CHAPTER 2 - THEORY OF DEMAND & SUPPLY

1. Demand for a commodity refers to:
(a) desire backed by ability to pay for the commodity.
(b) need for the commodity and willingness to pay for it
(c) the quantity demanded of that commodity at a certain price.
(d) the quantity of the commodity demanded at a certain price during any particular period of time.

2. Contraction of demand is the result of :
(a) decrease in the number of consumers.
(b) increase in the price of the good concerned.
(c) increase in the prices of other goods.
(d) decrease in the income of purchasers.

3. All but one of the following are assumed to remain the same while drawing an individual's demand curve for a commodity. Which one is it?
(a) The preference of the individual.
(b) His monetary income.
(c) Price of the commodity
(d) Price of related goods.

4. Which of the following pairs of goods is an example of substitutes?
(a) Tea and sugar (b) Tea and coffee.
(c) Pen and ink. (d) Shirt and trousers.

5. 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

6. The Law of Demand, assuming other things to remain constant, establishes the relationship between:
(a) income of the consumer and the quantity of a good demanded by him.
(b) price of a good and the quantity demanded.
(c) price of a good and the demand for its substitute.
(d) quantity demanded of a good and the relative prices of its complementary goods.

7. 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.

8. 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

9. In the case of an inferior good, the income elasticity of demand is:
(a) positive. (b) Zero.
(c) Negative. (d) infinite.

10. 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.
11. If regardless of changes in its price, the quantity demanded of a good remains unchanged, then the demand curve for the good will be: (a) horizontal. (b) Vertical. (c) positively sloped. (d) negatively sloped.
12. Suppose the price of Pepsi increases, we will expect the demand curve of Coca Cola to: (a) Shift towards left since these are substitutes (b) Shift towards right since these are substitutes (c) Remain at the same level (d) None of the above
13. All of the following are determinants of demand except: (a) Tastes and preferences.(b) Quantity supplied. (c)Income of the consumer (d) Price of related goods.
14. A movement along the demand curve for soft drinks is best described as: (a) An increase in demand. (b) A decrease in demand. (c) A change in quantity demanded. (d) A change in demand.
15. 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: (a) Elastic. (b) Inelastic. (c) Unitarily elastic. (d) Perfectly elastic.
16. If the quantity demanded of mutton increases by 5% when the price of chicken increases by 20%, the cross-price elasticity of demand between mutton and chicken is (a) -0.25 (b) 0.25 (c) -4 (d) 4
17. Given the following four possibilities, which one results in an increase in total consumer expenditure? (a) Demand is unitary elastic and price falls. (b) Demand is elastic and price rises. (c) Demand is inelastic and price falls. (d) Demand is inelastic and prices rises
18. Which of the following statements about price elasticity of supply is correct? (a) Price elasticity of supply is a measure of how much the quantity supplied of a good responds to a change in the price of that good (b) Price elasticity of supply is computed as the percentage change in quantity supplied divided by the percentage change in price (c) Price elasticity of supply in the long run would be different from that of the short run (d) All the above
19. Which of the following is an incorrect statement? (a) When goods are substitutes, a fall in the price of one (ceteris paribus) leads to a fall in the quantity demanded of its substitutes. (b) When commodities are complements, a fall in the price of one (other things being equal) will cause the demand of the other to rise (c) As the income of the consumer increases, the demand for the commodity increases always and vice versa.

(d) When a commodity becomes fashionable people prefer to buy it and therefore its demand increases

20. Suppose the price of movies seen at a theatre rises from ` 120 per person to ` 200 per person. The theatre manager observes that the rise in price causes attendance at a given movie to fall from 300 persons to 200 persons. What is the price elasticity of demand for movies? (Use Arc Elasticity Method)

(a) .5 (b) .8

(c) 1.0 (d) 1.2

21. When the numerical value of cross elasticity between two goods is very high, it means

(a) The goods are perfect complements and therefore have to be used together

(b) The goods are perfect substitutes and can be used with ease in place of one another

(c) There is a high degree of substitutability between the two goods

(d) The goods are neutral and therefore cannot be considered as substitutes

22. If electricity demand is inelastic, and electricity charges increase, which of the following is likely to occur?

(a) Quantity demanded will fall by a relatively large amount.

(b) Quantity demanded will fall by a relatively small amount.

(c) Quantity demanded will rise in the short run, but fall in the long run.

(d) Quantity demanded will fall in the short run, but rise in the long run.

23. Suppose the demand for meals at a medium-priced restaurant is elastic. If the management of the restaurant is considering raising prices, it can expect a relatively:

(a) Large fall in quantity demanded.

(b) Large fall in demand.

(c) Small fall in quantity demanded.

(d) Small fall in demand.

24. Point elasticity is useful for which of the following situations?

(a) The bookstore is considering doubling the price of notebooks.

(b) A restaurant is considering lowering the price of its most expensive dishes by 50 percent.

(c) An auto producer is interested in determining the response of consumers to the price of cars being lowered by ` 100.

(d) None of the above.

25. A decrease in price will result in an increase in total revenue if:

(a) The percentage change in quantity demanded in less than the percentage change in price.

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

(c) Demand is inelastic.

(d) 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.

26. An increase in price will result in an increase in total revenue if:

(a) The percentage change in quantity demanded is less than the percentage change in price.

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

(c) Demand is elastic.

(d) The consumer is operating along a linear demand curve at a point at which the price is very high and the quantity demanded is very low.

27. Demand for a good will tend to be more elastic if it exhibits which of the following characteristics?

(a) It represents a small part of the consumer's income.

(b) The good has many substitutes available.
(c) It is a necessity (as opposed to a luxury).
(d) There is little time for the consumer to adjust to the price change.

28. Demand for a good will tend to be more inelastic if it exhibits which of the following characteristics?
(a) The good has many substitutes.
(b) The good is a luxury (as opposed to a necessity).
(c) The good is a small part of the consumer's income.
(d) There is a great deal of time for the consumer to adjust to the change in prices.

29. Total utility is maximum when:
(a) Marginal utility is zero.
(b) Marginal utility is at its highest point.
(c) Marginal utility is negative
(d) None of the above

30. Which one is not an assumption of the theory of demand 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.

31. An indifference curve slopes down towards right since more of one commodity and less of another result in:
(a) Same level of satisfaction.
(b) Greater satisfaction.
(c) Maximum satisfaction.
(d) Any of the above

32. Suppose that workers in a steel plant managed to force a significant increase in their wage package. How would the new wage contract be likely to affect the market supply of steel, other things remaining the same?
(a) Supply curve will shift to the left.
(b) Supply curve will shift to the right.
(c) Supply will not shift, but the quantity of cars produced per month will decrease.
(d) Supply will not shift, but the quantity of cars produced per month will increase

33. Which of the following statements is incorrect?
(a) An indifference curve must be downward-sloping to the right.
(b) Convexity of a curve implies that the slope of the curve diminishes as one moves from left to right.
(c) The income elasticity for inferior goods to a consumer is positive
(d) The total effect of a change in the price of a good on its quantity demanded is called the price effect.

34. The successive units of stamps collected by a little boy give him greater and greater satisfaction. This is a clear case of
(a) Operation of the law of demand.
(b) Consumer surplus enjoyed in hobbies and rare collections
(c) Exception to the law of diminishing utility.

(d) None of the above

35. 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

36. 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.

37. 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 that a person is willing to pay for a good and its market price.
(d) The difference between the market price and the supply curve

38. Which of the following is a property of an indifference curve?
(a) It is convex to the origin due to diminishing marginal rate of substitution
(b) The marginal rate of substitution is constant as you move along an indifference curve.
(c) Marginal utility is constant as you move along an indifference curve.
(d) Total utility is greatest where the budget line cuts the indifference curve.

39. 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

40. A vertical supply curve parallel to Y axis implies that the elasticity of supply is:
(a) Zero
(b) Infinity
(c) Equal to one
(d) Greater than zero but less than infinity.

41. 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.

42. An increase in the supply of a good is caused by :
(a) Improvements in its production technology
(b) Fall in the prices of other goods which can be produced using the same inputs.
(c) Fall in the prices of factors of production used in its production.
(d) all of the above.

43. Elasticity of supply refers to the degree of responsiveness of supply of a good to changes in its:
(a) Demand. (b) Price.
(c) Cost of production. (d) State of technology

44. 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.

45. Conspicuous goods are also known as
(a) Prestige goods (b) Snob goods
(c) Veblen goods (d) All of the above

46. The quantity purchased remains constant irrespective of the change in income. This is known as
(a) negative income elasticity of demand
(b) income elasticity of demand less than one
(c) zero income elasticity of demand
(d) income elasticity of demand is greater than one

47. When income increases the money spent on necessaries 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

48. The luxury goods like jewellery and fancy articles will have
(a) low income elasticity of demand
(b) high income elasticity of demand
(c) zero income elasticity of demand
(d) none of the above

49. A good which cannot be consumed more than once is known as
(a) Durable good (b) Non-durable good
(c) Producer good (d) None of the above

50. 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

51. When both the price of a substitute and the price of a complement ofcommodity X rise, the demand for X:
(a) Rises
(b) falls
(c) remains unchanged
(d) all of the above are possible.

52. A consumer who is below the personal budget line (rather than on it):
(a) is not spending all personal income
(b) is spending all personal income
(c) may or may not be spending all personal income
(d) is in equilibrium.

53. depicts complete picture of consumer's tastes and preferences
(a) Budget line (b) Average cost curve
(c) Indifference map (d) Marginal revenue curve

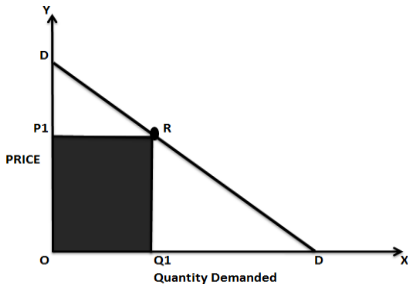
54. The level of consumption at which marginal utility of a commodity reacheszero is called:
(a) Point of Satiety (b) Point of Equilibrium
(c) Point of breakeven (d) None of these

55. Following is not a factor affecting price elasticity of demand: (a) Price level (b) Cost of Production (c) Availability of substitutes (d) Time period
56. On all points of rectangular hyperbola demand curve, elasticity of demand is: (a) equal to unity (b) zero (c) less than unity (d) greater than unity
57. Imposition of GST, shifts the supply curve: (a) to the left (b) to the right (c) to the right as well as the left (d) None of these
58. Marshallian theory of consumer's behaviour is based on: (a) Hypothesis of additive utilities. (b) Hypothesis of independent utilities. (c) Both (A) and (B) (d) Weak ordering
59. Successful business firms spend considerable time, energy, and efforts inanalyzing the for their products. (a) Supply (b) Price (c) Demand (d) None of these
60. By way of an optimal choice, a consumer tends to: (a) save money (b) purchase large quantity (c) maximize satisfaction (d) maximize satisfaction subject to constraints like tastes and preferences.
61. The economist's concept of demand is ___________ as desire or need orchoice or preference or order. (a) the same thing (b) not the same thing (c) (a) or (b) (d) None of these
62. The demand for labour in response to the wage rate is ________ whereas the demand for same labour in response to the price of electronic goods wherelabour enters as an input is_____ . (a) Derived Demand, Direct Demand (b) Direct Demand, Derived Demand (c) Individual Demand, Market Demand (d) Company Demand, Industry Demand
63. Which of the following groups of goods have inelastic demand? (a) Salt, Smart Phone and Branded Lipstick (b) School Uniform, Branded Goggles and Smart Phone (c) Salt, School Uniform and Medicine (d) Medicine, Branded Sports Shoes, and Diamond ring
64. If the price of a commodity raised by 12% and Ed is (-) 0.63, the expendituremade on the commodity by a consumer will ___ (a) Decrease (b) Increase (c) Remain same (d) Can't Say

65. A consumer's preferences are monotonic if and only if between two bundles,the consumer prefers the bundle which has _______.
(a) more of one of the goods
(b) less of at least one of the goods
(c) more of at least one of the goods and less of the other good.
(d) more of at least one of the goods and no less of the other good.

66. During lockdown due to COVID-19, a consumer finds the vegetable vendorsselling 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

67. In the below figure, if DD is the demand curve and R is a given point on it thenthe area of shaded portion OP1RQ1 is ________.



(a) Total Revenue (TR) (b) Marginal Revenue (MR)
(C) Total Cost (TC) (d) None of these

68. The law of consumer surplus is based on:
(a) indifferent curve analysis
(b) revealed preference theory
(c) law of substitution
(d) the law of diminishing marginal utility

69. If the price of apples rises from ` 30 per kg to ` 40 per kg and the supplyincreases from 240 kg to ` 300 kg. Elasticity of supply is:
(a) .77 (b) .67
(c) (-) .67 (d) (-) .77

70. 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

71. Indifference Curve analysis is superior to utility analysis:
(a) It dispenses with the assumption of measurability
(b) It segregates income effect and substitution effect
(c) It does not assume constancy of marginal utility of money
(d) All of the above

72. Demand for complementary goods are:
(a) Derived Demand (b) Autonomous demand
(c) Aggregate Demand (d) None of these

73. Management of the firmfactors.
(a) Has (b) has no

(c) has partial (d) None of these

74. Which of the following statements is correct?

(a) When the slope of the demand curve is zero, demand is infinitely elasticand when the slope is infinite, elasticity is zero.

(b) When the slope of the demand curve is zero, the elasticity is also zeroand when the slope is infinite, elasticity is also infinite.

(c) When the slope of the demand curve is zero, the elasticity is unity andalso when the slope is infinite, elasticity is unity.

(d) None of these

75. Computers and computer software are____.

(a) Substitute goods (b)Complementary goods

(c) Independent goods (d) Normal goods

76. Which of the following statement(s) is/are true about the slope of budget line?

(a) The slope of budget line is determined by the relative prices of two goods.

(b) The slope of budget line is equal to price ratio of two goods.

(c) The slope of budget line measures the rate at which the consumer cantrade one good for the other.

(d) All of the above

77. Traditional approach of law of demand was propounded by____.

(a) Giffen (b) Paul A Samuelson

(c) Alfred Marshall (d) Pique

78. Decrease in input demand______ .

(a) Doesn't affect inputs prices

(b) Pushes inputs prices up

(c) Pulls inputs prices down

(d) Either (B) or (c)

79. If the quantity of a commodity demanded remains unchanged as its pricechanges, the coefficient of price elasticity of demand is:

(a) >1 (b) = 1

(c) < 1 (d) 0

80. The substitution effect for a fall in the price of a commodity (ceteris paribus)is given by:

(a) a movement up a given IC

(b) a movement from a higher to a lower IC

(c) a movement down a given IC

(d) any of the above

81. If a good has a price elasticity of demand greater than 1, it is considered:

(a) Price inelastic (b) Price elastic

(c) Unit price elastic (d) Price neutral

82. The income elasticity of demand measures:

(a) The responsiveness of quantity demanded to change in price

(b) The responsiveness of quantity demanded to change in income

(c) The responsiveness of quantity supplied to change in price

(d) The responsiveness of quantity supplied to change in income

83. Which of the following factors does NOT influence supply?

(a) Production costs

(b) Technological advancements

(c) Prices of inputs (d) Consumer preferences
84. Price Elasticity of Demand of a good is (-) 3. It shows that: (a) When price falls by 1%, demand rises by 3% (b) When price rises by 1%, demand falls by 3% (c) Either (a) or (b) (d) Neither (a) nor (b)
85. The demand for meals at a medium-priced restaurant is elastic. If the management of the restaurant is considering raising prices, it can expect a relatively: (a) Proportionately large fall in quantity demanded (b) No change in quantity demanded (c) Proportionately small fall in quantity demanded (d) Infinite change in quantity demanded
86. Demand curve of a firm under monopoly is: (a) Downward sloping (b) Indeterminate (c) Upward sloping (d) Perfectly elastic
87. In a commodity market, excess demand exists when: (a) market price is greater than equilibrium price (b) equilibrium price is greater than market price (c) equilibrium price is not equal to market price (d) government fixes the price
88. Demand curve of perfectly competitive market form is a horizontal straight lineparallel to X-Axis. It happens because: (a) Selling costs are zero (b) There is freedom of entry and exit (c) Firm is a price-taker (d) None of these
89. Being _______utility varies with different persons: (a) Subjective (b) Absolute (c) Objective (d) None of these
90. In a Public good context, it is difficult to measure impact of real incomebecause: (a) Public goods are generally free to the Public (b) They make up a small percentage of total GDP (c) It is hard to measure how people value to public good (d) Inflation decreases the value of the good
91. Availability of close substitute makes the demand: (a) more elastic (b) Less elastic (c) Parallel to X axis (d) None of these
92. The tendency for managers to operate a firm in a way that maximizes theirpersonal utility rather than the firm's profits is referred to as the: (a) consumer utility incentive. (b) principal–agent problem. (c) hidden agenda scenario. (d) Modigliani hypothesis.
93. If we assume the following scenario: as the average income of the consumer increases the demand for “fast” food decreases, then we can assume that “fast” food is:

(a) a normal good.
(b) an inferior good.
(c) None of the above is correct.
(d) Either of these

94. The price elasticity of demand for a good will tend to be more elastic if:
(a) the good is broadly defined (e.g., the demand for food as opposed to thedemand for carrots).
(b) the good has relatively few substitutes.
(c) a long period of time is required to fully adjust to a price change in thegood.
(d) None of the above is true.

95. If cross-price elasticity between goods A and B is determined to be exactlyzero, which of the following statements is correct?
(a) Goods A and B are substitutes
(b) Goods A and B are complements
(c) Goods A and B are comparatives
(d) Goods A and B are independent

96. If supply increases while demand decreases:
(a) the equilibrium price will definitely increase.
(b) the equilibrium quantity will definitely increase.
(c) the equilibrium price will definitely decrease.
(d) the equilibrium quantity will definitely decrease.

97. By using computers to design and manufacture products, firms are able to:
(a) reduce production costs.
(b) reduce the optimal lot size.
(c) reduce the time required to introduce new products.
(d) All of the above are correct.

98. Demand curve in case of Monopolistic competition is more elastic ascompared to demand curve under Monopoly due to:
(a) Huge Selling Costs
(b) Freedom of Entry and Exit
(c) Presence of Close Substitutes
(d) Large Number of Firms

99. Marginal Utility is ______ when total utility diminishes.
(a) Positive (b) Negative
(c) Zero (d) Infinit

100. Budget Line indicates:
(a) Income Ratio (b) Price Ratio
(c) Cost Ratio (d) None of these

Solution :-

1	2	3	4	5	6	7	8	9	10
d	b	c	b	b	b	b	c	c	b
11	12	13	14	15	16	17	18	19	20
b	b	b	c	a	b	d	D	c	b
21	22	23	24	25	26	27	28	29	30

c	b	a	c	b	a	b	c	a	c
31	32	33	34	35	36	37	38	39	40
a	a	c	c	a	d	c	a	c	a
41	42	43	44	45	46	47	48	49	50
d	d	b	b	d	c	d	b	b	c
51	52	53	54	55	56	57	58	59	60
D	A	C	A	B	A	A	C	C	D
61	62	63	64	65	66	67	68	69	70
B	B	C	B	D	C	A	D	A	D
71	72	73	74	75	76	77	78	79	80
D	A	B	A	B	D	C	C	D	C
81	82	83	84	85	86	87	88	89	90
B	B	D	C	A	A	B	C	A	C
91	92	93	94	95	96	97	98	99	100
A	B	B	D	D	C	D	C	A	B