

Chapter 1- Nature & Scope of Business Economics

- 1) Business Economics is
 - a. Abstract and applies the tools of Microeconomics.
 - b. Involves practical application of economic theory in business decision making
 - c. Incorporates tools from multiple disciplines.
 - d. **(b) and (c) above.**
- 2) In Economics, we use the term scarcity to mean
 - a. Absolute scarcity and lack of resources in less developed countries.
 - b. **Relative scarcity i.e. scarcity in relation to the wants of the society**
 - c. Scarcity during times of business failure and natural calamities.
 - d. Scarcity caused on account of excessive consumption by the rich.
- 3) Which of the following is a normative statement?
 - a. Planned economies allocate resources via government departments.
 - b. Most transitional economies have experienced problems of falling output and rising prices over the past decade.
 - c. There is a greater degree of consumer sovereignty in market economies than planned economies
 - d. **Reducing inequality should be a major priority for mixed economies.**
- 4) An example of 'positive' economic analysis would be:
 - a. **an analysis of the relationship between the price of food and the quantity purchased.**
 - b. determining how much income each person should be guaranteed.
 - c. determining the 'fair' price for food
 - d. deciding how to distribute the output of the economy.
- 5) A study of how increases in the corporate income tax rate will affect the national unemployment rate is an example of
 - a. **Macro-Economics**
 - b. Descriptive Economics.
 - c. Micro-economics.
 - d. Normative economics.
- 6) Consider the following and decide which, if any, economy is without scarcity:
 - a. The pre-independent Indian economy, where most people were farmers.
 - b. A mythical economy where everybody is a billionaire.
 - c. Any economy where income is distributed equally among its people.
 - d. **None of the above.**

- 7) The branch of economic theory that deals with the problem of allocation of resources is
- a. Micro-Economic theory.**
 - b. Macro-economic theory.
 - c. Econometrics.
 - d. none of the above.
- 8) Which of the following is not the subject matter of Business Economics?
- a. Should our firm be in this business?
 - b. How much should be produced and at price should be kept?
 - c. How will the product be placed in the market?
 - d. How should we decrease unemployment in the economy?**
- 9) The difference between positive and normative Economics is:
- a. Positive Economics explains the performance of the economy while normative Economics finds out the reasons for poor performance.
 - b. Positive Economics describes the facts of the economy while normative Economics involves evaluating whether some of these are good or bad for the welfare of the people.**
 - c. Normative Economics describes the facts of the economy while positive Economics involves evaluating whether some of these are good or bad for the welfare of the people.
 - d. Positive Economics prescribes while normative Economics describes.
- 10) Which of the following is not within the scope of Business Economics?
- a. Capital Budgeting
 - b. Risk Analysis
 - c. Business Cycles
 - d. Accounting Standards**
- 11) Which of the following statements is incorrect?
- a. Business economics is normative in nature.
 - b. Business Economics has a close connection with statistics.
 - c. Business Economist need not worry about macro variables.**
 - d. Business Economics is also called Managerial Economics.
- 12) Economic goods are considered scarce resources because they
- a. cannot be increased in quantity.
 - b. do not exist in adequate quantity to satisfy the requirements of the society.**
 - c. are of primary importance in satisfying social requirements.
 - d. are limited to man made goods

- 13) In a free market economy, the allocation of resources is determined by
- a. voting done by consumers
 - b. a central planning authority.
 - c. consumer preferences.**
 - d. the level of profits of firms.
- 14) A capitalist economy uses _____ as the principal means of allocating resources.
- a. Demand
 - b. Supply
 - c. Efficiency
 - d. Prices**
- 15) Which of the following is not one of the four central questions that the study of economics is supposed to answer?
- a. Who produces what?
 - b. When are goods produced?**
 - c. Who consumes what?
 - d. How are goods produced?
- 16) The economic system in which all the means of production are owned and controlled by private individuals for profit.
- a. Socialism
 - b. Capitalism**
 - c. Mixed economy
 - d. Communism
- 17) Freedom of choice is the advantage of
- a. Socialism
 - b. Capitalism**
 - c. Communism
 - d. None of the above
- 18) Exploitation and inequality are minimal under:
- a. Socialism**
 - b. Capitalism
 - c. Mixed economy
 - d. None of the above
- 19) Administered prices refer to:
- a. Prices determined by forces of demand and supply
 - b. Prices determined by sellers in the market
 - c. Prices determined by an external authority which is usually the government**
 - d. None of the above

20) The managerial economics –

- a. **Is Applied Economics that fills the gap between economic theory and business practice**
- b. is just a theory concept
- c. Trains managers how to behave in recession
- d. Provides the tools which explain various concepts

21) Mr. Satish hired a business consultant to guide him for growth of his business. The consultant visited his factory and suggested some changes with respect to staff appointment, loan availability and so on. Which approach is that consultant using?

- a. **Micro economics**
- b. Macro economics
- c. None of the above
- d. Both a and b

22) _____ is also called as command economy

- a. **Socialist**
- b. Capitalist
- c. Mixed economy
- d. None of the above

23) Unlimited ends and limited means together present the problem of

- a. Scarcity of resources
- b. **Choice**
- c. Distribution
- d. None of the above

24) _____ is concerned with welfare proposition.

- a. **Normative Economics**
- b. Positive Economics
- c. Both (A) and (B)
- d. None of these

25) Which of the following is/are correct about micro economics?

- a. Micro economics studies the economy in its totality.
- b. In micro economics we make a microscopic study of the economy
- c. Micro economics deals with the division of total output among industries and firms & the allocation of resources among competing uses.
- d. **Both (B) and (C)**

- 26) "If Americans today, for example were to content to live at the level of the Indian middle class people, all their wants would be fully satisfied with their available resources and capacity to produce." On the basis of the above statement, which of the following conclusion can be made?
- The possession of goods and services by USA has enormously increased to exceed their wants.
 - The affluent and developed countries of USA and Western Europe face the problem of scarcity even today as their present wants remain ahead of their increased resources and capacity to produce.**
 - The affluent and developed countries are not facing the problem of scarcity.
 - None of these
- 27) If there is no central planning authority to make the fundamental economic decisions and thus to allocate productive resources, how can then free enterprise or capitalist economy solve its central problems?
- Through the power of God
 - On the basis of decision taken by industrial groups.
 - The free market economy uses the impersonal forces of the market to solve its central problems**
 - None of these
- 28) "A wise individual or a society likes to provide for its growth of productive capacity." This requires that a part of its resources should be devoted to the production of _____.
- Consumer goods
 - Capital goods**
 - Defense goods
 - None of these
- 29) In the beginning the name of economics was _____.
- Economics of wealth
 - Political economy**
 - Welfare economics
 - None of these
- 30) Economics is mainly concerned with
- the achievement of economic development
 - the achievement and use of material resources to satisfy human wants**
 - the exploring more resources to satisfy human wants
 - the limiting human wants with respect to given resources
- 31) Economics is a branch of _____ focused on the production, distribution and consumption of goods and services
- Natural science
 - Physical science
 - Social science**
 - None of these

32) The scope of business economics includes _____

- a. Demand analysis
- b. Cost analysis
- c. Inventory management
- d. **All of these**

33) Which one of the following statements is correct regarding socialist economy?

- a. Production is planned or coordinated and suffers from the business cycle
- b. Production suffers from the business cycle
- c. **Production is planned and does not suffer from business cycle**
- d. None of these

34) Which of the following is not a merit of socialist economy?

- a. It provides equal access to health care and education
- b. Workers are no longer exploited because they own the means of production
- c. **Profits are not spread equitably among all workers according to their individual contributions.**
- d. Natural resources are preserved for the good of the whole.

35) Which of the following falls under Micro Economics?

- a. National Income
- b. General Price level
- c. **Factor Pricing**
- d. National Saving and Investment

36) 'A government deficit will reduce unemployment and cause an increase in prices' This statement is:

- a. **Positive**
- b. Normative
- c. Both
- d. None of the above

37) The famous book "Wealth of Nations" was published in

- a. **1776**
- b. 1750
- c. 1850
- d. 1886

38) _____ guide a capitalist economy to decide what to produce

- a. Market survey
- b. Economic models
- c. **Intensity of consumer demand**
- d. Cost of Production

39) Which of the following is not a characteristic of capitalist economy?

- a. Right to Private property
- b. Freedom of Enterprise
- c. Consumer sovereignty
- d. **Planned Production**

40) Which of the following is not an example of Capitalist economy?

- a. USA
- b. Germany
- c. **North Korea**
- d. South Korea

41) Which of the following is not the feature of capitalist economy?

- a. Right to private property
- b. Freedom of economic choice.
- c. **Collective ownership**
- d. Consumer Sovereignty

42) The concept of socialist economy was propounded by.....

- a. **Karl Marx and Frederic Engels.**
- b. Marshall
- c. Adam Smith
- d. Joel Dean

43) Which economic system is the predominant in the modern global economy?

- a. Socialism
- b. **Capitalism**
- c. Mixed
- d. All of the above

44) Under the pragmatic approach, economics is abstract and purely theoretical in nature and takes assumptions:

- a. Practical, Unrealistic
- b. Practical, Realistic
- c. **Theoretical, Unrealistic**
- d. Theoretical, Realistic

45) Which of the following is a subject matter of macroeconomics?

- a. Behavior of firms
- b. Factor Pricing
- c. **Overall level of savings and investments**
- d. The economic condition of a section of people

- 46) Mr. X had been given a task to segregate normative and non-normative statements. Help him to identify which one of these is a normative economic statement?
- a. Pollution level is rising day by day because of urbanization.
 - b. The part-time working hours of students should be increased to 25 hours per week.**
 - c. Due to the increased number of cars on roads, people will be stuck in traffic jams.
 - d. The government has allotted a major portion of revenue to defense.
- 47) Which statement differentiates business economics from economics?
- a. It is abstract in nature.
 - b. It is a narrower concept than economics.
 - c. It is no different from economics.
 - d. It is pragmatic in nature**
- 48) Sarah, runs a lemonade stall, her decision-making process involves assessing the demand for her lemonade, pricing strategies, and maximizing her profit within the limited scope of her small business. Which level of the economy does Sarah's lemonade stall represent?
- a. Macro Economy
 - b. Global Economy
 - c. Micro Economy**
 - d. National Economy
- 49) Which of the following is related with the total arrangements for the production and distribution of goods and services in a society?
- a. Economic Problem
 - b. Economic Choice
 - c. Economic System**
 - d. Economic Institution
- 50) Business Economics is basically concerned with:
- a. Applied Economics
 - b. Managerial Economics
 - c. Micro Economics**
 - d. Macro Economics
- 51) Price in capitalist economy is determined by:
- a. Small private firms
 - b. Big corporates
 - c. Market forces of demand and supply**
 - d. Government

Chapter 2 - Theory of Demand

- 1) All but one of the following are assumed to remain the same while drawing an individual's demand curve for a commodity. Which one is it?
 - a. The preference of the individual.
 - b. His monetary income.
 - c. Price of the commodity**
 - d. Price of related goods.
- 2) 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:
 - a. 0
 - b. 1**
 - c. 1.5
 - d. 2
- 3) Identify the factor which generally keeps the price-elasticity of demand for 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
- 4) 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:
 - a. Equal to one
 - b. Greater than one
 - c. Less than one**
 - d. Zero.
- 5) In the case of an inferior good, the income elasticity of demand is:
 - a. Positive
 - b. Zero
 - c. Negative**
 - d. Infinite
- 6) 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:
 - a. Remain the same.
 - b. Increase**
 - c. Decrease
 - d. Any of these.

- 7) If regardless of changes in its price, the quantity demanded of a good remains unchanged, then the demand curve for the good will be:
- Horizontal
 - Vertical**
 - positively sloped.
 - negatively sloped.
- 8) Suppose the price of Pepsi increases, we will expect the demand curve of Coca Cola to:
- Shift towards left since these are substitute
 - Shift towards right since these are substitutes**
 - Remain at the same level
 - None of the above
- 9) All of the following are determinants of demand except:
- Tastes and preferences
 - Quantity supplied.**
 - Income of the consumer
 - Price of related goods.
- 10) A movement along the demand curve for soft drinks is best described as:
- An increase in demand.
 - A decrease in demand
 - A change in quantity demanded.**
 - A change in demand.
- 11) If the price of Pepsi decreases relative to the price of Coke and 7-UP, the demand for:
- Coke will decrease
 - 7-Up will decrease.
 - Coke and 7-UP will increase.
 - Coke and 7-Up will decrease**
- 12) If a good is a luxury, its income elasticity of demand is
- Positive and less than 1.
 - Negative but greater than -1.
 - Positive and greater than 1.**
 - Zero
- 13) The price of hot dogs increases by 22% and the quantity of hot dogs demanded falls by 25%. This indicates that demand for hot dogs is:
- Elastic**
 - Inelastic
 - Unitarily elastic
 - Perfectly elastic

- 14) If the quantity demanded of mutton increases by 5% when the price of chicken increases by 20%, the cross price elasticity of demand between mutton and chicken is
- 0.25
 - 0.25**
 - 4
 - 4
- 15) Given the following four possibilities, which one results in an increase in total consumer expenditure?
- Demand is unitary elastic and price falls.
 - Demand is elastic and price rises.
 - Demand is inelastic and price falls.
 - Demand is inelastic and prices rises**
- 16) Which of the following is an incorrect statement?
- When goods are substitutes, a fall in the price of one (*ceteris paribus*) leads to a fall in the quantity demanded of its substitutes.
 - When commodities are complements, a fall in the price of one (other things being equal) will cause the demand of the other to rise
 - As the income of the consumer increases, the demand for the commodity increases always and vice versa.**
 - When a commodity becomes fashionable people prefer to buy it and therefore its demand increases
- 17) When the numerical value of cross elasticity between two goods is very high, it means
- The goods are perfect complements and therefore have to be used together
 - The goods are perfect substitutes and can be used with ease in place of one another
 - There is a high degree of substitutability between the two goods**
 - The goods are neutral and therefore cannot be considered as substitutes
- 18) A decrease in price will result in an increase in total revenue if
- The percentage change in quantity demanded is less than the percentage change in price.
 - The percentage change in quantity demanded is greater than the percentage change in price.**
 - Demand is inelastic.
 - The consumer is operating along a linear demand curve at a point at which the price is very low and the quantity demanded is very high.
- 19) Demand for a good will tend to be more elastic if it exhibits which of the following characteristics?
- It represents a small part of the consumer's income.
 - The good has many substitutes available.**
 - It is a necessity (as opposed to a luxury).
 - There is little time for the consumer to adjust to the price change.

- 20) What will happen in the rice market if buyers are expecting higher rice prices in the near future?
- a. The demand for rice will increase and the demand curve will shift to the right**
 - b. The demand for rice will decrease and the demand curve will shift to the left
 - c. The demand for rice will be unaffected as it is a necessity
 - d. The demand for wheat will increase and the demand curve will shift to the right
- 21) In the case of a Giffen good, the demand curve will usually be
- a. Horizontal
 - b. Downward-sloping to the right.
 - c. Vertical
 - d. Upward-sloping to the right**
- 22) For a normal good with a downward sloping demand curve
- a. The price elasticity of demand is negative; the income elasticity of demand is negative.
 - b. The price elasticity of demand is positive; the income elasticity of demand is negative.
 - c. The price elasticity of demand is positive; the income elasticity of demand is positive.
 - d. The price elasticity of demand is negative; the income elasticity of demand is positive.**
- 23) Conspicuous goods are also known as
- a. Prestige goods
 - b. Snob goods
 - c. Veblen goods
 - d. All of the above**
- 24) When income increases the money spent on necessities of life may not increase in the same proportion, This means
- a. income elasticity of demand is zero
 - b. income elasticity of demand is one
 - c. income elasticity of demand is greater than one
 - d. income elasticity of demand is less than one**
- 25) A relative price is
- a. price expressed in terms of money
 - b. what you get paid for babysitting your cousin
 - c. the ratio of one money price to another**
 - d. equal to a money price
- 26) Suppose potatoes have $(-).0.4$ as income elasticity. We can say from the data given that:
- a. Potatoes are superior goods
 - b. Potatoes are necessities
 - c. Potatoes are inferior goods.**
 - d. There is a need to increase the income of consumers so that they can purchase potatoes.

27) With a fall in the price of a commodity:

- a. **Consumer's real income increases**
- b. Consumer's real income decreases
- c. There is no change in the real income of the consumer
- d. None of the above

28) An example of goods that exhibit direct price-demand relationship is

- a. **Giffen goods**
- b. Complementary goods
- c. Substitute goods
- d. None of the above

29) A decrease in the demand for cameras, other things remaining the same will

- a. Increase the number of cameras bought
- b. Decrease the price but increase the number of cameras bought
- c. Decrease in quantity of camera demanded
- d. **Decrease the price and decrease in the number of cameras bought.**

30) The price of a commodity decreases from Rs 6 to Rs 4 and the quantity demanded of the good increases from 10 units to 15 units, find the coefficient of price elasticity.

- a. 1.5
- b. 2.5
- c. **-1.5**
- d. 0.5

31) If the price of air-conditioner increases from Rs 30,000 to Rs 30,010 and resultant change in demand is negligible, we use the measure of _____ to measure elasticity.

- a. **Point elasticity of demand since it is a small change**
- b. Arc elasticity of demand since it is a small change
- c. Price elasticity based on average prices method
- d. Any of the above

32) Suppose the income elasticity of education in private school in India is 3.6. What does this indicate

- a. Private school education is highly wanted by rich
- b. Private school education is a necessity
- c. **Private school education is a luxury**
- d. We should have more private schools.

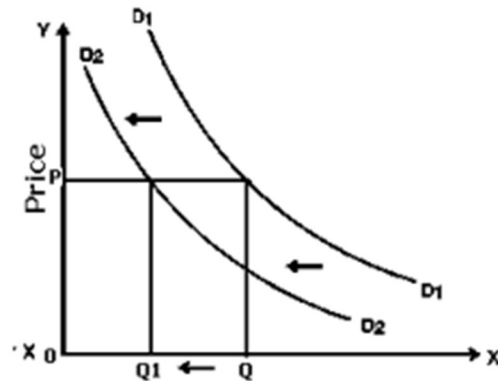
- 33) If the organizers of an upcoming cricket match decide to increase the ticket price in order to raise its revenues, what they have learned from past experience is;
- a. The percentage increase in ticket rates will be always equal the percentage decrease in tickets sold
 - b. The percentage increase in ticket rates will be always greater than the percentage decrease in tickets sold**
 - c. The percentage increase in ticket rates will be less than the percentage decrease in tickets sold
 - d. (a) and (c) above are true

34) The following diagram shows the relationship between price of Good X and quantity demanded of Good Y. What we infer from the diagram is;



- a. Good X and Good Y are perfect complements
- b. Good X and Good Y are perfect substitutes
- c. Good X and Good Y are remote substitutes
- d. Good X and Good Y are close substitutes**

35) The diagram given below shows



- A change in demand which may be caused by a rise in income and the good is a normal good
- A shift of demand curve caused by a fall in the price of a complementary good
- A change in demand which is caused by a rise in income and the good is an inferior good**
- A shift of demand curve caused by a rise in the price of a substitute and the good is a normal good

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?

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

- Both goods are normal goods in both cities A and B
- Good X is a normal good in both cities; good Y is an inferior good in city A**
- Good X is a normal good in both cities; good Y is an inferior good in city B
- Need more information to make an accurate comment

37) Which of the following groups of goods have inelastic demand?

- Salt, Smart Phone and Branded Lipstick
- School Uniform, Branded Goggles and Smart Phone
- Salt, School Uniform and Medicine**
- Medicine, Branded Sports Shoes and Diamond ring

38) During lockdown due to COVID-19, a consumer finds the vegetable vendors selling vegetables in the street have raised the prices of vegetables than usual prices. She will buy _____ vegetables than/as her usual demand showing the demand of vegetables is _____.

- a. more, inelastic demand
- b. less, elastic demand
- c. **same, inelastic demand**
- d. same, elastic demand

39) Let slope of demand curve is (-) 0.6, calculate elasticity of demand when initial price is Rs. 30 per unit and initial quantity is 100 units of the commodity

- a. 0.5
- b. 5.55
- c. **-0.5**
- d. -0.18

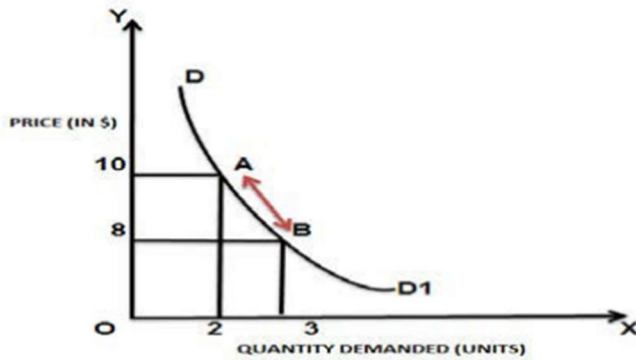
40) Let $Q_x = 1500/P_x$, the elasticity of demand of the good X when its price falls from Rs. 8 to Rs. 2 per unit, will be-

- a. **greater than one**
- b. less than one
- c. equal to one
- d. can't say

41) With reference to Arc elasticity measures the responsiveness of demand _____ on the demand curve

- a. at one given point
- b. at intercepts on X-axis & Y-axis
- c. **between two points**
- d. Any of the above

42)



In the above figure, DD1 is the demand curve of a commodity. There are two points on the demand curve i.e., A and B with (P, Q) as (10, 2) & (8, 3) respectively. If the initial point is A OR initial point is B, the price elasticity of demand will be –

- a. same in both cases by point method of price elasticity of demand
- b. different in both cases by Arc method of price elasticity of demand
- c. **same in both cases by Arc method & different by point method of price elasticity of demand**
- d. None of these

43) Goods X and Y being independent goods, the cross price elasticity of demand (ignoring the sign) between them will be-

- a. 1 (unit elastic)
- b. less than 1
- c. greater than 1
- d. **Zero**

44) 'Ceteris Paribus' clause in Law of demand does not mean-

- a. **The price of the commodity does not change**
- b. The price of substitutes does not change
- c. The income of consumer does not change
- d. The price of complementary goods does not change

45) Demand for electricity is elastic because —————.

- a. it is very expensive
- b. it has a number of close substitutes
- c. **it has alternative uses**
- d. none of the above

- 46) If consumers always spend 15 percent of their income on food, then the income elasticity of demand for food is _____.
a. 1.50
b. 1.15
c. 1
d. 0.15
- 47) The elasticity of substitution between two perfect substitutes is:
a. Zero
b. greater than zero
c. less than infinity
d. infinite
- 48) If a point on a demand curve of any commodity lies on X Axis, then price elasticity of demand of that commodity at that point will be _____.
a. Infinite
b. More than zero
c. Less than zero
d. Zero
- 49) For Inferior/Giffen goods, the Engel curve is:
a. Positive sloped
b. Vertical
c. Horizontal
d. Negative sloped
- 50) When the demand curve is a rectangular hyperbola an increase in the price of the commodity causes the total expenditure of consumers of the commodity to:
a. Remain unchanged
b. Increase
c. Decrease
d. Any of the above
- 51) A movement along a curve rather than a shift in the curve can be measured by:
a. Cross elasticity of demand
b. Income elasticity of demand
c. Price elasticity of demand & Price elasticity of Supply
d. None of these
- 52) The Substitution effect will be stronger when-
a. The goods are closer substitutes
b. There is lower cost of switching to the substitute good
c. There is lower inconvenience while switching to the substitute good.
d. All of these

- 53) According to Hicks and Allen the demand curve slope downwards due to ____
- a. Law of diminishing marginal utility
 - b. Income effect and substitution effect**
 - c. Either (a) or (b)
 - d. None of these
- 54) If increasing railway fare increases revenue, then the demand for railway travel has a price elasticity of ____
- a. Greater than 1
 - b. 1
 - c. Greater than 0 but less than 1**
 - d. None of these
- 55) 'No matter what the price of coffee is, Ram always spend a total of exactly 100 per week on coffee.' The statement implies that;
- a. Ram is very fond coffee and therefore he has an inelastic demand for coffee
 - b. Ram has elastic demand for coffee
 - c. Ram's demand for coffee is relatively less elastic
 - d. Ram's demand for coffee is unit elastic**
- 56) Demonstration effect, a term coined by ____
- a. Adam Smith
 - b. James Duesenberry**
 - c. Alfred Marshall
 - d. None of these
- 57) "The increase in demand of a commodity due to the fact that others are also consuming the same commodity" is known as ____
- a. Veblen effect
 - b. Bandwagon effect**
 - c. Snob effect
 - d. Demonstration effect
- 58) Snob effect is explained as ____
- a. It is a function of consumption of others**
 - b. It is a function of price
 - c. Both (a) and (b)
 - d. None of these
- 59) As the consumer's income increases, the demand for necessities of life will increase _____ to the increase in income
- a. Less than proportionate**
 - b. More than proportionate
 - c. Proportionate
 - d. None of these

- 60) The tendency of people to imitate the consumption pattern of other people is known as
- a. Demonstration**
 - b. Bandwagon
 - c. Prestige
 - d. Veblen
- 61) When the quantity of a commodity than an individual buyer demand falls in response to the growth of purchases by other buyers, such an effect
- a. Bandwagon
 - b. Snob**
 - c. Veblen
 - d. Demonstration
- 62) The demand function is given as $Q = 100 - 10P$. Find the elasticity using point method when price is Rs. 5
- a. 2
 - b. -2
 - c. 1
 - d. -1**
- 63) Price elasticity of Demand for addictive products like Cigarettes and alcohol would be
- a. Greater than 1
 - b. Less than 1**
 - c. Infinity
 - d. One
- 64) Ceteris paribus, what would be the impact on foreign exchange earnings for a given falling export prices, if the demand for the country's exports is inelastic?
- a. Foreign Exchange Earnings decrease**
 - b. Foreign Exchange Earnings increase
 - c. No effect on Foreign Exchange earnings
 - d. None of the above
- 65) In case of unequal distribution of income in the country, the propensity to consume will be ____, and demand for Consumer Goods will be __
- a. Higher; Higher
 - b. Higher; Lower
 - c. Lower; Higher
 - d. Lower; Lower**
- 66) If the Consumers expect an Increase in Income in the future, its current demand will be ____
- a. Decrease
 - b. Increase**
 - c. No change
 - d. Nothing can be said

67) Giffen Goods are goods which:

- a. Are considered inferior by consumers
- b. Occupy a substantial place in the consumers' budget
- c. **Both a. and b.**
- d. None of the above

68) Goods which are required for immediate or urgent consumption are:

- a. **Less elastic**
- b. Unit elastic
- c. More elastic
- d. None of the above

69) If the demand for the good is more elastic, the Demand curve will be:

- a. Parallel to the X-axis
- b. **Downward sloping to the right, flatter**
- c. Downward sloping to the right, steeper
- d. Parallel to the y-axis

70) What is the elasticity between midpoint & upper extreme point of a straight line demand curve?

- a. Infinite
- b. Zero
- c. **>1**
- d. <1

71) What will be the Slope of Demand Curve when it shows the Cross Elasticity between two Complementary Goods?

- a. **Negative**
- b. Positive
- c. Zero
- d. Can't say

72) Consumption of high-priced goods by status-seeking rich people for conspicuous consumption is called:

- a. Snob effect
- b. Bandwagon effect
- c. Demonstration effect
- d. **Veblen effect**

- 73) Calculate the price elasticity of demand when the price increases from Rs. 20 to Rs. 22 and quantity demanded falls from 300 to 200 units (Midpoint method):
- 4.2
 - 4.2**
 - 4
 - 4
- 74) Mr. Z went to a stationery shop to buy pens. The price of a pen decreased from Rs. 5 to Rs. 3 per unit. If the price elasticity of demand for pens is 2.5 and the original quantity demanded for pens is 20, then what is the new quantity demanded?
- 10
 - 40**
 - 30
 - 20
- 75) Suppose the price elasticity of demand of a firm for its product is -1.2. If the price of the product is increased by 5%, then it is most probable that:
- Both total revenue and profit would increase.
 - Both total revenue and profit would decrease,**
 - Total revenue would decrease but profit may increase.
 - Total revenue would increase but profit may decrease
- 76) Mr. X and Mr. Y are rich rivals and, in a party, Mr. X wears an expensive dress and on seeing it Mr. Y who also has the same dress decided to reject the use of the same dress further. Rather Mr. Y will try to use an even more expensive one. Which effect affects Mr. Y?
- Bandwagon Effect
 - Demonstration Effect
 - Snob Effect**
 - Veblen Effect
- 77) The demand function of a product X (in kg.) is expressed as $Q = 1000 - 50P$, where Q is the quantity demanded and P is the price of the product. When price of X is 10 per kg., its price elasticity will be:
- 1**
 - 1
 - 2
 - 2

78) The price of 1 kg. of tea is Rs. 50. At this price, 10kg of tea is demanded. If the price of coffee rises from Rs. 30 to Rs. 40 per kg, the quantity demanded of tea rises from 10kg to 15kg. What will be the cross price elasticity of tea?

- a. +1
- b. -1.5
- c. **+1.5**
- d. -1

79) If change in quantity demanded is 60% and change in advertisement expenditure is 20% then what will be the advertisement elasticity?

- a. **3**
 - b. 0.33
 - c. 6
 - d. 20
-

Consumer Behaviour

1) Which one is not an assumption of the theory of consumer behaviour based on analysis of indifference curves?

- a. Given scale of preferences as between different combinations of two goods.
- b. Diminishing marginal rate of substitution
- c. **Diminishing marginal utility of money**
- d. Consumers would always prefer more of a particular good to less of it, other things remaining the same.

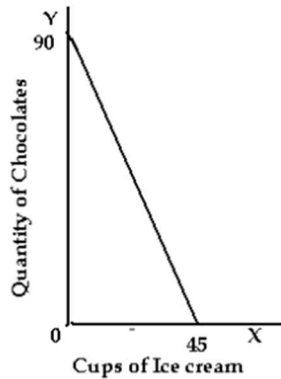
2) By consumer surplus, economists mean

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

3) When economists speak of the utility of a certain good, they are referring to

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

- 4) A point below the budget line of a consumer
- a. Represents a combination of goods which costs the whole of consumer's income
 - b. Represents a combination of goods which costs less than the consumer's income**
 - c. Represents a combination of goods which is unattainable to the consumer given his/her money income
 - d. Represents a combination of goods which costs more than the consumers' income
- 5) The figure below shows the budget constraint of a consumer with an income of Rs. 900/- to spend on two commodities, namely ice cream and chocolates.

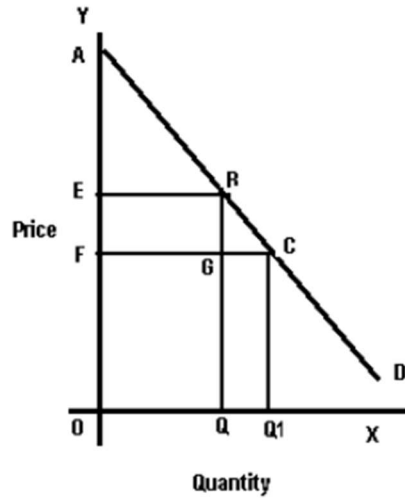


The prices of these two commodities respectively are:

- a. Rs. 10 and Rs 20
- b. Rs 20 and Rs. 10**
- c. Rs. 10 and Rs 5
- d. Any of the above

Refer to the figure below. Answer questions 6 and 7

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



- a. A decrease in consumer surplus by EFGR
 - b. A decrease in consumer surplus by AER
 - c. A decrease in consumer surplus by EFCR
 - d. **None of the above**
- 7) When price rises from F to E, the increase in revenue earned by the seller is
- a. **Equivalent to area EFGR**
 - b. Equivalent to area EFCR
 - c. Equivalent to area AER
 - d. None of the above
- 8) How would the budget line be affected if the price of both goods fell?
- a. The budget line would not shift.
 - b. The new budget line must be parallel to the old budget line.
 - c. The budget line must be shifting to the left
 - d. **The new budget line will have the same slope as the original so long as the prices of both goods change in the same proportion.**
- 9) The desire for a commodity by a person depends upon the _____ he expects to obtain from it.
- a. **Utility**
 - b. Pleasure
 - c. Taste
 - d. None of these

- 10) A consumer's preferences are monotonic if and only if between two bundles, the consumer prefers the bundle which has _____
- more of one of the goods
 - less of at least one of the goods
 - more of at least one of the goods and less of the other good.
 - more of at least one of the goods and no less of the other good**

- 11) Which of the following is incorrect regarding indifference curve approach of consumer's behavior?
- Indifference curve analysis assumes utility is merely orderable and not quantitative.
 - Consumer is capable of comparing the different levels of utilities or satisfactions from different commodities.
 - Consumer can say by how much one level of satisfaction is higher or lower than other.**
 - None of these

- 12) According to ordinal approach of consumer's behavior-
- Consumer is able to indicate the exact amounts of utilities that he derives from commodity or any combinations of them
 - Utility being psychological feeling is not quantifiable.
 - The consumer is capable of simply comparing the different levels of satisfaction.
 - Both (B) and (C)**

- 13) While drawing budget line of a consumer consuming Nachos chips and Pepsi, if the quantity of Nachos taken on Y-axis and quantity of Pepsi on X-axis. The slope of budget line will be:
- P_p / P_n**
 - P_n / P_p
 - M / P_n
 - M / P_p

Where, P_p – Price of Pepsi, P_n - Price of Nachos & M – Money income of consumer

- 14) Match the following

	List – I		List –II
A.	Cardinal Approach	1.	Marginal Utility
B.	Ordinal Approach	2.	Alfred Marshall
C.	Hicks & Allen Approach	3.	J.R. Hicks
D.	Consumers' surplus	4.	Indifference curve

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

15) Law of diminishing marginal rate of substitution is associated with

- a. Marshall
- b. Hicks**
- c. Slutsky
- d. Keynes

16) According to principle of diminishing marginal rate of substitution

- i. One commodity must be decreased while other is increased
- ii. Commodity which is increased has higher marginal significance
- iii. Commodity which is decreased has higher marginal significance
- iv. Neither qualitative nor quantitative concept

Of these concepts:

- a. Only i. is correct
- b. Both i. & ii. are correct
- c. Both i. & iii. are correct**
- d. All are correct

17) MU curve will be below X-axis when

- a. MU is zero
- b. TU is falling
- c. MU is negative
- d. Both (B) and (C)**

18) The indifference curve approach does not assume:

- a. Rationality on the parts of consumer
- b. Ordinal measurement of satisfaction
- c. Consistent consumption pattern behaviour of consumers
- d. Cardinal measurement of utility**

19) What are the limitations of Consumer Surplus?

- a. Consumer surplus cannot be measured precisely
- b. The Consumer surplus derived from a commodity is affected by availability of substitute
- c. Both (a) & (b)**
- d. None of these

20) The indifference curve of two perfect substitutes will be:

- a. Straight line**
- b. U- Shaped
- c. C Shaped
- d. L shaped

- 21) After reaching the saturation point, consumption of additional units of the commodity cause -.
- Total utility to fall and marginal utility to increase
 - Total and marginal utility both to increase.
 - Total utility to fall and marginal utility to become negative.**
 - Marginal utility to fall and total utility to become negative.

- 22) Diminishing marginal utility implies that the
- marginal utility of a good diminishes over time.
 - total utility is negative.
 - last unit of a good consumed will contribute most to the consumer's satisfaction
 - first unit of a good consumed will contribute most to the consumer's satisfaction.**

- 23) A consumer is in equilibrium when s/he is deriving _____ satisfaction from the goods.
- Maximum
 - Possible
 - maximum possible**
 - None of these

- 24) The price which a consumer would be willing to pay for a commodity equals to his-.
- Total utility
 - Marginal utility**
 - Average utility
 - Does not have any relation to any of these

- 25) Match the following

	List - I		List -II
A.	Two perfect substitute goods	1.	Linear Indifference Curve
B.	Two perfect complementary goods	2.	Monotonic Preference
C.	Indifference curve is always	3.	L-Shape Indifference Curve
D.	Higher IC gives higher level of satisfaction	4.	Convex to the origin

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

- 26) The other name of the Budget line is:
- Demand line
 - Price line**
 - Supply line
 - None of the above

27) If $M_{ux} > P_x$, then consumer:

- a. Is at equilibrium
- b. He will buy more of X good**
- c. He will buy less of X good
- d. None of the above

28) The farther the IC is from the origin, then

- a. The lower is the satisfaction level
- b. The higher is the satisfaction level**
- c. Same satisfaction level
- d. None of the above

29) shows all those combinations of two goods which a consumer can buy spending his given money income on two goods at their given prices.

- a. Budget Line**
- b. Indifference Curve
- c. Demand curve
- d. Supply curve

30) The indifference curve becomes _____ as we move down and to the right.

- a. Steeper
- b. Flatter**
- c. Linear
- d. None of the above

31) When $MRS_{xy} < P_x/P_y$, in order to reach equilibrium, the consumption of

- a. Good Y should increase**
- b. Good X should increase
- c. Good X & Y should increase
- d. None of the above

32) Following are the characteristics of wants, except:

- a. Each want is satiable
- b. All wants recur again & again**
- c. Wants are not independent; they are complementary
- d. Wants are subjective & relative

33) Which of the following is not an assumption of Marginal Utility Analysis?

- a. There should not be any gap between consumption of different units
- b. Different units of the commodity are assumed to be heterogeneous**
- c. Constancy of marginal utility of money
- d. Independent utility

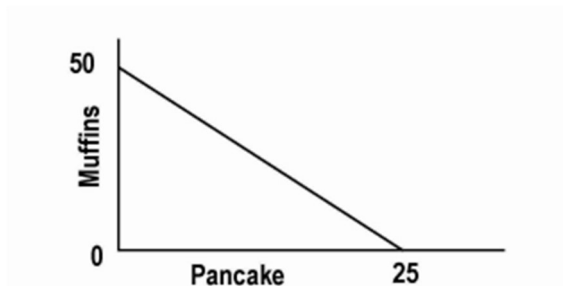
34) The consumer's objective of reaching highest Indifference curve and maximizing satisfaction is restricted by-

- a. Total utility curve
- b. Marginal utility curve
- c. Marginal rate of substitution
- d. **Price line**

35) Ram wanted to purchase an Apple tab at Rs. 12,000/-. The actual price in the market (MRP) is Rs. 11,000/- and a discount was given at 20%. Additionally, there is a cash discount of Rs. 300. Find the consumer's surplus:

- a. 3200
- b. **3500**
- c. 1000
- d. 3300

36) When the total income of a consumer is Rs. 750, find out the prices of pancake & muffins respectively if:



- a. 15, 30
- b. **30, 15**
- c. 50, 25
- d. 25, 50

37) A point above the budget line of a consumer represents:

- a. Represents costs less than the whole consumer's income.
- b. Represents a combination of goods which costs the whole of the consumer's income.
- c. **Represents a combination which is totally unattainable.**
- d. Represents a combination that is attainable.

38) Which tool does the ordinal utility approach use to analyse consumer behaviour and is based on consumer preferences?

- a. **Indifference Curve Analysis**
- b. Law of Diminishing Marginal Utility
- c. Elasticity of Demand
- d. Consumer Surplus

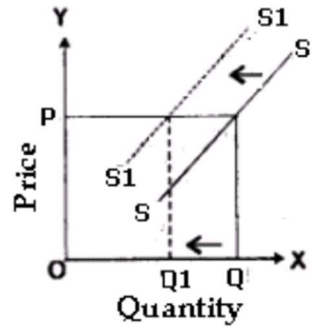
- 39) With respect to the properties of the indifference curve, which of the following statements is false?
- a. Higher indifference curve represents higher level of satisfaction.
 - b. Indifference curve is a negatively sloped line.
 - c. Intersecting point of two indifference curves represents highest level of satisfaction.**
 - d. An indifference curve is convex to the origin.
-

Supply

- 1) 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
- 2) Contraction of supply is the result of:
- a. Decrease in the number of producers.
 - b. Decrease in the price of the good concerned.**
 - c. Increase in the prices of other goods.
 - d. Decrease in the outlay of sellers.
- 3) In the book market, the supply of books will decrease if any of the following occurs except:
- a. a decrease in the number of book publishers
 - b. a decrease in the price of the book**
 - c. an increase in the future expected price of the book
 - d. an increase in the price of paper used.
- 4) If price of computers increases by 10% and supply increases by 25%. The elasticity of supply is
- a. 2.5**
 - b. 0.4
 - c. -2.5
 - d. -4
- 5) If the supply of bottled water decreases, other things remaining the same, the equilibrium price ————— and the equilibrium quantity —————
- a. increases; decreases**
 - b. decreases; increases
 - c. decreases; decreases
 - d. increases; increases

- 6) The supply function is given as $Q = -100 + 10P$. Find the elasticity using point method, when price is Rs. 15.
- 4
 - 3
 - 5
 - 3**
- 7) The supply curve shifts to the right because of—————
- improved technology**
 - increased price of factors of production
 - increased excise duty
 - all of the above
- 8) Which of the following statements is correct?
- When the price falls the quantity demanded falls
 - Seasonal changes do not affect the supply of a commodity
 - Taxes and subsidies do not influence the supply of the commodity
 - With lower cost, it is profitable to supply more of the commodity.**
- 9) The supply curve for highly perishable commodities during very short period is generally —
- Elastic
 - Inelastic
 - Perfectly elastic
 - Perfectly inelastic**
- 10) Supply is a _____ concept.
- Stock
 - Flow and stock
 - Flow**
 - None of the above
- 11) Data on production of vegetables for the past two years showed that, despite stable prices, there is a substantial decline in output of cabbage leading to lower supply into the market. Which of the following can possibly be the reason?
- An increase in the price of cauliflower which is equally preferred by consumers**
 - Announcement of a subsidy by government on vegetable production
 - More farmers producing cabbage and the increasing competition among them
 - A substantial decrease in the price of capsicum

12) Which of the following alternatives would be true if the event presented in the following diagram occurs?



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

13) If a short run supply curve is plotted for the following table which presents price and quantity of fighter aircrafts, what will be its shape?

Price in millions of \$	Number of Aircrafts
124	28
140	28
150	28
160	28
175	28

- a. Horizontal straight line parallel to the quantity axis
- b. Steeply rising with elasticity less than one
- c. Vertical straight line parallel to Y axis**
- d. A perfectly elastic supply curve

14) If there is decrease in quantity supplied of a commodity, there will be-

- a. Upward movement on same supply curve
- b. Rightward shift in supply curve
- c. Downward movement on same supply curve**
- d. Leftward shift in supply curve

- 15) Relationship between slope of supply curve and elasticity of supply can be defined as
- Product of slope of supply curve and ratio of quantity supply to price
 - Elasticity of supply is equal to the slope of supply curve.
 - Product of reciprocal of supply curve and ratio of price to quantity supplied**
 - Elasticity of supply is equal to reciprocal of slope of supply curve.
- 16) A new technique of production reduces the marginal cost of producing paper. How will this affect the supply curve of writing material like notebook, register & notepad etc.?
- Upward movement on same supply curve
 - Downward movement on same supply curve
 - Leftward shift in supply curve
 - Rightward shift in supply curve**
- 17) Suppose we are drawing a supply curve of a farmer which of the following will not be held constant?
- Price of Inputs
 - Weather Conditions
 - Technology
 - The price of the Commodity under consideration**
- 18) The supply function is given as $Q = -50 + 15p$. Find the elasticity using point method, when price is Rs. 20.
- 1.2**
 - 0.83
 - 0.86
 - None of the above
- 19) When price of a good rises from Rs. 20 to Rs. 30 the producer supplies 20% more, the price elasticity of supply is:
- 0.5
 - 0.4**
 - 1
 - None of the above
- 20) The supply curve shows:
- The minimum quantity that supplier is willing to supply at each price
 - The minimum price which will induce suppliers to offer the various quantities for sale**
 - The maximum price which will induce suppliers to offer the various quantities for sale
 - Both a & c

21) The flatter the curve, supply elasticity is:

- a. Less
- b. More**
- c. zero
- d. 1

22) Commodities which requires specialized resources for production may have:

- a. Less elastic supply**
- b. More elastic supply
- c. Unitary elastic supply
- d. Infinite elasticity

23) The market demand curve is: $Q_d = 10 - 2p$ and the market supply curve is: $Q_s = -2 + 10p$. The market will be in equilibrium if:

- a. $P = 1$ and $Q = 12$
- b. $P = 5$ and $Q = 8$
- c. $P = 1$ and $Q = 8$**
- d. None of the above

24) Producer surplus is represented by the area:

- a. Above the supply curve and below the demand curve
- b. Below the supply curve and above the demand curve
- c. Above the supply curve and below the price line**
- d. Below the supply curve and above the price line

25) In case there are fewer barriers of entry into the market, elasticity of supply will be:

- a. Low
- b. High**
- c. Zero
- d. None of the above

26) Commodities which can be easily and inexpensively stored without losing value may have

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

27) Slope of supply curve is 0.6, calculate elasticity of supply when initial price is Rs. 30 per unit and initial quantity is 100 units

- a. 0.5**
- b. 5.5
- c. -0.5
- d. -0.18

- 28) Supply will be _____ if firms are not working to full capacity
- Inelastic
 - Perfectly inelastic
 - Elastic**
 - Any of the above
- 29) The price of a commodity is 10 per unit. At this price, the quantity supplied is 500 units. Price elasticity of supply of the commodity is 1.25. At what price the quantity to be supplied would be 20% more?
- 8.40
 - 11.60**
 - 12.50
 - 7.50

Chapter 3

Theory of Production

- 1) Identify the correct statement:
- The average product is at its maximum when marginal product is equal to average product.**
 - The law of increasing returns to scale relates to the effect of changes in factor proportions.
 - Economies of scale arise only because of indivisibilities of factor proportions.
 - Internal economies of scale can accrue when industry expands beyond optimum.
- 2) Which of the following is not a characteristic of land?
- Its supply for the economy is limited.
 - It is immobile.
 - Its usefulness depends on human efforts.
 - It is produced by our forefathers.**
- 3) Which of the following statements is true?
- Accumulation of capital depends solely on income of individuals.
 - Savings can be influenced by government policies.**
 - External economies go with size and internal economies with location.
 - The supply curve of labour is an upward sloping curve.
- 4) The marginal product of a variable input is best described as:
- total product divided by the number of units of variable input
 - the additional output resulting from a one-unit increase in the variable input.**
 - the additional output resulting from a one-unit increase in both the variable and fixed inputs.
 - the ratio of the amount of the variable input that is being used to the amount of the fixed input that is being used

- 5) Diminishing marginal returns implies:
- decreasing average variable costs.
 - decreasing marginal costs
 - increasing marginal costs**
 - decreasing average fixed costs.
- 6) The marginal, average, and total product curves encountered by the firm producing in the short run exhibit all of the following relationships except:
- when total product is rising, average and marginal product may be either rising or falling.
 - when marginal product is negative, total product and average product are falling.
 - when average product is at a maximum, marginal product equals average product, and total product is rising.
 - when marginal product is at a maximum, average product equals marginal product, and total product is rising.**
- 7) Which of the following is the best definition of “production function”?
- The relationship between market price and quantity supplied.
 - The relationship between the firm’s total revenue and the cost of production.
 - The relationship between the quantities of inputs needed to produce a given level of output**
 - The relationship between the quantity of inputs and the firm’s marginal cost of production.
- 8) The “law of diminishing returns” applies to:
- the short run, but not the long run.**
 - the long run, but not the short run.
 - both the short run and the long run.
 - neither the short run nor the long run.

Use the following information to answer questions 9-11.

Hours of Labour	Total Output	Marginal product
0	-	-
1	100	100
2	-	80
3	240	-

- 9) What is the total output when 2 hours of labour are employed?
- 80
 - 100
 - 180**
 - 200

- 10) What is the marginal product of the third hour of labour?
- a. **60**
 - b. 80
 - c. 100
 - d. 240
- 11) What is the average product of the first three hours of labour?
- a. 60
 - b. **80**
 - c. 100
 - d. 240
- 12) If a firm moves from one point on a production isoquant to another, which of the following will not happen.
- a. A change in the ratio in which the inputs are combined to produce output
 - b. A change in the ratio of marginal products of the inputs
 - c. A change in the marginal rate of technical substitution
 - d. **A change in the level of output.**
- 13) If decreasing returns to scale are present, then if all inputs are increased by 10% then:
- a. output will also decrease by 10%
 - b. output will increase by 10%.
 - c. **output will increase by less than 10%**
 - d. output will increase by more than 10%
- 14) The production function is a relationship between a given combination of inputs and:
- a. another combination that yields the same output.
 - b. **the highest resulting output.**
 - c. the increase in output generated by one-unit increase in one output.
 - d. all levels of output that can be generated by those inputs.
- 15) If the marginal product of labour is below the average product of labour, it must be true that:
- a. the marginal product of labour is negative.
 - b. the marginal product of labour is zero
 - c. **the average product of labour is falling.**
 - d. the average product of labour is negative
- 16) The law of variable proportions is drawn under all of the assumptions mentioned below except the assumption that:
- a. **the technology is changing**
 - b. there must be some inputs whose quantity is kept fixed
 - c. we consider only physical inputs and not economically profitability in monetary terms.
 - d. the technology is given and stable.

17) Laws of production does not include

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

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

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

19) The production function:

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

20) The production process described below exhibits.

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

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

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

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

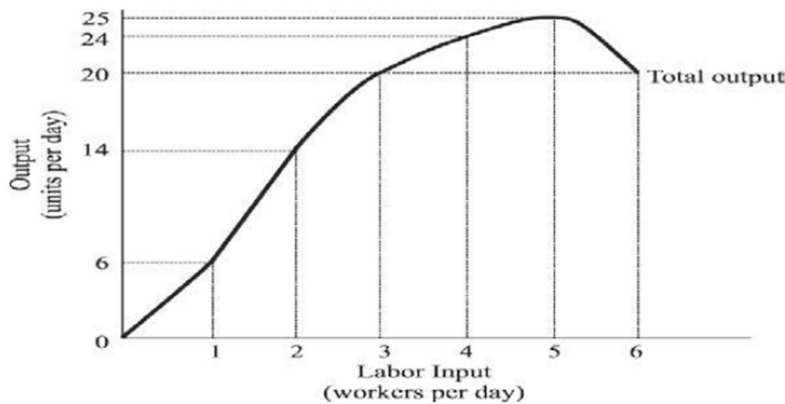
22) Which of the following statements is true?

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

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

- a. **total product curve.**
- b. average product curve
- c. marginal product curve
- d. implicit product curve.

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



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

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

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

- a. the marginal product curve has a positive slope.
- b. **the marginal product curve lies completely below the average product curve.**
- c. total product increases
- d. marginal product is positive.

26) Which of the following statements describes increasing returns to scale?

- a. Doubling of all inputs used leads to doubling of the output.
- b. Increasing the inputs by 50% leads to a 25% increase in output.
- c. **Increasing inputs by 1/4 leads to an increase in output of 1/3**
- d. None of the above

27) The most important function of an entrepreneur is to _____.

- a. **Innovate**
- b. Bear the sense of responsibility
- c. Finance
- d. Earn profit

28) Assertion (A): In the short run, a producer operates in only II stage of Law of Diminishing Returns where average product of variable factor is declining

Reason (R): In stage I and stage III the marginal product of the fixed and the variable factors respectively are negative.

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

29) In the long run which factor of production is fixed?

- a. Labour
- b. Capital
- c. Building
- d. **None of these**

30) Law of diminishing returns to scale is relevant to_

- a. **Short period**
- b. Long period
- c. Market period
- d. None of these

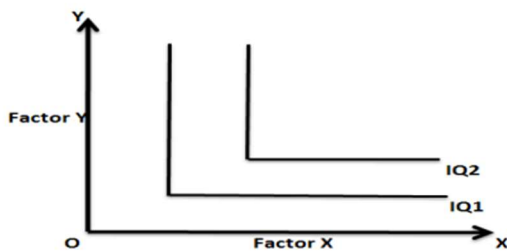
31) The Cobb-Douglas homogeneous production function given as: $Q = L^{1/2} K^{1/2}$ exhibits-

- a. **Constant returns to scale**
- b. Decreasing returns to scale
- c. Increasing returns to scale
- d. All of the above at various level of output

32) If all inputs are increased in the same proportion, then it is the case of

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

33)



Iso-Quants shown in the above figure exhibits:

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

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

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

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

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

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

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

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

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

37) Consider the following statements about the relationship between cost and production

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

Which of the above statements is correct?

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

s

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

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

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

- a. IQ1 & IQ2 are parallel to each other**
- b. IQ1 & IQ2 are non-parallel & intersecting to each other.
- c. IQ1 & IQ2 are neither parallel nor intersecting each other.
- d. Can't say

- 39) Isoquant word is made up of two words i.e., Iso & Quant. Where quant means quantity or output then Iso means-
- a. Maximum
 - b. Equal**
 - c. Minimum
 - d. None of these
- 40) An isoquant slopes:
- a. downward to the left
 - b. downward to the right**
 - c. upward to the left
 - d. upward to the right
- 41) At shut down point:
- a. Price is equal to AVC
 - b. Total revenue is equal to TVC
 - c. Total loss of the firm is equal to TFC
 - d. All of the above**
- 42) The marginal cost curve intersects the average cost curve when average cost is:
- a. Maximum
 - b. Minimum**
 - c. Raising
 - d. Falling
- 43) If the total cost of manufacturing commodity 'X' is Rs. 1,50,000. Out of this implicit cost is Rs. 80,000 what will be explicit cost:
- a. Rs. 95,000
 - b. Rs. 1,25,000
 - c. Rs. 80,000
 - d. Rs. 70,000**
- 44) Which is the other name that is given to the long run average cost curve?
- a. profit curve
 - b. planning curve**
 - c. demand curve
 - d. indifference curve
- 45) The producer is in equilibrium at a point where the cost line is:
- a. above the isoquant
 - b. below the isoquant
 - c. cutting the isoquant
 - d. tangent to isoquant**

- 46) According to ____, land has certain original and indestructible powers and these properties of land cannot be destroyed
- a. Ricardo**
 - b. James bates
 - c. James bates
 - d. J.R. Parkinson
- 47) Which of the following function can never be delegated by the entrepreneur?
- a. Initiating the business enterprise
 - b. Innovation
 - c. Risk bearing**
 - d. All of the above
- 48) When Average product is maximum:
- a. MP is at maximum
 - b. MP curve cuts AP from below
 - c. Total Product is at maximum
 - d. First stage of Increasing returns to factor ends.**
- 49) Which of the following statement is not true?
- a. Iso-cost line never touches the axis**
 - b. Isoquants are convex to the origin
 - c. Isoquants are non-intersecting
 - d. Higher Iso-cost line shows higher budget
- 50) ____ is that point on TP at which MP is maximum
- a. Saturation point
 - b. Production Optimization point
 - c. Inflection point**
 - d. Maximum point
- 51) The quantity of the variable factor becomes too excessive relative to the fixed factor so that they get in each other's way, is the case of:
- a. Increasing return to scale
 - b. Decreasing return to scale
 - c. Diminishing return to factor
 - d. Negative return to factor**
- 52) In Cobb-Douglas production function, if labour elasticity and capital elasticity is more than 1, it refers to:
- a. Increasing return to factor
 - b. Constant return to scale
 - c. Increasing return to scale**
 - d. Decreasing return to scale

53) Profit is the reward for bearing_____

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

54)_____ is a precondition for mobilization of savings?

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

55) Stages I and III are called

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

56) Circulating capital means:

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

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

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

Given the following data, calculate the missing values:

L	TP	MP
1	200	200
2	380	180
3		160
4	680	
5		120

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

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

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

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

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

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

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

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

Theory of Cost

- 1) Which of the following cost curves is never 'U' shaped?
 - a. Average cost curve
 - b. Marginal cost curve
 - c. Average variable cost curve
 - d. **Average fixed cost curve.**
- 2) Total cost in the short run is classified into fixed costs and variable costs. Which one of the following is a variable cost?
 - a. **Cost of raw materials.**
 - b. Cost of equipment
 - c. Interest payment on past borrowings
 - d. Payment of rent on building
- 3) In the short run, when the output of a firm increases, its average fixed cost:
 - a. Increases
 - b. **Decreases**
 - c. remains constant
 - d. first declines and then rises
- 4) Which one of the following is also known as planning curve?
 - a. **Long run average cost curve.**
 - b. Short run average cost curve
 - c. Average variable cost curve
 - d. Average total cost curve
- 5) With which of the following is the concept of marginal cost closely related?
 - a. **Variable cost**
 - b. Fixed cost
 - c. Opportunity cost
 - d. Economic cost
- 6) Which of the following statements is correct?
 - a. When the average cost is rising, the marginal cost must also be rising.
 - b. When the average cost is rising, the marginal cost must be falling.
 - c. **When the average cost is rising, the marginal cost is above the average cost**
 - d. When the average cost is falling, the marginal cost must be rising.

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

Use the following data to answer questions 8-10.

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

- 8) The average fixed cost of 2 units of output is:
- Rs. 80
 - Rs. 85
 - Rs. 120**
 - Rs. 205
- 9) The marginal cost of the sixth unit of output is:
- Rs. 133
 - Rs. 75
 - Rs. 80**
 - Rs. 450
- 10) Diminishing marginal returns start to occur between units:
- 2 and 3
 - 3 and 4
 - 4 and 5**
 - 5 and 6
- 11) Which of the following is true of the relationship between the marginal cost function and the average cost function?
- If MC is greater than ATC, then ATC is falling
 - The ATC curve intersects the MC curve at minimum MC
 - The MC curve intersects the ATC curve at minimum ATC**
 - If MC is less than ATC, then ATC is increasing.
- 12) Which of the following statements is true of the relationship among the average cost functions?
- $ATC = AFC - AVC$
 - $AVC = AFC + ATC$.
 - $AFC = ATC + AVC$
 - $AFC = ATC - AVC$**

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

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

14) Suppose output increases in the short run. Total cost will:

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

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

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

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

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

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

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

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

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

- 19) A firm producing 7 units of output has an average total cost of Rs. 150 and has to pay Rs. 350 to its fixed factors of production whether it produces or not. How much of the average total cost is made up of variable costs?
- a. Rs. 200
 - b. Rs. 50
 - c. Rs. 300
 - d. Rs. 100**
- 20) A firm has a variable cost of Rs. 1000 at 5 units of output. If fixed costs are Rs. 400, what will be the average total cost at 5 units of output?
- a. Rs. 280**
 - b. Rs. 60
 - c. Rs. 120
 - d. Rs. 1,400
- 21) A firm's average fixed cost is Rs. 20 at 6 units of output. What will it be at 4 units of output?
- a. Rs. 60
 - b. Rs. 30**
 - c. Rs. 40
 - d. Rs. 20
- 22) When marginal costs are below average total costs,
- a. average fixed costs are rising.
 - b. average total costs are falling**
 - c. average total costs are rising.
 - d. average total costs are minimized.
- 23) In the long run, if a very small factory were to expand its scale of operations, it is likely that it would initially experience
- a. an increase in pollution level
 - b. diseconomies of scale.
 - c. economies of scale.**
 - d. constant returns to scale.
- 24) A firm's long-run average total cost curve is
- a. Identical to its long-run marginal-cost curve as all factors are variable.
 - b. Also its long-run total cost curve because it explains the relationship cost and quantity supplied in the long run
 - c. In fact, the average total cost curve of the optimal plant in the short run as it tries to produce at least cost.
 - d. Tangent to all short-run average total cost the curves and represents the lowest average total cost for producing each level of output.**

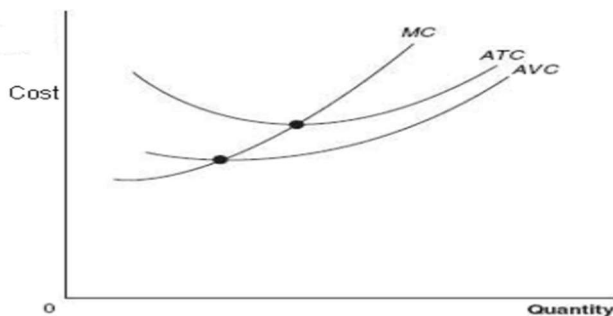
25) The marginal cost of a firm for producing the 9th unit of output is Rs. 20. Average cost at the same level of output is Rs. 15. Which of the following must be true?

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

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

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

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



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

28) Which of the following statements is incorrect?

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

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

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

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

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

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

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

32) Which of the following is incorrect formula?

- a. $TC = AC \times Q$
- b. **$\sum MC = TC$**
- c. $\sum MC = TVC$
- d. $\sum MC + TFC = TC$

Read the following paragraph and answer question 33-45.

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

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

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

34) The above mentioned firm is earning:

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

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

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

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

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

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

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

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

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

39) Fixed costs are a function of:

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

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

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

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

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

42) Average Variable Cost Curve has a positive slope:

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

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

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

44) Empirical evidence shows that the modern firms face _____ LAC

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

45) _____ arises due to endogenous factors?

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

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

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

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

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

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

Particulars	Amount (₹ in crores)
Fuel and Power	1,000
Research and Development	150
Rent	9
Wages	10
Advertisement	5

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

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

- a. ₹4
 - b. ₹5**
 - c. ₹6
 - d. ₹10
-

Chapter 4

- 1) Assume that when price is Rs. 20, the quantity demanded is 15 units, and when price is Rs. 18, the quantity demanded is 16 units. Based on this information, what is the marginal revenue resulting from an increase in output from 15 units to 16 units?
 - a. Rs. 18
 - b. Rs. 16
 - c. **-Rs. 12**
 - d. Rs. 28
- 2) Suppose a firm is producing a level of output such that $MR > MC$, what should the firm do to maximize its profits?
 - a. The firm should do nothing.
 - b. The firm should hire less labour.
 - c. The firm should increase price.
 - d. **The firm should increase output.**
- 3) Which of the following is not an essential condition of pure competition?
 - a. Large number of buyers and sellers
 - b. Homogeneous product
 - c. Freedom of entry
 - d. **Absence of transport cost**
- 4) What is the shape of the demand curve faced by a firm under perfect competition?
 - a. **Horizontal**
 - b. Vertical
 - c. Positively sloped
 - d. Negatively sloped
- 5) Which is the first order condition for the profit of a firm to be maximum?
 - a. $AC = MR$
 - b. **$MC = MR$**
 - c. $MR = AR$
 - d. $AC = AR$
- 6) Which of the following is not a characteristic of a "price-taker"?
 - a. $TR = P \times Q$
 - b. $AR = \text{Price}$
 - c. **Negatively - sloped demand curve**
 - d. $\text{Marginal Revenue} = \text{Price}$

- 7) Which of the following statements is false?
- a. Economic costs include the opportunity costs of the resources owned by the firm.
 - b. Accounting costs include only explicit costs.
 - c. Economic profit will always be less than accounting profit if resources owned and used by the firm have any opportunity costs.
 - d. **Accounting profit is equal to total revenue less implicit costs.**
- 8) With a given supply curve, a decrease in demand causes
- a. an overall decrease in price but an increase in equilibrium quantity
 - b. an overall increase in price but a decrease in equilibrium quantity.
 - c. **an overall decrease in price and a decrease in equilibrium quantity.**
 - d. no change in overall price but a reduction in equilibrium quantity.
- 9) It is assumed in economic theory that
- a. decision making within the firm is usually undertaken by managers, but never by the owners.
 - b. **the ultimate goal of the firm is to maximize profits, regardless of firm size or type of business organization.**
 - c. as the firm's size increases, so do its goals.
 - d. the basic decision making unit of any firm is its owners.
- 10) If supply increases in a greater proportion than demand
- a. The new equilibrium price and quantity will be greater than the original equilibrium price and quantity
 - b. The new equilibrium price will be greater than the original equilibrium price but equilibrium quantity will be higher
 - c. The new equilibrium price and quantity will be lower than the original equilibrium price and quantity.
 - d. **The new equilibrium price will be lower than the original equilibrium and the new equilibrium quantity will be higher.**
- 11) Assume that in the market for good Z there is a simultaneous increase in demand and the quantity supplied. The result will be:
- a. an increase in equilibrium price and quantity
 - b. a decrease in equilibrium price and quantity
 - c. **an increase in equilibrium quantity and uncertain effect on equilibrium price.**
 - d. a decrease in equilibrium price and increase in equilibrium quantity.

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

- 18) The long-run equilibrium outcomes in monopolistic competition and perfect competition are similar, because in both market structures
- a. the efficient output level will be produced in the long run.
 - b. firms will be producing at minimum average cost
 - c. firms will only earn a normal profit.**
 - d. firms realize all economies of scale.
- 19) Which of the following is the distinguishing characteristic of oligopolies?
- a. A standardized product
 - b. The goal of profit maximization
 - c. The interdependence among firms**
 - d. Downward-sloping demand curves faced by firms.
- 20) Average revenue curve is also known as:
- a. Profit Curve
 - b. Demand Curve**
 - c. Average Cost Curve
 - d. Indifference Curve
- 21) Discriminating monopoly implies that the monopolist charges different prices for his commodity:
- a. from different groups of consumers
 - b. for different uses
 - c. at different places
 - d. any of the above**
- 22) Price discrimination will be profitable only if the elasticity of demand in different sub-markets is:
- a. Uniform
 - b. Different**
 - c. Less
 - d. Zero
- 23) In the context of oligopoly, the kinked demand hypothesis is designed to explain
- a. Price and output determination
 - b. Price rigidity**
 - c. Price leadership
 - d. Collusion among rivals.
- 24) The firm in a perfectly competitive market is a price-taker. This designation as a price-taker is based on the assumption that
- a. the firm has some, but not complete, control over its product price
 - b. there are so many buyers and sellers in the market that any individual firm cannot affect the market.**
 - c. each firm produces a homogeneous product.
 - d. there is easy entry into or exit from the market place.

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

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

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

26) The kinked demand curve model of oligopoly assumes that

- a. the response (of consumers) to a price increase is less than the response to a price decrease.
- b. the response (of consumers) to a price increase is more than the response to a price decrease**
- c. the elasticity of demand is constant regardless of whether price increases or decreases.
- d. the elasticity of demand is perfectly elastic if price increases and perfectly inelastic if price decreases

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

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

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

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

29) One characteristic not typical of oligopolistic industry is

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

- 30) The structure of the toothpaste industry in India is best described as
- a. perfectly competitive
 - b. monopolistic
 - c. monopolistically competitive.**
 - d. Oligopolistic
- 31) The structure of the cold drink industry in India is best described as
- a. perfectly competitive
 - b. monopolistic
 - c. monopolistically competitive.
 - d. Oligopolistic**
- 32) Which of the following statements is incorrect?
- a. Even a monopolistic firm can have losses
 - b. Firms in a perfectly competitive market are price takers.
 - c. It is always beneficial for a firm in a perfectly competitive market to discriminate prices**
 - d. Kinked demand curve is related to an oligopolistic market
- 33) Under perfect competition, in the long run, there will be no _____
- a. normal profits
 - b. supernormal profits**
 - c. production
 - d. costs
- 34) When _____, we know that the firms are earning just normal profits.
- a. $AC = AR$**
 - b. $MC = MR$
 - c. $MC = AC$
 - d. $AR = MR$
- 35) When _____, we know that the firms under perfect competition must be producing at the minimum point of the average cost curve and so there will be productive efficiency.
- a. $AC = AR$
 - b. $MC = AC$**
 - c. $MC = MR$
 - d. $AR = MR$

- 36) When _____, there will be allocative efficiency meaning thereby that the cost of the last unit is exactly equal to the price consumers are willing to pay for it and so that the right goods are being sold to the right people at the right price.
- a. $MC = MR$
 - b. $MC = AC$
 - c. **$MC = AR$**
 - d. $AR = MR$
- 37) Agricultural goods markets depict characteristics close to
- a. **perfect competition.**
 - b. Oligopoly
 - c. monopoly.
 - d. monopolistic competition.
- 38) The market for hand tools (such as hammers and screwdrivers) is dominated by Draper, Stanley, and Craftsman. This market is best described as
- a. Monopolistically competitive
 - b. a monopoly
 - c. **an oligopoly**
 - d. perfectly competitive
- 39) When an oligopolist individually chooses its level of production to maximize its profits, it charges a price that is
- a. more than the price charged by either monopoly or a competitive market
 - b. less than the price charged by either monopoly or a competitive market
 - c. more than the price charged by a monopoly and less than the price charged by a competitive market
 - d. **less than the price charged by a monopoly and more than the price charged by a competitive market.**
- 40) In the long-run equilibrium of a competitive market, firms operate at
- a. the intersection of the marginal cost and marginal revenue
 - b. their efficient scale
 - c. zero economic profit
 - d. **all of these answers are correct**
- 41) In a very short period market:
- a. **the supply is fixed**
 - b. the demand is fixed
 - c. demand and supply are fixed
 - d. none of the above

42) Time element was conceived by

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

43) When $e > 1$ then MR is

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

44) When $e = 1$ then MR is

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

45) When $e < 1$ then MR is

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

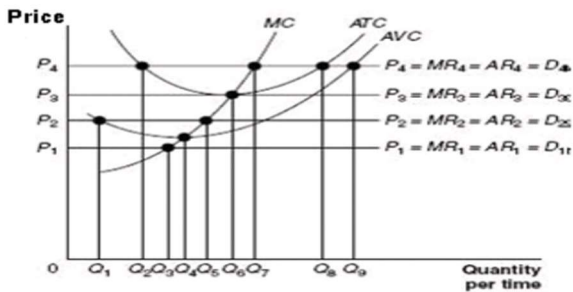
46) Price discrimination is one of the features of _____

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

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

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

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



a. Zero output

b. Q_3

c. Q_5

d. Q_6

49) Secular period is also known as

a. very short period

b. short period

c. **very long period**

d. long period

50) Stock exchange market is an example of

a. unregulated market

b. **regulated market**

c. spot market

d. none of the above

51) The market for the ultimate consumers is known as

a. whole sale market

b. regulated market

c. unregulated market

d. **retail market**

52) The condition for pure competition is

a. large number of buyer and seller, free entry and exist

b. homogeneous product

c. **both (a) and (b)**

d. large number of buyer and seller, homogeneous product, perfect knowledge about the product

53) Pure oligopoly is based on the _____ products

a. Differentiated

b. **Homogeneous**

c. Unrelated

d. none of the above

- 54) In oligopoly, when the industry is dominated by one large firm which is considered as leader of the group, then it is called:
- a. full oligopoly
 - b. collusive oligopoly
 - c. partial oligopoly**
 - d. syndicated oligopoly
- 55) When the products are sold through a centralized body, oligopoly is known as
- a. organized oligopoly
 - b. partial oligopoly
 - c. competitive oligopoly
 - d. syndicated oligopoly**
- 56) When the monopolist divides the consumers into separate sub markets and charges different prices in different sub-markets it is known as
- a. first degree of price discrimination
 - b. second degree of price discrimination
 - c. third degree of price discrimination**
 - d. none of the above.
- 57) Under _____ the monopolist will fix a price which will take away the entire consumers' surplus.
- a. second degree of price discrimination
 - b. first degree of price discrimination**
 - c. third degree of price discrimination
 - d. none of the above.
- 58) Price discrimination is related to
- a. Time
 - b. size of the purchase
 - c. income
 - d. any of the above**
- 59) The firm and the industry are one and the same in _____
- a. Perfect competition
 - b. Monopolistic competition
 - c. Duopoly
 - d. Monopoly**
- 60) The demand curve of a monopoly firm will be _____
- a. Upward sloping
 - b. Downward sloping**
 - c. Horizontal
 - d. Vertical

61) Which of the following statements is incorrect?

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

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

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

63) Conditions for equilibrium of a firm are:

- a. $MR = MC$
- b. MC should cut MR from below.
- c. $MR = AR$ and MC should cut MR from below
- d. $MR = MC$ and MC should have a positive slope.**

64) Natural Monopoly arises when

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

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

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

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

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

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

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

- 68) Price varies by attributes such as location or by Customer Segment is _____ degree of Price Discrimination.
- a. First
 - b. Second
 - c. Third**
 - d. Fourth
- 69) The kinked demand curve model of oligopoly is useful in explaining
- a. the way that collusion works
 - b. why oligopolistic price and output are extremely sensitive to changes in marginal cost.
 - c. why oligopolistic prices might change only infrequently.**
 - d. the process by which oligopolists merge with one other.
- 70) The monopolistically competitive seller's demand curve will become more elastic, the
- a. more significant the barriers to entering the industry.
 - b. greater the degree of product differentiation.
 - c. larger the number of competitors.**
 - d. smaller the number of competitors.
- 71) With respect to the pure monopolist's demand curve it can be said that
- a. The stronger the barrier to entry, the more elastic is the monopolist's demand curve
 - b. Price exceeds marginal revenue at all outputs greater than 1.**
 - c. Demand is perfectly inelastic.
 - d. Marginal revenue equals price at all outputs.
- 72) For an imperfectly competitive firm
- a. Total revenue curve is straight up sloping line because a firm's sales are independent of product price
 - b. The marginal revenue curve lies above the demand curve because any reduction in price applies to all units sold.
 - c. The marginal revenue curve lies below the demand curve because any reduction in price applies to all units sold.**
 - d. Marginal revenue curve lies below the demand curve because any reduction in price applies to only extra unit sold.
- 73) A firm reaches a break-even point (normal profit position) where,
- a. Marginal revenue curve cuts the horizontal axis.
 - b. Marginal cost curve intersects the average variable cost curve.
 - c. Total revenue equals total variable cost.
 - d. Total revenue and total cost are equal.**

- 74) A purely competitive seller's average revenue curve coincides with
- its marginal revenue curve only
 - its demand curve only
 - both its demand & marginal revenue curves**
 - Neither demand nor marginal revenue curve

- 75) For a purely competitive firm total revenue
- is price times quantity sold
 - increases by a constant absolute amount as output expands.
 - graphs as a straight up sloping line from the origin.
 - has all of the above characteristics**

76) Demand curve is:

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

- I-C, II-A, III-B
- I-C, II-B, III-a**
- I-A, II-B, III-C
- I-B, II-A, III-C

77) Price control is:

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

- I-D, II-C, III-B, IV-A
- I-A, II-B, III-C, IV-D
- I-D, II-A, III-C, IV-B
- I-A, II-C, III-B, IV-D**

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

- If an oligopolist increases his price his rivals will follow.
 - If an oligopolist increases his price his rivals will not follow.
 - If an oligopolist increases his price his rivals will lower their prices.
 - If an oligopolist decreases his price his rivals will not react.
- 1 only
 - 2 only**
 - 1 & 3 only
 - 4 only

79) Which of the following is not correct?

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

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

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

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

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

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

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

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

- 82) If a monopolist could perfectly discriminate then which of the following statements would be true?
- a. Every increment of the goods would be priced separately so as to capture the entire consumer surplus**
 - b. Every increment of the goods would be priced evenly.
 - c. Every increment of the goods would be priced higher than the previous one.
 - d. Every increment of the goods would be priced lower than the previous one.
- 83) For a competitive firm, long period normal price will
- a. Equal AC and MC of production**
 - b. Equal MC of production only
 - c. Equal TC of production only
 - d. None of these
- 84) Monopolistic competition has features of
- a. Monopoly but not competition
 - b. Monopoly and competition with features of competition predominating**
 - c. Monopoly and competition with features of monopoly predominating
 - d. None of the above
- 85) Marginal revenue along with marginal cost helps to determine
- a. Profit maximizing output**
 - b. Profit/unit
 - c. Price/unit
 - d. Total revenue
- 86) Which of the following is true at equilibrium in monopolistic competition?
- a. Price is greater than marginal cost
 - b. Price is greater than marginal revenue
 - c. Both (A) and (B)**
 - d. Price is equal to marginal revenue
- 87) The kinked demand curve theory explains that even when the demand conditions _____ the price _____
- a. Change, changes
 - b. Change, remains stable**
 - c. Remain stable, changes
 - d. Remain stable, falls

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- a. In competitive markets, price equals marginal cost; in monopolized markets, price equals marginal cost.
- b. In competitive markets, price exceeds marginal cost; in monopolized markets, price exceeds marginal cost.
- c. **In competitive markets, price equals marginal cost; in monopolized markets, price exceeds marginal cost.**
- d. In competitive markets, price exceeds marginal cost; in monopolized markets, price equals marginal cost.

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

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

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

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

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

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

- 114) MR curve under Monopoly lies between AR and Y-axis because the rate of decline of MR is:
- Just half of the rate of decline of AR
 - Just equal to the rate of decline of AR
 - Just double the rate of decline of the AR**
 - None of the above
- 115) Aluminum industry is an example of:
- Collusive Oligopoly
 - Organized oligopoly
 - Competitive oligopoly
 - Pure Oligopoly**
- 116) Increase in demand and decrease in supply causes:
- Equilibrium Price uncertain, Equilibrium quantity rises
 - Equilibrium Price rises, Equilibrium quantity falls
 - Equilibrium Price rises, Equilibrium quantity uncertain**
 - Equilibrium Price falls, Equilibrium quantity uncertain
- 117) In which form of market are patents and copyrights given by the government to protect intellectual property rights?
- Perfect competition
 - Monopoly**
 - Monopolistic competition
 - Oligopoly
- 118) If the electricity department is charging Rs. 3 per unit to farmers and Rs. 7 per unit to industries, it is described as:
- Product differentiation
 - Price discrimination**
 - Monopoly
 - Differentiation activity
- 119) When a few firms in the oligopolistic market come to a common understanding with each other in fixing price and output, it is called:
- Syndicate oligopoly
 - Collusive oligopoly**
 - Perfect oligopoly
 - Open oligopoly

- 120) Three major smartphone manufacturers, Alpha Tech, Beta Mobile, and Gamma Gadgets, dominate the smartphone market. These companies are in constant competition for market share and innovation. Which type of the market structure has been described in this scenario?
- Monopoly
 - Oligopoly**
 - Perfect Competition
 - Monopolistic Competition
- 121) If Marginal Revenue (MR) for Unit 1 is 10, for Unit 2 is 5, and for Unit 3 is 3 then what will be the amount of Total Revenue (TR)?
- ₹15
 - ₹10
 - ₹8
 - ₹18**
- 122) Which market covers a wider area such as a few adjacent cities, parts of states, or a cluster of states?
- Regional Market**
 - National Market
 - International Market
 - Local Market
- 123) When should a competitive firm consider shutting down its operations?
- When the price is above Total Variable Costs (TVC).
 - When the price is below Average Variable Costs (AVC).**
 - When the price is equal to Total Revenue (TR).
 - When the price is constant.
- 124) In the case of demand decreasing and supply increasing, what is the expected impact on equilibrium price?
- Equilibrium price rises
 - Equilibrium price falls**
 - Equilibrium price remains constant
 - Equilibrium price remains uncertain
- 125) In Ricardo's view, what does "Exchange Value" represent?
- The cost of production of a commodity
 - The subjective preferences of individuals
 - Power in exchange over purchasable commodities in general**
 - The quantity of labour embodied in a commodity

- 126) Talcum powder market is an example of which of the following markets?
- Collusive Oligopoly
 - Imperfect Oligopoly**
 - Open Oligopoly
 - Close Oligopoly
- 127) A software company engages in price discrimination for its product. The company identifies different market segments and charges different prices based on perceived differences in willingness to pay. This is possible under which situation?
- Monopolistic competition
 - A Monopoly**
 - Perfect competition
 - Oligopoly competitions
- 128) What happens to the equilibrium price when there is a decrease in supply with no change in demand?
- Equilibrium price goes down.
 - Equilibrium price remains constant.
 - Equilibrium price goes up.**
 - Equilibrium quantity increases.
- 129) A market structure in which there is only a single buyer and a single seller is known as:
- Monopsony
 - Bilateral Monopoly**
 - Oligopoly
 - Duopoly
- 130) Monopolistic Competition is characterized by
- Many sellers selling identical products to many buyers.
 - Many sellers sell differentiated products to many buyers.**
 - Few sellers selling identical products to many buyers.
 - Few sellers selling competing products to selective buyers.
- 131) According to the Kinked demand curve hypothesis, why does the demand curve facing an oligopolist have a 'Kink' at the prevailing price level?
- To create confusion among competitors
 - To make the demand curve visually interesting
 - The segment above price is highly elastic, and below it is inelastic**
 - It is a graphical error in the representation.

Chapter -5

Business Cycles

- 1) The term business cycle refers to
 - a. the ups and downs in production of commodities
 - b. the fluctuating levels of economic activity over a period of time**
 - c. decline in economic activities over prolonged period of time
 - d. increasing unemployment rate and diminishing rate of savings
- 2) A significant decline in general economic activity extending over a period of time is
 - a. business cycle
 - b. contraction phase**
 - c. recession
 - d. recovery
- 3) The trough of a business cycle occurs when ____ hits its lowest point.
 - a. inflation in the economy
 - b. the money supply
 - c. aggregate economic activity**
 - d. the unemployment rate
- 4) The lowest point in the business cycle is referred to as the
 - a. Expansion
 - b. Boom
 - c. Peak
 - d. Trough**
- 5) A variable that tends to move later than aggregate economic activity is called
 - a. a leading variable
 - b. a coincident variable.
 - c. a lagging variable.**
 - d. a cyclical variable
- 6) Industries that are extremely sensitive to the business cycle are the
 - a. Durable goods and service sectors.
 - b. Non-durable goods and service sectors.
 - c. Capital goods and non-durable goods sectors.
 - d. Capital goods and durable goods sectors.**
- 7) A decrease in government spending would cause
 - a. the aggregate demand curve to shift to the right.
 - b. the aggregate demand curve to shift to the left**
 - c. a movement down and to the right along the aggregate demand curve.
 - d. a movement up and to the left along the aggregate demand curve.

- 8) Which of the following does not occur during an expansion?
- a. Consumer purchases of all types of goods tend to increase.
 - b. Employment increases as demand for labour rises.
 - c. Business profits and business confidence tend to increase
 - d. **None of the above**
- 9) During recession, the unemployment rate _____ and output _____.
- a. **Rises; falls**
 - b. Rises; rises
 - c. Falls; rises
 - d. Falls; falls
- 10) The four phases of the business cycle are
- a. **expansion, peak, contraction and trough**
 - b. contraction, expansion, trough and boom
 - c. expansion contraction, peak, and trough
 - d. peak, depression, bust, and boom
- 11) Leading economic indicators
- a. are used to forecast probable shifts in economic policies
 - b. **are generally used to forecast economic fluctuations**
 - c. are indicators of stock prices existing in an economy
 - d. are indicators of probable recession and depression
- 12) Peaks and troughs of the business cycle are known collectively as
- a. Volatility
 - b. **Turning points.**
 - c. Equilibrium points.
 - d. Real business cycle events
- 13) The most probable outcome of an increase in the money supply is
- a. interest rates to rise, investment spending to rise, and aggregate demand to rise
 - b. interest rates to rise, investment spending to fall, and aggregate demand to fall
 - c. **interest rates to fall, investment spending to rise, and aggregate demand to rise**
 - d. interest rates to fall, investment spending to fall, and aggregate demand to fall
- 14) Which of the following is not a characteristic of business cycles?
- a. Business cycles have serious consequences on the well-being of the society.
 - b. Business cycles occur periodically, although they do not exhibit the same regularity.
 - c. **Business cycles have uniform characteristics and causes**
 - d. Business cycles are contagious and unpredictable.

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

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

16) According to _____ trade cycles occur due to onset of innovations.

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

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

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

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

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

19) Which of the following statements is correct?

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

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

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

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

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

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

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

23) Cost of living increases when business cycle is _____

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

24) Post war reconstruction

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

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

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

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

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

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

27) Cyclical business refers to

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

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

	List I		List II
I	Leading indicator	A	Industrial production
II	Lagging indicator	B.	Changes in stock price
III.	Coincident indicator	C.	Corporate profit

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

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

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

30) Business cycle emerge in _____.

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

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

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

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

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