times \frac{P_1 + P_2}{Q_1 + Q_2} = \frac{500}{10,000} \times \frac{1,10,000}{3,500}$$

$$= -1.57 = 1.57$$

[142] Price effect is described as which of followings?

- (a) Income Effect + Veblen Effect
- (b) Substitution Effect + Veblen Effect
- (c) Income Effect + Substitution Effect
- (d) Veblen Effect + Demonstration Effect

Answer:

(1 mark)

(c) Income Effect + Substitution Effect

Price Effect = Income Effect + Substitution Effect

[143] Increase in price of pulses leads to increase in demand of green vegetables:

- (a) Substitute Goods
- (b) Normal Goods
- (c) Complimentary Goods
- (d) None of the above

Answer:

(1 mark)

(a) Substitute Goods

There is an increase in price of pulses which leads to increase in demand for vegetables. As the price of one good and demand for another good shows direct relation, so they are substitutes.

[44] When two goods are unrelated, then cross elasticity of demand will be:

- (a) 0
- (b) ∞
- (c) 1
- (d) (-) 1

Answer:

(1 mark)

(a) 0

When two goods are unrelated to each other, the cross elasticity of demand is zero.

[45] Rightward shift of demand curve of coffee represents:

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

Answer:

(1 mark)

(b) Increase in Demand

As, there is rightward shift of demand curve, there are factors other than price (non-price factors) or conditions of demand which might increase the demand of a particular good or service.

[146] If the price of a gel pen increases from ₹ 40 to ₹ 50 and in response to this the quantity demand decreases from 25 units to 20 units. The coefficient of price elasticity will be:

- (a) 1.25
- (b) -1.25
- (c) 0.8
- (d) -0.8

Answer:

(1 mark)

(d) (-) 0.8

$P_0 = ₹ 40, P_1 = ₹ 50, QD_0 = 25 \text{ units}, QD_1 = 20 \text{ units}$

$\Delta P = ₹ 10, \Delta QD = -5$

$$E_p = \frac{\Delta QD}{\Delta P} \times \frac{P_0}{Q_0} = \frac{-5}{10} \times \frac{40}{25} = -0.8$$

[147] Suppose there is an increase in income by 15%, which increases demand by 30%, the income elasticity of demand will be:

- (a) 0.67
- (b) 0.5
- (c) 2
- (d) 1

Answer:

(1 mark)

(c) 2

$\Delta D = 30\%, \Delta I = 15\%$

$$E_y = \frac{\Delta D}{\Delta I} = \frac{30\%}{15\%} = 2$$

[148] If indifference curve is 'L' shaped then two goods will be called as:

- (a) Perfect Superior Goods
- (b) Perfect Inferior Goods
- (c) Perfect Quality Goods
- (d) Perfect Complementary Goods

Answer:

(1 mark)

(d) Perfect complementary goods

If the indifference curve has 'L'-shaped, it means that marginal rate of substitution (MRS) is undefined because an individual's preference does not allow any substitution between goods.

Eg: Right shoe and left shoe.

[149] Who coined the term 'Demonstration Effect'?

- (a) James Duesenberry
- (b) Thorstein Veblen
- (c) Hicks and Allen
- (d) Alfred Marshall

(1 mark)

Answer:

(a) **James Duesenberry**
Demonstration effect, a term coined by James Duesenberry refers to desire of goods to evaluate consumption behaviour of others.

[150] Increase or Decrease in supply means:

- (a) Shifts in supply curve (b) Rightward or leftward shift
(c) Expansion malnutrition (d) Both (a) and (b) (1 mark)

Answer:

(d) **Both (a) and (b)**
Increase or decrease in supply is due to shifts in supply curve, i.e. rightward or leftward shift which occurs due to changes in non-price factors.

[151] Which of the following is not an exception to law of Demand?

- (a) Speculative Goods (b) Giffen Goods
(c) Necessity Goods (d) Normal Goods (1 mark)

Answer:

(d) **Normal Goods**
Normal Goods are in agreement with Law of Demand. So, they are not exception to Law of Demand.

[152] Movement along the same Demand curve represents.

- (a) Change in Demand (b) Change in Quantity Demand
(c) Increase in Demand (d) Decrease in Demand (1 mark)

Answer:(b) **Change in Quantity Demand**

Movement of along source demand curve is due to changes in price which leads to change in quantity demanded.

[53] Increase in price of pulses leads to increase in demand of green vegetable.

- (a) Substitutes (b) Complimentary Goods
(c) Normal Goods (d) None of the above (1 mark)

Answer:(a) **Substitutes**

Increase in price of pulses leads to decrease in demand of pulses and increase in demand of green vegetables.

[154] When number of tourists increase at a place for which room rent of hostel also increases. Then elasticity of supply of room will be:

- (a) Zero (b) < 1
(c) > 1 (d) $= 1$ (1 mark)

Answer:(b) < 1

There is increase in number of tourists and even though there is increase in hotel room prices, the supplier cannot be able to expand the supply with same proportionate. So, the elasticity of supply will be less than one that is inelastic supply.

[155] When oranges has (-)0.58 Increase elasticity, the commodity orange is called as:

- (a) Orange is a Necessity Good
(b) Orange is a inferior Good
(c) Orange is a Substitute Good
(d) None (1 mark)

Answer:(b) **Orange is a Inferior Good**

If Income elasticity has negative value, then good is said to be Inferior Good.

[156] Which of the following method is used to calculate Elasticity of Demand, when price and quantity demand are large?

- (a) Zero Elasticity (b) Cross Elasticity
(c) Point Elasticity (d) Are Elasticity (1 mark)

Answer:(d) **Are Elasticity**

Are Elasticity is used to calculate elasticity of demand when price and quantity demand, has large changes.

[157] Suppose that total utility is 100 at 10 units of consumption of a commodity. If consumer increases the consumption by one more unit and owing to that total utility increases to 108. The marginal utility of last units consumed will be:

- (a) 8 (b) 100
(c) 108 (d) 101 (1 mark)

Answer:

(a) 8

$$TU_{10} = 100, TU_{11} = 108.$$

$$MU_n = TU_n - TU_{n-1}$$

$$MU_{11} = TU_{11} - TU_{10} = 108 - 100 = 8$$

[158] Due to introduction of 5G mobiles in market, the price of such mobiles have increased by 20% and there by supply increased by 40%, the elasticity of supply will be which of the following?

(a) 0.5

(b) (-)0.5

(c) -2

(d) 2

(1 mark)

Answer:

(c) 2

$$\% \Delta QS = 40\%, \% \Delta P = 20\%$$

$$Es = \frac{\% \Delta QS}{\% \Delta P} = \frac{40\%}{20\%} = 2$$

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[59] Exception of law of demand is _____.

(a) Cross elasticity of demand

(b) Marginal utility

(c) Conspicuous goods

(d) Substitute goods

(1 mark)

Answer:(c) **Conspicuous goods**

Conspicuous goods are used by the rich people as status symbol for enhancing their social prestige. They purchase if their prices are high or keep going up which is an exception to law of demand.

0]

Units

TU

MU

1

200

-

2

-

180

3

480

-

Find Tu at 2 units:

(a) 100

(b) 350

(c) 380

(d) 200

(1 mark)

Answer:(c) **380**

At 1 unit, TU = MU

So, $TU_1 = MU_1 = 200$ Also, $TU_n = TU_{n-1} + MU_n$

So, at 2 units

$$TU_2 = TU_1 + MU_2$$

$$TU_2 = 200 + 180$$

$$TU_2 = 380.$$

Thus, TU at 2 units is 380.

[161] If price elasticity of supply is 5 and % change in price of product is 15%. Then what will be percentage change in quantity supplied?

(a) 75%

(b) 15%

(c) 20%

(d) 55%

(1 mark)

Answer:

(a) 75%

$$E_s = 5$$

$$E_s = \frac{\text{Percentage change in quantity supplied}}{\text{Percentage change in price}}$$

$$\text{Percentage change in quantity supplied} = 5 \times 15\%$$

$$= 75\%$$

[162] The price of hot - dog increases by 22% and the elasticity demanded falls by 25%. This indicates that demand for hot dog is:

(a) Elastic

(b) Inelastic

(c) Unitary elastic

(d) Perfectly elastic

(1 mark)

Answer:(a) **Elastic**

When price of hot-dog increases by 22% and consequently it's demand falls by 25% this means elasticity is:

$$E = \frac{\% \text{ change in Quantity demanded}}{\% \text{ change in its price}} = \frac{25\%}{22\%}$$

$$E = 1.136 \text{ (This shows that demand is Elastic)}$$

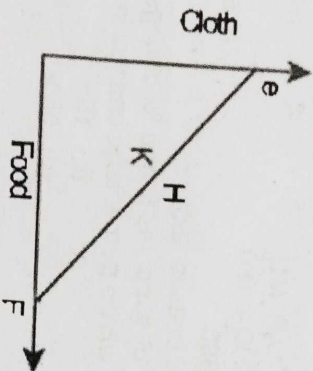
[163] MU of nth unit is given by:(a) $TU_n - TU_{n-1}$ (b) $TU_n + TU_{n+1}$ (c) $TU_n + TU_{n-1}$ (d) $TU_n - TU_{n-1}$

(1 mark)

Answer:

(c) $TU_n - TU_{n-1}$

$MU_n = TU_n - TU_{n-1}$ (Marginal Utility is addition to the total utility by the consumption of an additional unit of output.)
[164] 'CF' is the budget line. What does the points 'K' and 'H' represents from the consumer point of view?



- (a) Point 'K' is not reachable of the consumer, point 'H' shows underspending by the consumer.
- (b) Point 'K' and 'H' shows equal consumer spending.
- (c) Point 'K' shows underspending by the consumer and point 'H' shows beyond the reach of consumer.
- (d) Point 'K' and 'H' shows the price ratio.

Answer:

(1 mark)

(c) **Point 'K' shows underspending by the consumer and point 'H' shows beyond the reach of consumer.**

Point 'K' is underspending (i.e. reachable with his income) but is undesirable while point 'H' is overspending (i.e. not reachable with his income) but is desirable.

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

Answer:

(1 mark)

(c) **Upward - Sloping to right.**

Demand curve in case of Giffen goods is upward (sloping to the right) as it is an exception to the law of demand.

[166] The price of movie 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 person to 200 person. What is the price elasticity of demand for movie? (Use Arc elasticity method)

- (a) 0.5
- (b) 0.8
- (c) 1.0
- (d) 1.2

Answer:

(1 mark)

$$Ep = \frac{Q_2 - Q_1}{Q_2 + Q_1} \times \frac{P_2 + P_1}{P_2 - P_1}$$

$$= \frac{200 - 300}{200 + 300} \times \frac{200 + 120}{200 - 120}$$

$$= 0.8.$$

[167] A consumer consumes more of commodity X and less of commodity Y. The indifference curve will be:

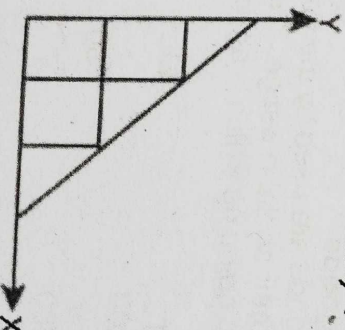
- (a) Slope downwards from left to right
- (b) Intersect with each other
- (c) Touch two axes
- (d) Concave at mid-point

Answer:

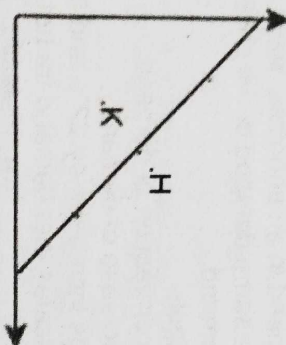
(1 mark)

(a) **Slope downwards from left to right**

The indifference curve when a consumer consumes more of commodity X and less of commodity Y will be:



[168] Which of the following option is correct about point K?



- (a) The consumer is using his full income.
- (b) The consumer is understanding
- (c) The consumer is overspending.
- (d) All of the above.

(1 mark)

Answer:

(b) **The consumer is understanding**

At point 'K', it shows that there is underspending by the consumer within his income which means he is understanding.

[169] Suppose a consumer's income increases from ₹3,000 to ₹3,600. As a result the consumer increases her purchases of compact discs from 25 CDs to 30 CDs. What is the consumer's income elasticity of demand for CDs? (Arc Elasticity Method)

- (a) 1.00
- (b) 0.87
- (c) 0.91
- (d) 0.50

(1 mark)

Answer:

(a) 1.00

Income Demand of CDs.

₹ 3,000

25

₹ 3,600

30

$$E_y = \frac{\Delta Q}{\Delta Y} \times \frac{Y_1 + Y_2}{Q_1 + Q_2}$$

$$= \frac{5}{600} \times \frac{6800}{55}$$

$$= 1.00$$

[170] Which is the price at which the quantity demanded of a commodity is equal to the quantity supplied of the commodity and there is no unsold stock or no excess demand?

- (a) Selling price
- (b) Market clearing price
- (c) Future price
- (d) Spot price

(1 mark)

Answer:

(b) **Market clearing price**

The price at which Quantity demanded = Quantity supplied and there is no unsold stock or no excess demand is called market clearing price.

[171] An decrease in price will result in an increase in total revenue if:

- (a) the percentage change in quantity demand is less than the percentage change in price.
- (b) the percentage change in quantity demand is greater than the percentage change in price.
- (c) demand is elastic.
- (d) the consumer is operating along a linear demand curve at which the price is very high and the quantity demanded is very low.

(1 mark)

Answer:

(b) **The percentage change in quantity demand is greater than the percentage change in price.**

When such situation occurs, then total revenue will not increase when price decreases.

[172] If the quantity demanded changes by 15% and elasticity is 1. What is the change in price?

- (a) 25%
- (b) 15%
- (c) 20%
- (d) 10%

(1 mark)

Answer:

(b) 15%.

$$E = \frac{\text{Percentage change in quantity}}{\text{Percentage change in price}}$$

$$1 = \frac{15\%}{x}$$

$$x = 15\%.$$

[173] A curve represents all those combination of inputs which are capable of producing the same level of output.

- (a) Isoquant (b) Production possibility curve
(c) Indifference curve (d) Marginal outlay curve (1 mark)

Answer:

- (a) Isoquant

An isoquant shows all those combinations of different factors of production which give the same output to the producer.

PRACTICE QUESTIONS OF MCQ

[1] Demand for a commodity refers to:

- (a) A desire for the commodity
(b) Need for the commodity
(c) Quantity demanded of that commodity
(d) Quantity of the commodity demanded at a certain price during any particular period of time.

[2] Suppose the price of movies seen at a theatre rises from ₹ 120 per person to ₹ 200 per person. The theatre manager observed that the rise in prices has led to a fall in attendance at a given movie from 300 persons to 200 persons. What is the price elasticity of demand for the movie? (Arc elasticity)

- (a) 0.5 (b) 0.8
(c) 1.00 (d) None of these.

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

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

[4] For what type of goods does demand fall with a rise in income levels of households?

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

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

- (a) Make the demand remain constant
(b) Reduce the demand

[One

[13]

[14]

[15]

[16]

[17]

[18]

[19]

[20]

(c) Increase the demand

(d) Change the demand in an abnormal way.

Movement along the same demand curve shows:

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

[7] The price of hot-dogs increases by 22% and the quantity demanded falls by 25% this indicates that demand for hot dogs is :

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

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

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

[9] What is an Engels curve?

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

[10] Which factor generally keeps the price-elasticity of demand for a good low:

- (a) Variety of uses for that goods
(b) Its low price
(c) Close substitutes for that goods
(d) A high proportion of the consumer's income spent on it

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

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

[12] An increase in demand can result from:

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

- [13] Compute income elasticity if demand increases by 5% and income by 1%.
- (a) 5 (b) 1/5
(c) 0 (d) None
- [14] For a commodity with a unitary elastic demand curve if the price of the commodity rises, then the consumer's total expenditure on this commodity would:
- (a) Increase (b) Decrease
(c) Remains constant (d) Either increase or decrease
- [15] What is the value of elasticity of demand if the demand for the goods is perfectly elastic?
- (a) 0 (b) 1
(c) Infinity (d) Less than 0
- [16] What is the original price of a commodity when price elasticity is 0.71 and demand changes from 20 units to 15 units and the new price is ₹ 10? [Point elasticity]
- (a) ₹ 15.4 (b) ₹ 18
(c) ₹ 20 (d) ₹ 8
- [17] If the price of a complementary good rises:
- (a) Demand curve shifts to the left
(b) Demand curve shifts to the right
(c) Demand curve moves downwards
(d) Demand curve moves upwards
- [18] Cross elasticity of demand in Monopoly market is:
- (a) Elastic (b) Zero
(c) Infinite (d) One
- [19] What is income elasticity of demand, when income changes by 20% and demand changes by 40%?
- (a) 1/2 (b) 2
(c) 0.33 (d) None
- [20] If demand is parallel to the X-axis, what will be the nature of elasticity?
- (a) Perfectly elastic (b) Inelastic
(c) Elastic (d) Highly elastic

- [21] Giffen Paradox is an exception of
- (a) Demand (b) Supply
(c) Production (d) Utility
- [22] Law of demand is a _____
- (a) quantitative statement (b) qualitative statement
(c) Both (a) & (b) (d) Hypothetical
- [23] The demand for which type of goods do not decrease with the increase in its price
- (a) Comforts (b) Luxury
(c) Necessities (d) Capital goods
- [24] Increase in Price from ₹ 4 to ₹ 6 then decrease in demand from 15 units to 10 units. What is the price elasticity? [Point elasticity]
- (a) 0.66 (b) 5
(c) -1.5 (d) 2
- [25] Expansion & contraction of the demand curve occurs due to:
- (a) Change in the price of commodity
(b) Change in price of substitute or complementary goods
(c) Change in income
(d) None
- [26] The elasticity between two points:
- (a) Point elasticity (b) Arc elasticity
(c) Cross elasticity (d) None
- [27] When price remains constant and quantity demanded changes, then the elasticity of demand will be:
- (a) Vertical to X-axis (b) Horizontal to X-axis
(c) Either (a) or (b) (d) None
- [28] Demand of a commodity depends upon:
- (a) Price (b) Income
(c) Price of related good (d) All of the above
- [29] In case of substitute goods, cross elasticity is _____.
- (a) Negative (b) Zero
(c) Positive (d) None of these

[30] The prices of a commodity were increased from ₹ 4 to ₹ 6. As a result, demand decreased from 15 units to 10 units. What is the price elasticity? (Point elasticity)

- (a) 0.66 (b) 0.33
(c) 1.00 (d) 1.5

[31] Other things remaining constant, if the price of the inferior goods decreases then what will be the effect?

- (a) Demand increases
(b) Demand decreases
(c) Quantity demanded increases
(d) Quantity demanded decreases.

[32] When the price falls from ₹ 6 to ₹ 4, the demand rises from 10 to 15 units. Calculate price elasticity of demand. (Point elasticity)

- (a) 1.5 (b) 3.5
(c) 0.5 (d) 2

[33] Cross elasticity of perfect substitutes is:

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

[34] What is Engel's Curve?

- (a) Curve showing three demand curve
(b) Named after Ernst Engel
(c) Both (a) and (b)
(d) None

[35] A consumer spends ₹ 80 on purchasing a commodity when its price is ₹ 1 per unit and spends ₹ 96 when the price is ₹ 2 per unit. Calculate the price elasticity of demand.

- (a) 0.2 (b) 0.3
(c) 0.4 (d) 0.5

[36] When the price of cylinder rises from ₹ 120 to ₹ 200, the demand falls from 300 to 200. Calculate the price elasticity of demand.

- (a) 1.00 (b) 0.50
(c) 5.00 (d) None

[37] If the price is decreased from ₹ 10 to ₹ 8 of a commodity but the quantity demanded remains the same price elasticity is _____.

- (a) 1 (b) 0
(c) 8 (d) none

[38] Demand for electricity power is elastic because _____.

- (a) it is available at a very high price
(b) it is essential for life
(c) it has many uses
(d) it has many substitutes

[39] If the income of a person increases by 10% and his demand for goods increases by 30%, income elasticity will be _____.

- (a) equal to one (b) less than one
(c) more than one (d) none of these

[40] In the case of luxury goods, the income elasticity of demand will be _____.

- (a) zero
(b) negative but greater than one
(c) positive but greater than one
(d) positive but less than one

[41] In the case of a straight-line demand curve meeting two axes, the price elasticity of demand at the point where the curve meets y-axis will be _____.

- (a) zero (b) greater than one
(c) less than one (d) infinity

[42] Calculate income elasticity for the household when the income of the household increases by 10% and the demand for cars rises by 20%.

- (a) +2 (b) -2
(c) +5 (d) -5

[43] The commodity whose demand is associated with the name of Robert Giffen?

- (a) Necessary good (b) Luxury good
(c) Inferior good (d) Ordinary good
(a) demand curve remains unchanged
(b) demand curve changes

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- (c) The slope of the demand curve changes
(d) both (a) & (c) above
- [45] Certain goods for which Quantity demanded decreases when Income increases are called _____
(a) superior goods (b) inferior goods
(c) prestige goods (d) conspicuous goods
- [46] When the price falls by 5% and the demand rises by 6%, then elasticity of demand is _____
(a) elastic (b) inelastic
(c) unitary elastic (d) zero
- [47] Cross elasticity of complementary goods is :
(a) Positive (b) Negative
(c) Infinity (d) None of these.
- [48] Demand of i-pod increases from 950 to 980 and income increases from 9,000 to 9,800. What is income elasticity?
(a) 0.53 (b) 0.35
(c) 0.43 (d) None
- [49] Contraction of demand results due to _____.
(a) increase in the price of the goods
(b) decrease in the no. of the producers
(c) decrease in the output of the sellers
(d) decrease in the price of the goods.
- [50] Bricks for houses is an example of which kind of demand?
(a) Composite (b) Competitive
(c) Joint (d) Derived.
- [51] Normal goods have _____.
(a) zero income elasticity (b) negative income elasticity
(c) positive income elasticity (d) infinite income elasticity
- [52] In which of the following cases the demand for goods tends to be less elastic?
(a) Good is necessary
(b) The time-period is shorter
(c) Number of close substitutes is less
(d) All of the above
- [53] Which of the following elasticity of demand measures a movement along the demand curve rather than a shift in the curve?
(a) Income elasticity of demand
(b) Price elasticity of demand
(c) Substitution elasticity of demand
(d) None of these.
- [54] If the price elasticity of demand is zero, the shape of the curve will be:
(a) Horizontal (b) Vertical
(c) Sloping downwards (d) None of these.
- [55] If a 20% fall in the price of a commodity brings about a 40% increase in its demand, then the demand for the commodity will be termed as:
(a) Inelastic (b) Elastic
(c) Highly elastic (d) Perfectly elastic
- [56] Expansion and contraction in demand are caused by:
(a) Change in the income of the buyer
(b) Change in the taste and preference of the buyer
(c) Change in the price of the commodity
(d) Change in the price of the related goods.
- [57] A fall in the price of normal goods leads to:
(a) A shift in the demand curve
(b) Fall in demand
(c) A rise in consumers real income
(d) A fall in consumers real income.
- [58] A 10% increase in the price of tea results in an 8% increase in the demand for coffee. Cross elasticity of demand will be :
(a) 0.80 (b) 1.25
(c) 1.50 (d) 1.80
- [59] When the total expenditure incurred by the consumers on a commodity due to a change in its price remains the same, then the elasticity of demand for that commodity will be:-
(a) Zero (b) One
(c) More than one (d) Less than one

- [60] What will be the price elasticity if the original price is ₹ 5, the original quantity is 8 units and the changed price is ₹ 6, and the changed quantity is 4 units:
 (a) 2.5 (b) 2.0
 (c) 1.5 (d) 1.0
- [61] The original price of a commodity is ₹ 500 and quantity demanded of that is 20 kgs. If the price rises to ₹ 750 and the quantity demanded falls to 15 kgs. The price elasticity of demand will be:
 (a) 0.25 (b) 0.50
 (c) 1.00 (d) 1.50
- [62] The demand for factors of production is —
 (a) fundamental demand (b) derived demand
 (c) market demand (d) joint demand.
- [63] Cross elasticity of demand between two perfect substitutes will be
 (a) Very high (b) Very low
 (c) Infinity (d) Zero
- [64] What is the elasticity between the midpoint and the upper extreme point of a straight line continuous demand curve?
 (a) Infinite (b) Zero
 (c) Greater than one (d) Less than one
- [65] The price of a Tiffin Box is ₹ 100 per unit and the quantity demanded in the market is 1,25,000 units. Company increased the price to ₹ 125. Due to this increase in price, the quantity demanded decreases to 1,00,000 units. What will be the price elasticity of demand?
 (a) 1.25 (b) 0.80
 (c) 1.00 (d) None of the above.
- [66] The price of a commodity decreases from 10 to 8 and the quantity demanded of it increases from 25 to 30 units, then the coefficient of price elasticity will be —
 (a) 1.00 (b) -1.00
 (c) 1.5 (d) -1.5
- [67] Which statement is true about the law of demand?
 (a) Income rises, demand rises
 (b) Price rises, demand rises
- (c) Price falls, demand falls
 (d) Price falls, demand rises
- [68] Which of the following is not a determinant of demand?
 (a) Consumer's tastes and preferences
 (b) Quality supplied of a commodity
 (c) Income of the consumers
 (d) Price of related goods
- [69] A demand curve parallel to the Y-axis implies:
 (a) $E_p = 0$ (b) $E_p = 1$
 (c) $E_p < 1$ (d) $E_p > 1$
- [70] Generally, when the income of a consumer increases, he goes in for superior goods, leading to a fall in the demand for inferior goods. It means, income elasticity of demand for superior goods —.
 (a) less than 1 (b) unitary
 (c) zero (d) negative
- [71] If the quantity demanded of X commodity increases by 5% when the price of Y commodity increases by 20%, the cross-price elasticity of demand between X and Y commodity will be:
 (a) -0.25 (b) 0.25
 (c) -4.00 (d) 4.00
- [72] Which amongst the following is the right formula for calculating the price elasticity of demand using ratio method?
 (a) $(\Delta Q/\Delta P) \times (P/Q)$ (b) $(\Delta P/\Delta Q) \times (Q/P)$
 (c) $(\Delta Q/\Delta P) \times (Q/P)$ (d) $(\Delta P/\Delta Q) \times (1/P)$
- [73] Straight line demand curve at the point of meeting the x-axis will indicate elasticity coefficient Equal to —.
 (a) one (b) infinity
 (c) zero (d) more than one
- [74] Changes in the quantity demanded in response to changes in the price of the same commodity is called:
 (a) change in demand (b) change in quantity demanded
 (c) income demand (d) cross demand

- [75] Other things being equal, a fall in the price of the complementary goods will cause the _____ of the other to rise.
 (a) price (b) supply
 (c) demand (d) utility
- [76] A horizontal demand curve parallel to X-axis shows that the elasticity of demand is:
 (a) zero (b) equal to unity
 (c) greater than unity (d) infinite.
- [77] When the price of a commodity increases from ₹ 8 to ₹ 9, its demand decreases by 10%. The price elasticity of demand for the commodity is:
 (a) 0.8 (b) 0.9
 (c) 1.0 (d) 1.1
- [78] Which one of the following is correct about the price elasticity of demand for a commodity?
 (a) It remains the same under all situations
 (b) It has several degrees/nature
 (c) It remains unaffected by the price of any other commodity
 (d) It is an immeasurable concept.
- [79] The supply of a good refers to:
 (a) Actual production of goods
 (b) Total stock of goods
 (c) Stock available for sale
 (d) Amount of goods offered for sale at a particular price per unit of time
- [80] Increase or Decrease in Supply means:
 (a) A shift in Supply curve
 (b) Movement along the same supply curve
 (c) Both (a) and (b)
 (d) Neither (a) or (b)
- [81] If the supply curve is Perfectly Inelastic, the supply curve is:
 (a) Vertical (b) Horizontal
 (c) Upward sloping (d) Downward sloping

- [82] When supply price increase in the short run, the profit of the producer _____:
 (a) increases (b) decreases
 (c) remains constant (d) decreases marginally
- [83] A change in the supply of a commodity along with the same supply curve may occur due to:
 (a) Change in the price of the commodity
 (b) Change in the prices of related goods
 (c) Change in future expectations about the price of the goods
 (d) Change in the cost of inputs
- [84] What is the elasticity of supply, when price changes from ₹ 15 to ₹ 12 and supply change from 6 units to 5 units?
 (a) 0.77 (b) 0.87
 (c) 0.833 (d) 0.58
- [85] A perfectly inelastic supply curve will be:
 (a) Parallel to X-axis (b) Parallel to Y-axis
 (c) Downward sloping (d) None of these
- [86] If the supply of a commodity is perfectly elastic, an increase in demand will result in:
 (a) Decrease in both the price and quantity at equilibrium
 (b) Increase in both the price and quantity at equilibrium
 (c) Increase in equilibrium quantity, equilibrium price remaining constant
 (d) Increase in equilibrium price, equilibrium quantity remaining constant
- [87] When the change in the quantity supplied is proportionate to the change in the price, the producer is said to have _____.
 (a) perfectly elastic supply (b) relatively elastic supply
 (c) unitary elastic supply (d) perfectly inelastic supply
- [88] Expansion in supply refers to a situation when the producers are willing to supply a:
 (a) Larger quantity of the commodity at an increased price
 (b) Larger quantity of the commodity due to increased taxation on that commodity

- (c) Larger quantity of the commodity at the same price
(d) Larger quantity of the commodity at the decreased price
- [89] When supply is perfectly inelastic, elasticity of supply is equal to :
(a) $+1$
(b) 0
(c) 1
(d) Infinity
- [90] If there is an improvement in the technology, _____ :
(a) the supply curve shifts to the left
(b) the supply curve shifts to the right
(c) quantity supplied increase
(d) Both (b) and (c)
- [91] If the price of apples rises from ₹ 30 per Kg to ₹ 40 per Kg and the supply increases from 240 Kg to 300 Kg. Elasticity of supply is :
(a) 0.75
(b) 0.67
(c) 00.67
(d) 00.77
- [92] 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
- [93] Supply refers to the quantity supplied at a particular price for a particular period of time:
(a) True
(b) False
(c) Partly true
(d) None
- [94] Increase or decrease in supply means:
(a) Change in supply due to change in its own price
(b) Change in supply due to change in factors other than its own price
(c) Both the above
(d) None of the above
- [95] When Supply Curve shifts to the right there is _____ in Supply.
(a) an increase
(b) expansion
(c) contraction
(d) decrease.
- [96] Elasticity of supply is defined as the responsiveness of quantity supplied of a good to a change in the _____
(a) price of concerned good
(b) price of substitute good
(c) demand
(d) none.
- [97] The supply of the commodity implies?
(a) Total Output during a specified period
(b) Its total stock
(c) Its stock available for sale
(d) Its Quantity Offered for sale at a particular price per unit of time
- [98] Supply of a commodity is a _____.
(a) stock concept
(b) flow concept
(c) both stock and flow concept
(d) wholesale concept
- [99] The price of mangoes increases from ₹ 30 per kilogram to ₹ 40 per kilogram and the supply increases from 240 kilograms to 300 kilograms. What will be the elasticity of supply for mangoes?
(a) -0.67
(b) $+0.67$
(c) -0.77
(d) $+0.75$
- [100] If a 20% fall in price brings about a 10% fall in quantity supplied, in such a case elasticity of supply will be equal to:
(a) 2.0
(b) 0.5
(c) 1.0
(d) 1.5
- [101] At a price of ₹ 25 per kg, the supply of a commodity is 10,000 kg per week. An increase in its price to ₹ 30 per kg, increases the supply of the commodity to 12,000 kg per week. The elasticity of supply will be:
(a) 0.75
(b) 1.00
(c) 1.50
(d) 1.75
- [102] Short-run price is also called by the name of _____.
(a) market price
(b) showroom price
(c) maximum retail price
(d) none of these.
- [103] If a 20% fall in the price brings about a 10% fall in the quantity supplied, then the elasticity of supply will be equal to:
(a) 2.0
(b) 0.5
(c) 1.0
(d) 1.5
- [104] The elasticity of supply is greater than one when:
(a) Proportionate change in price is more than the proportionate change in quantity supplied

nit of time

- (b) Proportionate change in quantity supplied is more than the proportionate change in price
 (c) Change in price and quantity supplied are equal
 (d) All of the above
- [105] Supply refers to which of the following?
 (a) Total stock of the goods
 (b) Stock of the goods available for sale
 (c) Quantity of a good offered for sale at a particular price
 (d) Quantity of a good actually sold

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- [106] After reaching saturation point consumption of additional units of commodity causes
 (a) Total utility to fall and marginal utility to increase
 (b) Total and marginal utility both to increase
 (c) Total utility to fall and marginal utility to become negative
 (d) Total utility to become negative and marginal utility to fall
- [107] The elasticity of supply is greater than one when
 (a) Proportionate change in price is greater than the proportionate change in quantity supplied
 (b) Proportionate change in quantity supplied is more than the proportionate change in price
 (c) Change in price and quantity supplied are equal
 (d) All of the above
- [108] As the price of a commodity increases, normally, its supply:
 (a) Decreases (b) Remains unchanged
 (c) Increases (d) Cannot be determined.
- [109] If equilibrium is present in a market, then it can be said that:
 (a) The price of the product will tend to rise
 (b) Quantity demanded equals quantity supplied
 (c) Quantity demanded exceeds quantity supplied
 (d) Quantity supplied exceeds quantity demanded
- [110] Supply is a _____ concept.
 (a) flow (b) stock
 (c) flow and stock, both (d) qualitative
- [111] 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 price
 (c) Percentage change in quantity demanded of goods
 (d) Percentage change in taste preferences
- [112] An increase in supply denotes a shift in the supply curve to the right. If there is an increase in supply without a change in demand, the equilibrium price will _____ and the quantity demanded will go up.
 (a) fall (b) remain constant
 (c) increase (d) becomes zero.
- [113] Which among the following is not a determinant of supply?
 (a) Price of the commodity concerned
 (b) Prices of the factors of production
 (c) State of technology used in the production process
 (d) Customs and traditions in society
- [114] When the price of the commodity increases from ₹ 200 per unit to ₹ 250 per unit and consequently the quantity supplied rises from 1000 units to 1100 units, What will be the coefficient of elasticity of supply?
 (a) 4.0 (b) 0.4
 (c) 5.0 (d) 0.5
- [115] The Supply Curve shifts to the right because of:
 (a) Improved technology
 (b) Increased price of factors of production
 (c) Increased excise duty
 (d) All of the above.
- [116] The supply of a good refers to
 (a) Stock available for sale
 (b) Total stock in the warehouse
 (c) Actual production of the goods
 (d) Quantity of the good offered for sale at a particular price per unit of time.

ANSWER

1	(d)	2	(b)	3	(c)	4	(a)	5	(b)	6	(c)
7	(a)	8	(a)	9	(b)	10	(b)	11	(b)	12	(b)
13	(a)	14	(c)	15	(c)	16	(a)	17	(a)	18	(b)
19	(b)	20	(a)	21	(a)	22	(b)	23	(c)	24	(a)
25	(a)	26	(b)	27	(b)	28	(d)	29	(c)	30	(a)
31	(d)	32	(a)	33	(d)	34	(c)	35	(c)	36	(b)
37	(b)	38	(c)	39	(c)	40	(c)	41	(d)	42	(a)
43	(c)	44	(d)	45	(b)	46	(a)	47	(b)	48	(b)
49	(a)	50	(d)	51	(c)	52	(d)	53	(b)	54	(b)
55	(b)	56	(c)	57	(c)	58	(a)	59	(b)	60	(a)
61	(b)	62	(b)	63	(c)	64	(c)	65	(b)	66	(b)
67	(d)	68	(b)	69	(a)	70	(a)	71	(b)	72	(a)
73	(c)	74	(b)	75	(c)	76	(d)	77	(a)	78	(c)
79	(d)	80	(a)	81	(a)	82	(a)	83	(a)	84	(c)
85	(b)	86	(c)	87	(c)	88	(a)	89	(b)	90	(b)
91	(a)	92	(b)	93	(a)	94	(b)	95	(a)	96	(a)
97	(d)	98	(b)	99	(d)	100	(b)	101	(b)	102	(a)
103	(b)	104	(b)	105	(c)	106	(c)	107	(b)	108	(c)
109	(b)	110	(a)	111	(b)	112	(a)	113	(d)	114	(b)
115	(a)	116	(d)								