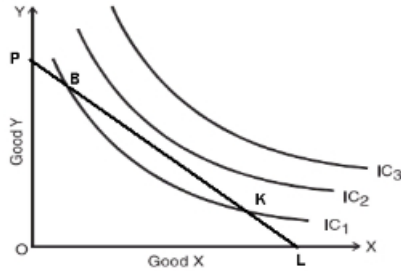


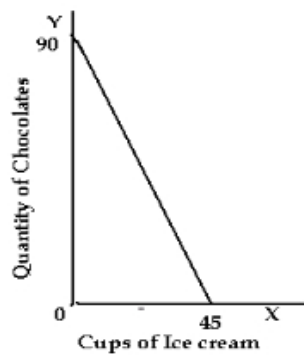
TOP 75 QUESTIONS OF CH 2

CA Foundation (NSET) - Paper - 4 Business Economics

1. If this consumer is spending her entire income and consuming at point B, what advise will you give her? [1]



- a) Consume same quantity of Good Y and more of Good X      b) Consume more of Good X and less of Good Y
- c) Consume more of X and less of Y and reach point K      d) No advise needed, as she is maximizing her utility at B
2. Conspicuous goods are also known as [1]
- a) Veblen goods      b) Prestige goods
- c) Snob goods      d) All of these
3. Which of the following statements is correct? [1]
- a. With the help of statistical tools, the demand can be forecasted with perfect accuracy
- b. The more the number of substitutes of a commodity, the more elastic is the demand.
- c. Demand for butter is perfectly elastic.
- d. Gold jewellery will have negative income elasticity.
- a) Statement (a) is correct.      b) Statement (b) is correct.
- c) Statement (d) is correct.      d) Statement (c) is correct.
4. If the local pizzeria raises the price of a medium pizza from ₹ 60 to ₹ 100 and quantity demanded falls from 700 pizzas a night to 100 pizzas a night, the price elasticity of demand for pizzas is: (Use Arc Elasticity Method) [1]
- a) 1.5      b) 2.0
- c) .67      d) 3.0
5. The figure below shows the budget constraint of a consumer with an income of ₹ 900/- to spend on two commodities, namely ice cream and chocolates. [1]



The price of these two commodities respectively are:

- a) ₹ 10 and ₹ 20
- b) ₹ 20 and ₹ 10
- c) ₹ 5 and ₹ 20
- d) ₹ 10 and ₹ 5

6. Which of the following statements is correct? [1]
- a. When the price falls the quantity demanded falls.
  - b. Seasonal changes do not affect the supply of a commodity.
  - c. Taxes and subsidies do not influence the supply of the commodity.
  - d. With lower cost, it is profitable to supply more of the commodity.
- a) Statement (a) is correct.
  - b) Statement (d) is correct.
  - c) Statement (c) is correct.
  - d) Statement (b) is correct.
7. The successive units of stamps collected by a little boy give him greater and greater satisfaction. This is a clear case of [1]
- a) Operation of the law of demand.
  - b) Exception to the law of diminishing utility.
  - c) Both Operation of the law of demand and Exception to the law of diminishing utility
  - d) Consumer surplus enjoyed in hobbies and rare collections.
8. Given the following four possibilities, which one results in an increase in total consumer expenditure? [1]
- a) Demand is inelastic and price falls.
  - b) Demand is unitary elastic and price falls.
  - c) Demand is inelastic and prices rises.
  - d) Demand is elastic and price rises.
9. The supply function is given as  $Q = -100 + 10 P$ . Find the elasticity using point method, when price is ₹ 15. [1]
- a) 3
  - b) -3
  - c) 4
  - d) -5
10. A decrease in the demand for cameras, other things remaining the same will [1]
- a) Decrease in quantity of camera demanded
  - b) Decrease the price but increase the number of cameras bought
  - c) Increase the number of cameras bought
  - d) Decrease the price and decrease in the number of cameras bought.
11. Demand for a good will tend to be more inelastic if it exhibits which of the following characteristics? [1]
- a) The good is a small part of the consumer's income.
  - b) The good has many substitutes.

- c) The good is a luxury (as opposed to a necessity). d) There is a great deal of time for the consumer to adjust to the change in prices.
12. If the organizers of an upcoming cricket match decide to increase the ticket price in order to raise its revenues, what they have learned from past experience is; [1]
- The percentage increase in ticket rates will be always equal the percentage decrease in tickets sold.
  - The percentage increase in ticket rates will be always greater than the percentage decrease in tickets sold.
  - The percentage increase in ticket rates will be less than the percentage decrease in tickets sold.
  - (a) and (c) are correct.
- Statement (c) is correct.
  - Statement (b) is correct.
  - Statement (a) is correct.
  - Statement (d) is correct.
13. Which of the following statements about price elasticity of supply is correct? [1]
- Price elasticity of supply is a measure of how much the quantity supplied of a good responds to a change in the price of that good.
  - Price elasticity of supply is computed as the percentage change in quantity supplied divided by the percentage change in price.
  - Price elasticity of supply in the long run would be different from that of the short run.
  - All of these.
- Statement (d) is correct.
  - Statement (b) is correct.
  - Statement (c) is correct.
  - Statement (a) is correct.
14. Comforts lie between [1]
- inferior goods and necessities
  - necessaries and luxuries
  - luxuries and inferior goods
  - inferior goods and luxuries
15. The Law of Demand, assuming other things to remain constant, establishes the relationship between: [1]
- price of a good and the quantity demanded.
  - income of the consumer and the quantity of a good demanded by him.
  - quantity demanded of a good and the relative prices of its complementary goods.
  - price of a good and the demand for its substitute.
16. When income increases the money spent on necessities of life may not increase in the same proportion. This means [1]
- income elasticity of demand is one
  - income elasticity of demand is zero
  - income elasticity of demand is greater than one
  - income elasticity of demand is less than one
17. During a recession, economies experience increased unemployment and a reduced level of income. How would a recession likely to affect the market demand for new cars? [1]
- Demand curve will shift to the left.
  - Demand curve will shift to the right.
  - Demand will not shift, but the quantity of cars sold per month will increase.
  - Demand will not shift, but the quantity of cars sold per month will decrease.
18. Suppose a department store has a sale on its silverware. If the price of a plate-setting is reduced from ₹ 300 to ₹ [1]

200 and the quantity demanded increases from 3,000 plate-settings to 5,000 plate-settings, what is the price elasticity of demand for silverware? (Use Arc Elasticity Method)

- a) 1.0
- b) 1.50
- c) .8
- d) 1.25

19. Suppose a consumer's income increases from ₹ 30,000 to ₹ 36,000. As a result, the consumer increases her purchases of compact discs (CDs) from 25 CDs to 30 CDs. What is the consumer's income elasticity of demand for CDs? (Use Arc Elasticity Method) [1]

- a) 1.5
- b) 1.0
- c) 0.5
- d) 2.0

20. The supply curve for highly perishable commodities during very short period is generally \_\_\_\_\_. [1]

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

21. In the case of a straight line demand curve meeting the two axes, the price-elasticity of demand at the mid-point of the line would be: [1]

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

22. Given the following four possibilities, which one will result in an increase in total expenditure of the consumer? [1]

- a) Demand is inelastic and price falls
- b) Demand is unit elastic and price rises
- c) Demand is elastic and price rises
- d) Demand is inelastic and price rises

23. Elasticity of supply is zero means [1]

- a) perfectly elastic supply
- b) imperfectly inelastic supply
- c) perfectly inelastic supply
- d) imperfectly elastic supply

24. A good which cannot be consumed more than once is known as [1]

- a) Inferior good
- b) Non-durable good
- c) Durable good
- d) Producer good

25. An example of goods that exhibit direct price-demand relationship is [1]

- a) Complementary goods
- b) Giffen goods
- c) Substitute goods
- d) Conspicuous good

26. By consumer surplus, economists mean [1]

- a) The area between the average revenue and marginal revenue curves.
- b) The difference between the market price and the supply curve.
- c) The difference between the maximum amount that a person is willing to pay for a good and its market price.
- d) The area inside the budget line above the price of the commodity.

27. If price of computers increases by 10% and supply increases by 25%. The elasticity of supply is: [1]

- a) 0.4
- b) 2.5

- c) (-)2.5                      d) (-)0.4

28. Which of the following pairs of goods is an example of substitutes? [1]

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

29. Suppose that workers in a steel plant managed to force a significant increase in their wage package. How would the new wage contract be likely to affect the market supply of steel, other things remaining the same? [1]

a) Supply will not shift, but the quantity of cars produced per month will increase.  
b) Supply will not shift, but the quantity of cars produced per month will decrease.  
c) Supply curve will shift to the right.  
d) Supply curve will shift to the left.

30. Demand is the [1]

a) the entire relationship between the quantity demanded and the price of a good other things remaining the same  
b) ability to pay for a good  
c) the desire for a commodity given its price and those of related commodities  
d) willingness to pay for a good if income is larger enough

31. Identify the factor which generally keeps the price-elasticity of demand for a good low: [1]

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

32. 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 [1]

a) -0.25                      b) 4  
c) 0.25                      d) -4

33. The cross elasticity between Bread and DVDs is: [1]

a) Negative                      b) Zero  
c) Positive                      d) One

34. Which of the following is an incorrect statement? [1]

a. When goods are substitutes, a fall in the price of one (*ceteris paribus*) leads to a fall in the quantity demanded of its substitutes.  
b. When commodities are complements, a fall in the price of one (other things being equal) will cause the demand of the other to rise.  
c. As the income of the consumer increases, the demand for the commodity increases always and vice versa.  
d. When a commodity becomes fashionable people prefer to buy it and therefore its demand increases.

a) Statement (c) is incorrect.                      b) Statement (b) is incorrect.  
c) Statement (a) is incorrect.                      d) Statement (d) is incorrect.

35. If the price of orange Juice increases, the demand for apple Juice will \_\_\_\_\_. [1]

a) decrease as real income decreases                      b) decrease because they are substitutes

c) remain the same because real income is increased

d) increase because they are substitutes

36. The average income of residents of two cities A and B and the corresponding change in demand for two goods is given in the following table. Which of the following statements is true? [1]

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

a) Good X is a normal good in both cities; good Y is an inferior good in city A

b) Need more information to make an accurate comment

c) Both goods are normal goods in both cities A and B

d) Good X is a normal good in both cities; good Y is an inferior good in city B

37. If the demand for a good is inelastic, an increase in its price will cause the total expenditure of the consumers of the good to: [1]

a) infinite

b) Decrease

c) Increase

d) Remain the same

38. The luxury goods like jewellery and fancy articles will have [1]

a) low income elasticity of demand

b) All of these

c) high income elasticity of demand

d) zero income elasticity of demand

39. For a normal good with a downward sloping demand curve: [1]

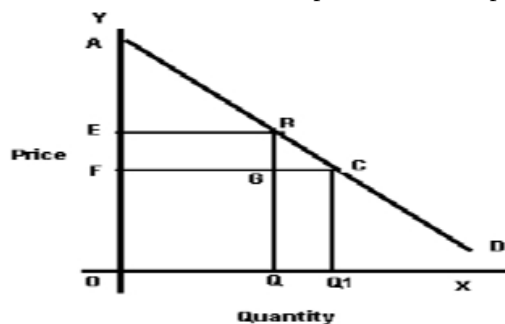
a) The price elasticity of demand is negative; the income elasticity of demand is positive.

b) The price elasticity of demand is positive; the income elasticity of demand is positive.

c) The price elasticity of demand is negative; the income elasticity of demand is negative.

d) The price elasticity of demand is positive; the income elasticity of demand is negative.

40. The effect on consumer surplus of a fall in price from E to F is [1]



a) None of these

b) A decrease in consumer surplus by AER

c) A decrease in consumer surplus by EFCR

d) A decrease in consumer surplus by EFGR

41. The cross elasticity between personal computers and soft wares is: [1]

a) Negative

b) Positive

c) Zero

d) One

42. The price of a commodity decreases from ₹ 6 to ₹ 4 and the quantity demanded of the good increases from 10 units to 15 units. Find the coefficient of price elasticity. [1]

- a) 1.5
- b) 2.5
- c) 0.5
- d) -1.5

43. At higher prices people demand more of certain goods not for their worth but for their prestige value - This is called [1]

- a) Speculative effect
- b) Veblen effect
- c) Giffens paradox
- d) Giffen goods

44. With an increase in the price of diamond, the quantity demanded also increases. This is because it is a: [1]

- a) Giffen goods
- b) Complementary good
- c) Conspicuous good
- d) Substitute good

45. If the price of Pepsi decreases relative to the price of Coke and 7-UP, the demand for: [1]

- a) 7-Up will decrease.
- b) Coke will decrease.
- c) Coke and 7-UP will increase.
- d) Coke and 7-UP will decrease.

46. When economists speak of the utility of a certain good, they are referring to [1]

- a) The demand for the good.
- b) The expected satisfaction derived from consuming the good.
- c) The rate at which consumers are willing to exchange one good for another.
- d) The usefulness of the good in consumption.

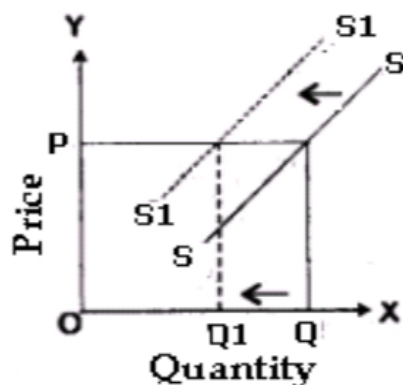
47. An increase in the number of sellers of bikes will increase the [1]

- a) The price of a bike
- b) The supply of bikes
- c) Demand for helmets
- d) Demand for bikes

48. A firm learns that the own price elasticity of a product it manufactures is 3.5. What would be the correct action for this firm to take if it wishes to raise its total revenue? [1]

- a) Lower the price because demand for the good is elastic.
- b) We need information in order to answer this question.
- c) Raise the price because demand is elastic.
- d) Raise the price because demand for the product is inelastic.

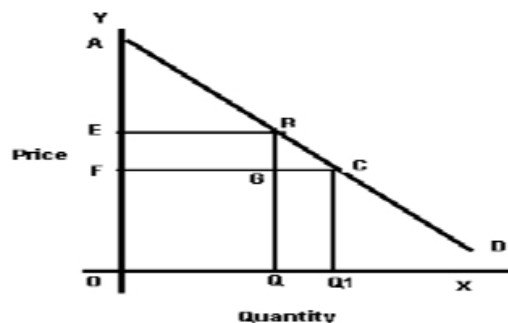
49. Which of the following alternatives would be true if the event presented in the following diagram occurs? [1]




- a) An increase in subsidy by the government and a reduction in taxes.
- b) Decrease in the market price of the commodity in question.

- c) A fall in wage costs of the firm along with a fall in consumer incomes. d) A shortage of raw materials and consequent increase in raw material price.
50. The cross elasticity between Rye bread and Whole Wheat bread is expected to be: [1]  
 a) Positive b) Negative  
 c) Zero d) One
51. Total utility is maximum when: [1]  
 a) Marginal utility is positive b) Marginal utility is negative  
 c) Marginal utility is zero. d) Marginal utility is at its highest point.
52. If the price of air-conditioner increases from ₹ 30,000 to ₹ 30,010 and resultant change in demand is negligible, we use the measure of \_\_\_\_\_ to measure elasticity. [1]  
 a) Price elasticity based on average prices method b) Point elasticity of demand since it is a small change  
 c) Arc elasticity of demand since it is a small change d) Price elasticity based on percentage prices method
53. If electricity demand is inelastic, and electricity charges increase, which of the following is likely to occur? [1]  
 a) Quantity demanded will fall by a relatively small amount. b) Quantity demanded will fall in the short run, but rise in the long run.  
 c) Quantity demanded will fall by a relatively large amount. d) Quantity demanded will rise in the short run, but fall in the long run.
54. An increase in the supply of a good is caused by: [1]  
 a) Fall in the prices of other goods which can be produced using the same inputs. b) All of these.  
 c) Improvements in its production technology. d) Fall in the prices of factors of production used in its production.
55. When supply curve moves to the left, it means [1]  
 a) lesser quantity is supplied at a given price b) smaller quantity is supplied at a given price  
 c) larger quantity is supplied at a given price d) prices have fallen and quantity is supplied at a lower price
56. Which of the following statements about inferior goods is/are false? [1]  
 I. Inferior goods are those that we will never buy, no matter how cheap they are.  
 II. Inferior goods are those that we buy more of, if we become poorer.  
 III. Inferior goods are those that we buy more of, if we become richer.  
 a) I, II, and III b) I and III only  
 c) I only d) III only
57. When price rises from F to E, the increase in revenue earned by the seller is [1]





- a) Equivalent to area AER  
b) Equivalent to area EFGR  
c) Equivalent to area ARE  
d) Equivalent to area EFCR
58. When total demand for a commodity whose price has fallen increases, it is due to: [1]  
a) Income effect  
b) Complementary effect  
c) Substitution effect  
d) Price effect
59. The supply curve shifts to the right because of \_\_\_\_\_. [1]  
a) increased excise duty  
b) decreased price of factors of production  
c) improved technology  
d) increased price of factors of production
60. In Economics, when demand for a commodity increases with a fall in its price it is known as: [1]  
a) No change in demand  
b) Expansion of demand  
c) Contraction of demand  
d) Substitute goods
61. In the case of an inferior good, the income elasticity of demand is: [1]  
a) Negative  
b) Infinite  
c) Zero  
d) Positive
62. A horizontal supply curve parallel to the quantity axis implies that the elasticity of supply is: [1]  
a) Greater than zero but less than one  
b) Equal to one  
c) Infinite  
d) Zero
63. How would that budget line be affected if the price of both goods fell? [1]  
a) The budget line would not shift.  
b) The budget line must be shifting to the left.  
c) The new budget line must be parallel to the old budget line.  
d) The new budget line will have the same slope as the original so long as the prices of both goods change in the same proportion.
64. If the demand is more than supply, then the pressure on price will be [1]  
a) Downward  
b) Upward  
c) Toward  
d) Constant
65. Suppose the price of Pepsi increases, we will expect the demand curve of Coca Cola to: [1]  
a) Shift towards right since these are substitutes  
b) Remain at the same level  
c) Shift towards left since these are substitutes  
d) Shift backwards right since these are substitutes

66. As income increases, the consumer will go in for superior goods and consequently the demand for inferior goods will fall. This means inferior goods have [1]
- negative income elasticity of demand
  - income elasticity of demand less than one
  - unitary income elasticity of demand
  - zero income elasticity of demand
67. Identify the coefficient of price-elasticity of demand when the percentage increase in the quantity of a good demanded is smaller than the percentage fall in its price: [1]
- Zero
  - Greater than one
  - Equal to one
  - Less than one
68. When the numerical value of cross elasticity between two goods is very high, it means [1]
- The goods are neutral and therefore cannot be considered as substitutes.
  - The goods are perfect complements and therefore have to be used together.
  - There is a high degree of substitutability between the two goods.
  - The goods are perfect substitutes and can be used with ease in place of one another.
69. With a fall in the price of a commodity: [1]
- There is no change in the real income of the consumer
  - Consumer's real income increases
  - Price effect
  - Consumer's real income decreases
70. The following diagram shows the relationship between price of Good X and quantity demanded of Good Y. What we infer from the diagram is; [1]
- 
- Good X and Good Y are perfect substitutes
  - Good X and Good Y are perfect complements
  - Good X and Good Y are close substitutes
  - Good X and Good Y are remote substitutes
71. Chicken and fish are substitutes. If the price of chicken increases, the demand for fish will [1]
- Not change but there will be a movement along the demand curve for fish.
  - Increase or decrease but the demand curve for chicken will not change
  - Decrease and the demand curve for fish will shift leftwards.
  - Increase and the demand curve for fish will shift rightwards.
72. A relative price is [1]
- equal to a money price
  - price expressed in terms of money
  - what you get paid for babysitting your cousin
  - the ratio of one money price to another

73. The price of tomatoes increases and people buy tomato puree. You infer that tomato puree and tomatoes are **[1]**
- a) Inferior goods
  - b) Normal goods
  - c) Complements
  - d) Substitutes
74. The price of hot dogs increases by 22% and the quantity of hot dogs demanded falls by 25%. This indicates that **[1]**  
demand for hot dogs is:
- a) Elastic
  - b) Inelastic
  - c) Unitarily elastic
  - d) Perfectly elastic
75. In the book market, the supply of books will decrease if any of the following occurs except **[1]**
- a) an increase in the future expected price of the book
  - b) a decrease in the price of the book
  - c) a decrease in the number of book publishers
  - d) an increase in the price of paper used