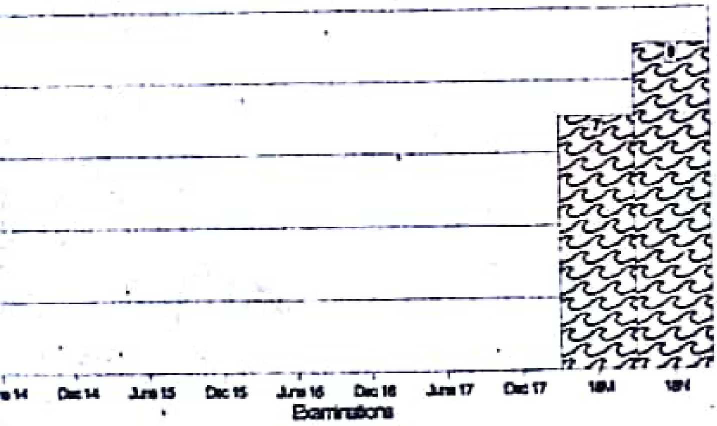
NATURE AND SCOPE OF ECONOMICS

...bjective, Short Notes, Distinguish Between, Descriptive & Practical Questions

Legend

...ctive | Short Notes | Distinguish | Descriptive | Practical



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PAST YEAR QUESTIONS AND ANSWERS

2006 - NOVEMBER

[1] 'Economics is the study of mankind in the ordinary business of life' was given by:

(a) Adam Smith
(b) Lord Robbins
(c) Alfred Marshall
(d) Samuelson (1 mark)

Answer:

(c) 'Economics is a study of mankind in the ordinary business of life' is the welfare definition given by Alfred Marshal.

[2] The branch of economic theory that deals with the problem of allocation of resources is :

(a) Micro Economics
(b) Macro Economics
(c) Econometrics
(d) None of these (1 mark)

Answer:

(a) The study of micro economics deals with how a producer allocates his resources and fixes a price of his product for the optimum utilization of resources.

[3] Capitalistic Economy uses _____ as principal means of allocating resources.

(a) demand
(b) supply
(c) price
(d) all of the above (1 mark)

Answer:

(c) A capitalistic economy is characterised by absence of state intervention. This economy uses price mechanism (forces of demand and supply) to solve their basic economic problems. Demand and supply both depend upon price and therefore capitalistic economy uses price as principal means of allocating resources.

2007 - February

[4] A study of how increase in the corporate income tax rate will affect the natural unemployment rate is an example of :

(a) Macro Economics
(b) Descriptive Economics
(c) Micro Economics
(d) Normative Economics (1 mark)

Answer:

(a) Macro economics studies the economy as a whole. Therefore, increase in corporate income tax rate and its effect on unemployment is at macro level.

[5] In which type of economy do consumers and producers make their choices based on the market forces of demand and supply?

(a) Open Economy
(b) Controlled Economy
(c) Command Economy
(d) Market Economy /Capitalistic ecomany (1 mark)

Answer:

(d) In a capitalistic economy, producers make their choices based on market forces of demand and supply. Capitalist economy works under price mechanism i.e. prices are determined by free interplay of demand and supply forces. A capitalist economy is also known as "Market Economy".

2007 - May

[6] Under a free economy, prices are:

(a) Regulated
(b) Determined through free interplay of demand and supply
(c) Partly regulated
(d) None of these (1 mark)

Answer:

(b) Under free economy (capitalist economy) prices are determined by price or market mechanism i.e. there is no authority to determine prices but they are decided by forces of demand and supply

[7] Which of the following falls under micro economics?

(a) National income
(b) General price level
(c) Factor pricing
(d) National saving and investment (1 mark)

Answer:

(c) Micro economics studies economic behavior of individual economic units. Pricing of every factor is micro concept.

2007 - August

[8] In a free market economy, when consumers increase their purchase of a goods and the level of _____ exceeds _____ then prices tend to rise :

(a) demand, supply
(b) supply, demand
(c) prices, demand
(d) profits, supply (1 mark)

Answer:

(a) In a market (capitalist) economy prices are determined by market forces of demand and supply. When demand of goods increases, the supply remaining the same, the prices of goods rises.

2007 - NOVEMBER

[9] Under Inductive method, the logic proceeds from :
(a) General to particulars (b) Particular to general
(c) Both (a) and (b) (d) None (1 mark)

Answer:

(b) Under inductive method, conclusions are drawn on the basis of collection and analysis of facts relevant to the inquiry. The logic proceeds from particular to general. The generalizations are based on observation of individual examples.

[10] According to Robbins, 'means' are:
(a) Scarce (b) Unlimited
(c) Undefined (d) All of these (1 mark)

Answer:

(a) Robbins in his scarcity definition explains that there are unlimited ends (wants) and limited means (resources). Resources are limited in nature and have alternative uses.

2008 - JUNE

[11] Economics is the study of :
(a) How society manages its unlimited resources
(b) How to reduce our wants until we are satisfied
(c) How society manages its scarce resources
(d) How to fully satisfy our unlimited wants. (1 mark)

Answer:

(c) Society has scarce resources and unlimited wants. Economics is the study of how to manage the scarce resources to fulfill the unlimited ends. Economics deals with how to make optimum utilization of scarce resources.

[12] Mixed economy means :
(a) Co-existence of small and large industries
(b) Promoting both agriculture and industries in the economy
(c) Co-existence of rich and poor
(d) Co-existence of public and private sectors (1 mark)

Answer:

(d) Mixed economy is characterized by the presence of both private and public sector. Under this economy prices are determined both by planning authority and market forces.

2008 - DECEMBER

[13] Who defines Economics in terms of Dynamic Growth and Development?
(a) Robbins (b) Paul A Samuelson
(c) Adam Smith (d) None (1 mark)

Answer:

(b) Economics in terms of Dynamic Growth and Development was given by Paul A. Samuelson. Who states that "Economics is the study of how men and society choose, with or without the use of money to enjoy scarce productive resources which could have alternative uses, to produce various commodities over time and to distribute them for consumption now and in the future of amongst various people and groups of society.

[14] A Free Market economy solves its Central Problems through______.
(a) planning authority (b) market mechanism
(c) both (d) none (1 mark)

Answer:

(b) A free market economy also known as a capitalist economy has no central planning authority to decide what, how and for whom to produce. Such an economy uses the impersonal force of the market demand and supply or the price mechanism to solve its central problems.

[15] Normative aspect of Economics is given by :
(a) Marshall (b) Robbins
(c) Adam Smith (d) Samuelson (1 mark)

Answer:

(a) Normative aspect is concerned with welfare propositions. Such aspect of economics is prescriptive in nature and describes 'what should be the thing'. Example, the question like what should be the level of national income, how the fruits of national product be distributed among people. In such an aspect of economics as given by 'Alfred Marshall'.

2009 - June

[16] Which one is not the characteristic of capitalistic economy?
(a) Profit motive (b) Income Inequality
(c) Free employment (d) Collective ownership (1 mark)

Answer:

(d) The characteristic of collective ownership does not belong to capitalistic economy. The characteristic of collective ownership is that of socialistic economy where the entire control is of the Government.

[17] Mixed economy means
(a) All economic decisions are taken by Central Authority
(b) All economic decisions are taken by private entrepreneurs
(c) Economic decisions are partly taken by the state and partly by private entrepreneurs
(d) None of these (1 mark)

Answer:

(c) Mixed economy is characterised by presence of both private and public enterprise. In this economy, the government as well as private enterprises exist and hence economic decisions are taken both by government and private enterprises.

2009 - December

[18] Capitalistic Economy uses _____ as principal means of allocating resources.
(a) demand (b) supply
(c) price (d) all of the above (1 mark)

Answer:

Same as Answer 3

[19] Economic Problem arises when :
(a) Wants are unlimited
(b) Resources are limited
(c) Alternative uses of resources
(d) All of the above (1 mark)

Answer:

(d) Economic problem arises when wants are unlimited, resources are limited and resources have alternative uses. These reasons give rise to basic economic problems of "what to produce", "How to produce" and "For whom to produce".

2010 - June

[20] Micro economics is also known as_______.
(a) public economics. (b) price theory.
(c) income theory. (d) demand theory. (1 mark)

Answer:

(b) Micro Economics is also known as Price Theory. (Self Explanatory).

[21] A developed economy uses _____ technique in production.
(a) labour intensive. (b) capital intensive.
(c) home-based. (d) traditional. (1 mark)

Answer:

(b) Developed Economies have more of technology so they use capital intensive techniques in production to have minimum cost of production.

[22] Which one is the feature of Marshall's definition?
(a) Limited ends.
(b) Scarce means.
(c) Study of wealth as well as study of man.
(d) Study of allocation of resources. (1 mark)

Answer:

(c) Alfred Marshall gave the definition of science of material well-being. It is on one side study of wealth and on other and more important side study of man.

2010 - DECEMBER

[23] Which one in the following is not correct :
(a) There are limited wants
(b) Means are scarce
(c) Resources have alternative uses
(d) Economics is science. (1 mark)

Answer:

(a) According to two fundamental facts, human beings have unlimited wants and the means of satisfying the wants are scarce.

[24] Micro Economics is concerned with:
(a) Consumer Behaviour. (b) Product pricing.
(c) Factor Pricing . (d) All of the above. (1 mark)

Answer:

(d) Micro-economics is concerned with:
(i) Product pricing
(ii) Consumer behaviour
(iii) Factor pricing
(iv) Economic conditions of a section of the people
(v) Study of firms
(vi) Location of an industry

2011 - JUNE

[25] Who gave the positive aspect of science?
(a) Alfred Marshall (b) A.C. Pigou
(c) Adam Smith (d) Robbins. (1 mark)

Answer:

(d) A positive or pure science analyses cause and effect relationship between variables but it does not pass value judgments. This positive aspect of science was emphasized by Professor Robbins.

[26] Mixed economy means :
(a) Coexistence of both private and public sector
(b) Coexistence of poor and rich people
(c) Both (a) and (b)
(d) None. (1 mark)

Answer:

(a) Mixed economy is an economy which includes the best features of both controlled economy and market economy. The most important feature of mixed economy is the co-existence of both private and public enterprises.

[27] Which of these is a part of micro economics?
(a) Factor pricing (b) National Income
(c) Balance of payment (d) None. (1 mark)

Answer:

(a) Micro economics is the study of economic behaviour of an individual, firm or industry in the national economy. It is the study of a particular unit. Factor pricing relates to pricing of individual factor and hence is a subject of micro economics.

[28] Which of these is an example of macro economics :
(a) Problem of unemployment in India
(b) Rising price level in the country
(c) Increase in disparities of income
(d) All of above. (1 mark)

Answer:

(d) In macro economics we study the economic behaviour of large aggregates such as overall conditions of economy, total production etc. Therefore, all these are a subject of macro economics.

2011 - DECEMBER

[29] In a capitalist economy the allocation of resources is performed by:

(a) Producers (b) Government

(c) Planners (d) Price mechanism (1 mark)

Answer:

(d) A capitalistic economy has no central planning authority to decide what, how and for whom to produce. Thus, the allocation of resources is performed by the market forces of demand and supply known as price mechanism.

[30] Which of the following statements is incorrect?.

(a) Alfred marshall propagated the wealth definition of Economics

(b) L. Robbins introduced the "Scarcity" definition of Economics

(c) Samuelson emphasised upon the "growth" aspect of Economics

(d) A.C Pigou believed in "welfare" aspect of Economics (1 mark)

Answer:

(a) The 'wealth' definition of Economics was given by Adam Smith and JB Say:

"An inquiry into the nature and causes of the wealth of the nations" – Adam Smith.

"Science which deals with wealth" – JB Say.

[31] Inequalities of income do not perpetuate in__________.

(a) socialism (b) mixed economy

(c) capitalism (d) none (1 mark)

Answer:

(a) A relative equality of income is an important feature of socialistic economy. Educational and other facilities are enjoyed more or less equally, thus the basic causes of inequalities are removed.

2012 - JUNE

[32] Which of the following are the features of a mixed economy?

(a) Planned economy

(b) Dual system of pricing exists

(c) Balanced regional development

(d) All of the above. (1 mark)

Answer:

(d) An economy which incorporates the features of both capitalist and socialist economies is called a mixed economy. It has the following features –

(a) Mixed economy is a planned economy i.e. here the government has a clear and definite economic plan.

(b) In mixed economy the prices are determined both by price mechanism and central planning authority. Hence dual system of pricing exist.

(c) There is a balanced regional development in a mixed economy as the public sector enterprises will be set up in backward areas for balanced development.

Hence, the answer will be all of these.

[33] Normative Economics is based on:

(a) Ethical Considerations (b) Facts and Generalisation

(c) What is? (d) All of the above. (1 mark)

Answer:

(a) Normative economics is concerned with welfare propositions. It states "what should be the things." It does not deal with facts but involves value judgments. The ethical aspect of economics is normative economics. For e.g. – What should be the wage rate level? This is a normative statement.

[34] Dual system of pricing exist in:

(a) Free market economy (b) Socialistic economy

(c) Mixed economy (d) None of the above (1 mark)

Answer:

(c) Mixed economy is a type of economy which combines the features of both capitalistic and socialistic economy. In this economy, dual system of pricing exist i.e. prices of essential commodities are determined by the government while of others is fixed by price mechanism (by interaction of demand and supply)

[35] In Inductive method, logic proceeds from:

(a) General to Particular (b) Particular to General
(c) Both (a) and (b) (d) None of these. (1 mark)

Answer:

(b) Under inductive method, conclusions are drawn on the basis of collection and analysis of facts relevant to the enquiry. Here the logic proceeds from particular to general. This means generalizations are made based on facts collected.

[36] In a capitalist economy, allocation of resources is done by:

(a) Producers (b) Government
(c) Planners (d) Price mechanism (1 mark)

Answer:

(d) In a capitalist economy there is no government intervention. In this economy the resources are allocated based on the demand of the consumers. Producers will produce those goods which are in demand without thinking about the public welfare. Hence, this economy is guided by price mechanism.

2012 - DECEMBER

[37] A Capitalist Economy follows the policy of :-

(a) Laissez faire (b) Regulated markets
(c) Promoting public sector (d) None of the above. (1 mark)

Answer:

(a) One of the guiding principles of capitalistic economy is that the economic system should be **free from government intervention** and be driven by market forces. Laissez faire means **allow to pass.** Thus, capitalistic economy follows the policy of laissez – faire.

[38] 'Economics is the science of choice making' it implies:-

(a) No choice is to be made
(b) Choice to be made between alternative uses
(c) Choice to be made between means and ends
(d) None of the above. (1 mark)

Answer:

(b) Robbins gave the following definition of economics —

"Economics is the science which studies human behaviour as a relationship between ends and scarce means which have alternative uses".

Thus, economics is a science of choice which is to be made between alternative uses.

[39] Which of the following is a part of the subject matter of macro economics?

(a) Study of firms
(b) Aggregate profits of a firm
(c) Market demand for a product
(d) Net national product. (1 mark)

Answer:

(d) In macro economics, we study the economic behaviour of large aggregates such as overall conditions of economy, total production etc. Out of the options given, only NNP studies the national income which is related with the entire economy.

[40] A capitalist economy is by and large __________

(a) a closed economy
(b) a free market economy
(c) a centrally controlled economy
(d) an economy in which a government neither collects any taxes nor incurs any expenditure. (1 mark)

Answer:

(b) A capitalist economy also known as free market economy has no central planning authority to decide what, how and for whom to produce. Such an economy uses the impersonal force of the market demand and supply or the price mechanism to solve its central problems.

2013 - JUNE

[41] Deductive and Inductive methods are complimentary to each other. It is:
(a) Absolutely correct (b) Absolutely incorrect
(c) Partially incorrect (d) None of the above. (1 mark)

Answer:

(a) Deductive and inductive methods are not mutually exclusive and are used side by side in any scientific inquiry. Conclusions drawn from the deductive method of reasoning are verified by inductive method of observing concrete facts of life. Thus, it can be said that Deductive and inductive methods are **complementary** to each other is **absolutely correct**.

[42] A free market economy's driving force is:
(a) Profit motive
(b) Welfare of the people
(c) Rising income and levels of living
(d) None of the above. (1 mark)

Answer:

(a) Free market economy or capitalist economy is in which all the means of production are owned and controlled by private individuals for profit. Thus, **profit motive** is the driving force of a free market economy.

[43] "Economics is neutral between ends". The statement is given by:
(a) L. Robbins Book & (b) Mrs. Joan
(c) Alfred Marshall Bren (d) A.C. Pigon. (1 mark)

Answer:

(a) According to Prof. Lionel Robbins "economics is neutral between ends." Ends refer to wants. Human wants are unlimited. When one want is satisfied, other wants crop up.

[44] A system of economy in which all the means of production are owned and controlled by the private individuals for the purpose of profit, is called:

(a) Socialist Economy (b) Capitalist Economy
(c) Mixed Economy (d) All of the above. (1 mark)

Answer:

(b) **Capitalistic** is an economic system in which all the means of production are owned and controlled by private individuals for profit. The government do not interfere in the management of economic affairs under this system.

2013 - DECEMBER

[45] Where does price mechanism exists?
(a) Capitalist Economy (b) Socialist Economy
(c) Both type of economies (d) None of the above. (1 mark)

Answer:

(a) A **capitalistic economy** has no central planning authority to decide what, how and for whom to produce. This economy uses the impersonal forces of the market demand and supply or price mechanism to solve its central problems.

[46] Economics which is concerned with welfare propositions is called
(a) Socialistic economics (b) Capitalistic economics
(c) Positive economics (d) Normative economics (1 mark)

Answer:

(d) Normative aspects is concerned with welfare propositions. It involves value judgements. It is prescriptive in nature and describes 'what should be the things'. For eg. what should be the level of national income, what should be the wage rate.
Thus **Normative economics** is the correct option.

[47] In which among the following systems the 'right to property' exists
(a) Mixed economy
(b) Capitalist economy
(c) Socialist economy
(d) Traditional economy (1 mark)

Answer:

(b) Capitalism is an economic system in which all the means of production are owned and controlled by private individuals for profit. The right of private property means that productive factors such as land, factories, machinery, mines etc are under private ownership. The owners of these factors are free to use them in the manner they like.

Thus **option (B)** is correct.

[48] Positive science only explains

(a) What is? (b) What ought to be?
(c) What is right or wrong (d) None of the above. (1 mark)

Answer:

(a) A positive or pure science analyses causes and effect relationship between variables but it does not pass value judgement. It states **what is** and not what ought to be

Thus, **option (A)** is correct.

[49] Socialist Economy is also known as

(a) Mixed Economy (b) Planned Economy
(c) Capitalist Economy (d) None of the above. (1 mark)

Answer:

(d) A mixed economy is a planned economy in which the government has a clear and definite economy plan.

Socialist economy is also known as centrally planned economy because there is central authority to set and accomplish socio-economic goals.

Thus, correct option is **none of the above.**

2014 - JUNE

[50] Who has defined economics as "Science which deals with wealth" ?

(a) Adam Smith (b) Canon
(c) J.B. Say (d) A.C. Pigou (1 mark)

Answer:

(c) Many classical economists defined economics in terms of wealth. **JB Say** is one of them. He said Economics is a "Science which deals with wealth."

[51] Which of the following is not a feature of a capitalist economy?

(a) Right to private property
(b) Restrictions on consumers Right to choose
(c) Profit motive
(d) Freedom of enterprise (1 mark)

Answer:

(b) The features of a capitalist economy are:

(1) The right of private property.
(2) Freedom of enterprise.
(3) Freedom to choice by the consumers.
(4) Profit motive.
(5) Competition.
(6) Inequalities of income.

Hence, **restrictions on consumers right to choose** is not a feature of a capitalistic economy.

[52] The term "Mixed Economy" denotes:

(a) Co-existence of both consumers and producers good's industries in the economy.
(b) Co-existence of both private and public sectors in the economy.
(c) Co-existence of both rural and urban sectors in the economy.
(d) Co-existence of both large and small industries in the economy. (1 mark)

Answer:

(b) The term "Mixed Economy" denotes **co-existence of both private & public sectors in the economy.** In fact, in a mixed economy, there are three sectors of industries:

(a) Private sector
(b) Public sector
(c) Combined sector.

2014 - DECEMBER

[53] The most important function of an entrepreneur is to ______.
(a) innovate
(b) bear the sense of responsibility
(c) finance
(d) earn profit (1 mark)

Answer:

(a) Entrepreneur is one of the factor of production. He is the one who co-ordinate with other factors like land, labour, capital etc. Various functions of entrepreneur are decision-making, managerial function, organizational functions etc. while the most important function of an entrepreneur is to innovate.

[54] Under Inductive method logic proceeds from:
(a) General to particular
(b) Positive to normative
(c) Normative to positive
(d) Particular to general (1 mark)

Answer:

(d) Under Inductive Method Conclusions are drawn on the basis of collection and analysis of facts relevant to the enquiry. The logic in this case proceeds from the **particular to general**.

2015 - JUNE

[55] The meaning of time element in Economics is:
(a) Calendar time
(b) Clock time
(c) Operational time in which supply adjusts with the market demand
(d) None of the above. (1 mark)

Answer:

(c) Operational time in which supply adjusts with the market demand.

[56] All wants of an individual are not of:
(a) Equal importance
(b) Immediate importance
(c) Fixed importance
(d) All of the above. (1 mark)

Answer:

(a) All wants of individuals are not of **equal importance** as all cannot be fulfilled.

[57] ______ is another name of production possibility curve.
(a) Indifference Curve
(b) ISO-Product Curve
(c) Transformation Curve
(d) Diminishing Utility Curve (1 mark)

Answer:

(c) PPC also known as Production Possibility Curve, Production Possibility Boundary, Transformation Line/Curve.

2015 - DECEMBER

[58] Who is the author of "The Nature and causes of wealth of Nation"?
(a) Karl Marx
(b) Adam Smith
(c) J B Say
(d) A C Pigou. (1 mark)

Answer:

(b) Science of wealth:

Although the activity of acquiring and increasing material wealth is as old as civilisation, a disciplined study of the wealth producing activities commenced about 235 years back (in 1776) when **Adam Smith**, the father of Economics, published "The Nature and Causes of wealth of Nations".

[59] Micro economics does not study
(a) Consumer behaviour
(b) Factor pricing
(c) General price level
(d) Firms equilibrium. (1 mark)

Answer:

(c) Micro Economics is the study of particular firms, particular households, individual price, wage income, individual industries and particular commodities.

We mainly study the following:

(i) Product Pricing
(ii) Consumer Behaviour
(iii) Factor Pricing
(iv) Economic conditions of a section of the people
(v) Study of firms
(vi) Location of industry

[60] Find out the correct statement

(a) Higher the prices, lower the quality demanded of a product are a normative statement
(b) Micro and macro-economics are interdependent
(c) In a capitalist economy, the economic problems are solved by planning commission
(d) In deductive method logic proceeds from particular to the general.

(1 mark)

Answer:

(b) Micro and Macro Economics are interdependent on each other because they both play a vital and in most cases they play a complementary role Ex. National income cannot grow unless the production in individual firms and factories rises.

[61] Which of the following illustrate a decrease in unemployment using the PPF?

(a) A movement down along the PPF
(b) A rightward shift of the PPF
(c) A movement from a point on the PPF to a point inside the PPF
(d) A movement from a point inside the PPF to a point on the PPF.

(1 mark)

Answer:

(d) A movement of point inside PPF to on the PPF indicates the actual growth in an economy and wherever there is a decrease in unemployment it shows that an economy is making progress towards growth by optimizing its full resources.

2016 - JUNE

[62] Micro Economics is the study of:

(a) Individual parts of the economy
(b) The economy as a whole
(c) Choice making
(d) Development of the economy. (1 mark)

Answer:

(a) The term micro economics is derived from the Greek word mikros, meaning "small". In micro economics we study the economic behaviour of an individual, firm or industry. In the national economy. It is thus a study of a particular unit rather than all the units combined.

2016 - DECEMBER

[63] According to_______ "Economics is a Science which deals with wealth".

(a) Walker (b) Fairchild
(c) Adam Smith (d) J.B. Say (1 mark)

Answer:

(d) According to J. B. Say "Economics is a science which deals with wealth".

[64] Freedom of choice is the advantage of

(a) Socialism (b) Capitalism
(c) Mixed Economy (d) Communism (1 mark)

Answer:

(b) Freedom of choices is the advantage of capitalism.

[65] Definition of economics given by Robbins does not deal with one of the following aspect. Indicate that aspect.

(a) Scarce means (b) Limited ends

(c) Alternative uses (d) Economics is a science (1 mark)

Answer:

(b) Definition of economics given by Rabbins does not deal with limited ends as in the definition. He deals with unlimited ends.

[66] An economic system in which all means of production are owned and controlled by private individuals for profit is called:

(a) Mixed Economy (b) Socialist Economy

(c) Capitalist Economy (d) Developed Economy (1 mark)

Answer:

(c) Capitalist economy is a system of economy in which all means of production are owned and controlled by private individuals for profit.

2017 - JUNE

[67] In which of the following methods conclusions are drawn on the basis of collection and analysis of facts?

(a) Deductive method (b) Scientific method

(c) Inductive method (d) Experimental method. (1 mark)

Answer:

(c) Inductive Method: Under this method conclusions are drawn on the basis of collection and analysis of facts relevant to the inquiry. The logic in this case proceeds from the particular to general. The generalizations are based on observation of individual examples. Thus, **option (c)** is correct.

[68] Which Economic System is described by Schumpeter as 'capitalism in the oxygen tent'? Control mein capitalism hai ie mixed

(a) Laissez- Faire Economy (b) Command Economy

(c) Mixed Economy (d) Agrarian Economy. (1 mark)

Answer:

(c) Mixed economy is described by Schumpeter as "Capitalism in the oxygen tent". According to him it is only a trick of the capitalists to cheat the working class by offering them some temporary advantages like social security, upliftment of the depressed classes etc. Thus, option c is correct.

[69] Production Possibility Curve (PPC) is also known as:

(a) Indifference Curve (b) Supply Curve

(c) Transformation Curve (d) Demand Curve. (1 mark)

Answer:

(c) Production-possibility curve is also known as transformation curve. It is a graph that shows the different rates of production of two goods that an individual or group can efficiently produce with limited productive resources.

[70] The Central problem in every economic society is:

(a) To ensure a minimum level of income for every individual.

(b) To allocate scarce resources in such a manner that societies unlimited wants are satisfied in the best possible manner.

(c) To ensure that production occurs in the most efficient manner.

(d) To provide job to every job seeker. (1 mark)

Answer:

(b) Every economic system, be it capitalist, socialist or mixed, has to deal with this central problem of scarcity of resources relative to wants for them. The central economic problem is further divided into four basic economic problems.

These are:

(i) What to produce

(ii) How to produce

(iii) For whom to produce

What provisions (if any) are to be made for economic growth?

2018 - MAY

[71] Socialist Economy was propounded by:

(a) Karl Marx (b) Samuelson
(c) A.C. Pigou (d) Adam Smith (1 mark)

Answer:

(a) Karl marx gave the theory of socialist economy

[72] Concept of Business Economics was given by:

(a) Joel Dean (b) Alfred Marshall
(c) Adam Smith (d) L. Robbins (1 mark)

Answer:

(a) Concept of Business economics was given by Joel Dean.

[73] "Features of the book wealth of nations"

(a) It was the first book user on economics
(b) It was created in 1776
(c) It was also known as 'wealth of nations'
(d) All of the above. (1 mark)

Answer:

(d) Adam Smith was the father of Economics. He wrote the book 'the Nature and causes of Wealth of Nations' in 1776. This book was also known as 'Wealth of Nations'. He defined economics at 'An inquiry cuts the nature and causes of wealth of nations'

[74] In India Mixed Economy exists due to:

(a) coexistence of public sector and private sector
(b) individual forces of demand and supply
(c) orders by government
(d) None of these. (1 mark)

Answer:

(a) There are three types of economy. These are:

(a) Capitalist economy (private enterprises)
(b) Socialist economy (governed by government)
(c) Mixed economy (public and private enterprises)

Mixed economy means where a co-relation or co-existence of public and private sector.

[75] Which economic system is described by Schumpeter as capitalism in the oxygentent?

(a) Laissez-faire Economy
(b) Command Economy
(c) Mixed Economy
(d) Agrarian Economy (1 mark)

Answer:

(c) Mixed Economy is described by Schumpter as 'capitalism in oxygen text'. According to him it is only a trick of capitalism to cheat the working class by offering them some temporary advantages like social security, upliftment of depressed classes etc.

[76] Capitalistic Economy user _____ as principal means of allocating resources:

(a) demand
(b) supply
(c) price
(d) all of the above. (1 mark)

Answer:

(c) Price is principal means of allocating resources in capitalist while it is not in socialist economy. Price Mechanism is a characterist is of capitalist economy.

[77] Under inductive method logic proceeds from:

(a) General to particular
(b) Positive to narrative
(c) Normative to positive
(d) Particular to general (1 mark)

Answer:

(d) Inductive Method is a method which is based on facts and in this method logic proceeds from particular to general. While deductive method based on assumptions and in this logic proceeds from general to particular.

2018 - November

[78] Human wants are ______ in response to satisfy their wants?
(a) Unlimited
(b) Limited
(c) Scarce
(d) Multiple (1 mark)

Answer:
(a) 'Human beings have unlimited wants and to means to satisfy these unlimited wants are relatively scarce' form the subject matter of Economics.

[79] Price Mechanism is the main feature of which economy?
(a) Capitalistic Economy
(b) Mixed Economy
(c) Socialist Economy
(d) All of the above (1 mark)

Answer:
(a) Capitalism is self regulating and works automatically through price mechanism.

[80] Business Economics is also known as?
(a) Applied Economics
(b) Managerial Economics
(c) Micro Economics
(d) All of the above (1 mark)

Answer:
(b) Business economics also referred to as managerial economics, generally refers to the Integration of economic theory with business practice.

[81] Business economy involves theory of Business economics with ____.
(a) Normative Economics
(b) Business practices
(c) Micro Economics
(d) Macro Economics (1 mark)

Answer:
(b) Business economy Involves theory of business with business practices. (application of theory)

[82] Which is not included in Economics?
(a) Family Structure
(b) Managerial Economics
(c) Micro Economics
(d) Macro Economics (1 mark)

Answer:
(a) Family structure in no sense effects economics therefore it is not included in economics.

[83] Business Economics involves the elements of.
(a) Micro Environment
(b) Macro Environment
(c) Both (a) and (b)
(d) None of the above (1 mark)

Answer:
(c) Business economics involves economy as a whole and therefore elements of macro economics and micro 'economics' are included in it

[84] In which economy market and government both play on important role?
(a) Mixed economy
(b) Socialistic economy
(c) Capitalistic economy
(d) Business economy (1 mark)

Answer:
(a) The mixed economic system depends on market and gouts for allocation of resources. Infact every economy in the real world makes use of both market and gouts and therefore is mixed economy in its nature.

[85] Which factor is included in business Economics?
(a) Business Economics is an art
(b) Interdisciplinary in nature
(c) Normative in nature
(d) All of the above (1 mark)

Answer:

(d) Factor of business economics are
1. It is science
2. It is normative in nature
3. It is Inter disciplinary in nature
4. It is pragmatic in approach.

Therefore answer will be all of the above.

[86] Which out of these are the feature of capitalism?
(i) Profit motive
(ii) Human welfare
(iii) Work through price mechanism
(a) (i) and (ii)
(b) (ii) and (iii)
(c) (i) and (iii)
(d) All of these. (1 mark)

Answer:

(c) Feature of capitalist economy
1. Profit motive
2. Work through price mechanism
3. High degree of operative efficiency

Therefore, human welfare is not a feature of capitalist economy.

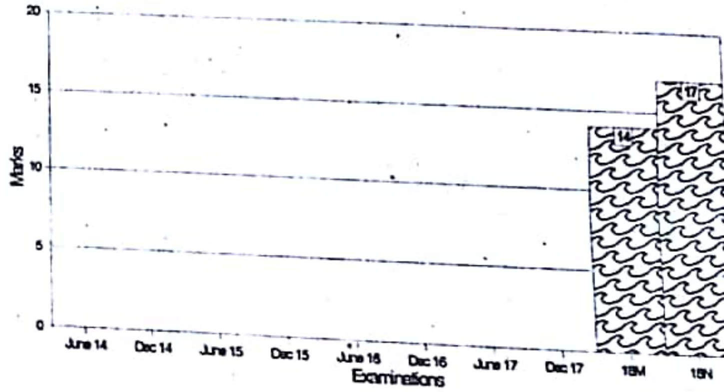
✿

2 THEORY OF DEMAND AND SUPPLY

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

Legend

Objective Short Notes Distinguish Descriptive Practical



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SELF STUDY NOTES

Unit 1: Law of Demand and Elasticity of Demand

Demand and Law of Demand

Desire to have a commodity backed by purchasing power at a particular price in a particular period of time is known as Demand.
Demand per commodity refers to amount of the commodity which consumers are willing and able to purchase at a particular price in a particular period of time.

Types of Demand:

1. **Individual and Market Demand:**
   The quantity of a commodity that an individual consumer is willing to purchase at given price during given period of time is known as Individual demand.
   Total quantity of commodity that all the consumers are willing to buy at given price during a given period of time.
2. **Ex-ante and Ex-post Demand:**
   Ex-ante demand refers to the amount of goods the consumers want/willing/planned to buy during a particular time period.
   Ex-post demand refers to the amount of the goods that the consumers actually purchased during a specified period.
   Ex-ante demand can be less, more or equal to ex-post demand.
3. **Joint Demand:**
   It refers to the demand for two or more goods which are used jointly or demanded together.
   Example: Car and petrol, pen and ink, mobile and Sim card.
4. **Derived Demand:**
   The demand for a commodity that arises because of the demand for some other commodity.
   Example: Steel, bricks and Cements are derived from the houses or other buildings. All the factors of production are derived demand.

5. **Composite Demand:**
   Demand for goods that have multiple uses is called multiple or composite demand.
   Example: Electricity and Milk.

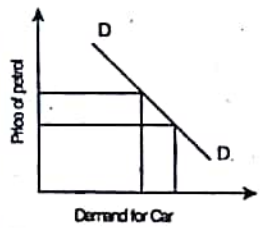
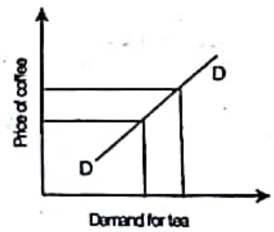
Factors affecting Demand

1. **Price of the commodity:**
   When the price of the commodity increase the demand decreases and when the price of the commodity decreases the demand increases. Price and demand are inversely related. This type of demand is known as price demand.

   P ↑ Increases **D ↓ Decreases**

   P ↓ Decreases **D ↑ Increases**

2. **Price of related goods (also known as cross demand)**
   Related goods can be classified into two goods.

1. (a)	Complimentary goods	(b)	Substitute goods
•	Goods that are used together to satisfy a given want.		Goods which satisfy same type of demand and can be used in place of one another.
	eg: car and petrol, gas and gas stove.		**eg: tea and coffee, cake and pepsi.**
•	There is an inverse relationship between demand for a good and a price of its component.		There is direct relationship between demand for product and price of its substitute.
			

3. **Consumers taste and Preference:**
Taste and preference depend on social custom habits of the people, fashion and the general lifestyle of the people etc. of taste and preference are strong for the product demand increases and if taste and preferences are weak and unfavourable for the product demand decreases.

4. **Consumer Expectation regarding price in future**
If consumer expects increase in price in future demand increases in present. If consumer expects decrease in the price in future demand decreases in present.

5. **Consumer credit facility**
If credit facility to consumers are available, demand increases. If credit facility to consumers are not available, demand decreases.
Ex: Our loans are easily available in India that's why there are so many cars in India.

6. **Income of the consumer**
The relation between income of the consumer and demand can be understood taking three types of commodities.
   (a) **Normal goods:** There are those goods the demand for which increase with increase in income of the consumer and decrease with decrease in income.
   Example: Furniture, Television and clothes.
   (b) **Inferior goods:** These are those goods the demand for which falls with increase in income of the consumer and uses with the decrease in income of the consumer, there is a inverse relationship between the income of the consumer and demand for inferior goods.
   Example: Maize and Bajara
   (c) **Inexpensive goods of necessities:** These are those goods the demand for which increase in income upto a certain level and thereafter remains constant irrespective of the level of the increase.
   This functional relationship between demand and income is known as income demand.
   Example: Salt and Match box

Factors affecting Market demand

7. **Size and Composition of population**
The population, size of a country determines the number of consumers and increase in the size of population the demand for commodity will increase.
Composition of population refers to the various aspects of population like number of childrens, adults, males, females etc. of the number of teenagers increases the demand for those goods that teenagers tends to buy.
Example: Jeans, cricket bat will tends to increase.

8. **Government Policy:** If Government increases indirect taxes, leads to increase in price as a result demand decrease.
If government incurred more expenditure on the construction of roads, bridges etc. The demand for the goods needed for construction will increase.

9. **Distribution of Income:**
Case I:
If income is distributed evenly there will be more demand for essential goods.
Case II:
If income is distributed unevenly then these will be more demand on luxury goods.

Demand Function

The functional relationship between the demand for a product and its factors is known as demand function.

Law of Demand

It states that other things remaining constant, the quantity demanded of the commodity increases when its price fall and decreases when its price rises.
Law of Demand explains the inverse relationship between price and quantity demanded.

Assumption of Law of Demand

1. Price of related goods are kept constant.
2. Price of the commodity are kept constant.
3. Consumers taste and preference are kept constant.
4. Consumer's expectation regarding price in future are kept constant.
5. Consumer credit facility.
6. Income of the consumer are kept constant.
7. Size and composition of population are kept constant.
8. Government Policies are kept constant.
9. Distribution of Income are kept constant.

Exception to the Law of Demand:

1. **Articles of Smob appeal (Conspicuous Consumption)**
   The Law of Demand does not apply to the commodities which servers as status symbol increases social prestige all are a source of display and richness. example. Rich women would like to buy diamond at higher price to show their richness.
2. **Giffen goods:**
   (i) Giffen good are those inferior goods on which consumers spends a large part of his income.
   (ii) Demand for which falls with the fall in their prices.
   Example: Maize and Jawar.

(c) Expectations regarding future price:

- If price of commodity is rising today and it is likely to rise more in future then people demand more even at their existing higher price and store it up.
- Similarly, when the consumer anticipate a large fall in the price of the commodity in future, they which postpone their purchase even if price falls today.

(d) Quality price relationship:

- Sometime consumers take price as a index of quality in such case more of the goods may be demanded at a higher price. This is known as Veblon effect.

Example: Like Lux Premium, there is not much difference in Lux Premium and Lux International but a very huge difference in Price. But people will think that Lux International is more good as it has a higher price.

(e) Change in fashion:
When a commodity goes out of fashion, consumer will not demand even when its price is reduce.

(f) Emergency:
Law of Demand may not hold good during emergencies like wars, famines, drought, etc.

(g) Habitual goods:
If the price of habitual goods increases, demand does not decrease.
Example: Cigarettes, Wines.

Demand Schedule

It is a tabular statement that shows different quantities of commodities demanded at different prices during a given period.

It is of two types:-

(a) Individual demand schedule:
It is the table which shows various quantities of the commodities demanded at different prices by a household/single consumer during a given period.

(b) Market demand schedule:
It is the table which shows various quantities of the commodities demanded at different prices by all the household in a market during a given period.

Individual demand schedule:

Price	Quantity demanded by Mr. A
10	5
20	4
30	3
40	2
50	1

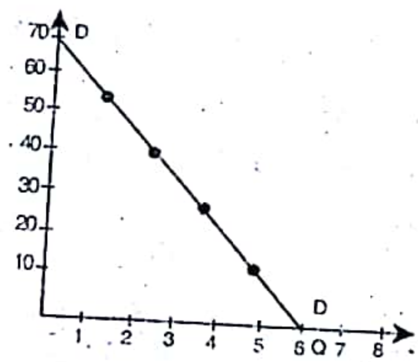
Market Demand Schedule:

Price	Quantity Demanded by Mr. A	Quantity Demanded by Mr. B	Quantity Demanded by Mr. C	Total
10	8	7	6	21
20	7	6	5	18
30	6	4	3	13
40	3	2	1	5
50	2	1	1	4

Demand Curve

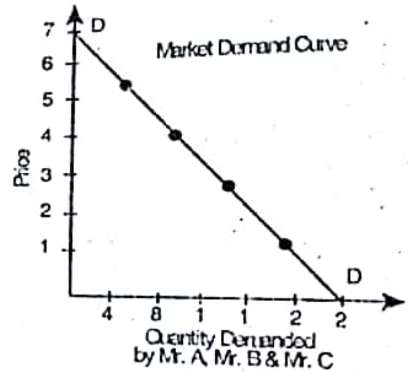
It is a graphical representation of different quantity demanded at different price level.

1. **Individual Demand Curve:**
   Graphical representation of different quantity demanded at different price level by a single consumer.



Market Demand Curve:

It is a graphical representation different quantity demanded at different price level by all the consumers in a market.



Reasons for Negatively Sloping Demand Curve

1. **Income Effect:**
   - A change in demand on account of change in real income resulting in the change in the price of the commodity is known as income effect.
   - When the price of the commodity falls which results in increase in purchasing power and consumer can buy more and consumer feels "BETTER OFF".
   - On the other hand with an increase in price purchasing power decrease and consumer reduces the demand and feel "WORSE OFF".
2. **The Law of Diminishing Marginal Utility**
   - The law of diminishing marginal utility states that with an increase in the units of a commodity consumed every additional unit of the commodity gives lesser satisfaction.
   - Marginal utility falls with an increase in consumption.

- A consumer will maximise his satisfaction when MU_n = Price i.e. equilibrium condition.
- If seller wants to sell more he has to reduce the price of the commodity.

3. Substitution effect:

- The substitution effect is a change in relative prices of substitute good has on the quality demanded
- When the Price of the commodity falls and prices of the substitute remains unchanged it becomes relatively cheeper in comparison to its substitute.
- As a consequence demand for a commodity will increase.
- Example: If the price of tea falls and the price of coffee remains same then demand for tea increases then consumer will shift there demand from tea increases then consumer will shift there demand from coffee to tea.

$\boxed{\text{Price effect}} = \boxed{\text{Income effect}} + \boxed{\text{Substitution effect}}$

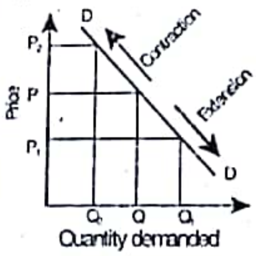
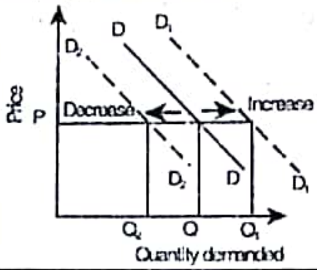
4. Increase in number of consumer's

- When the price of the commodity falls the number of consumers increases and which increases the demand for the commodity.
- It happen because at a very high price only few people can afford to buy that commodity and when the price falls people with less income will also be able to purchase that commodity.

5. Several uses of a commodity

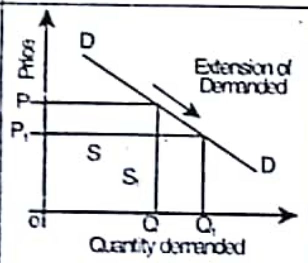
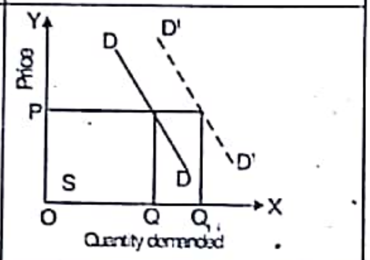
- When the price of such commodities. eg: electricity and milk are very high, they will be use for more important purposes only.
- And there after small quantity will be in demand but when the price fall these commodities will be put to less important uses also leading to an increases in demand.
- Example: Electricity will be used mainly for lightning purpose if price is high and if electricity will be used for cooking and other purposes also when its price falls

Difference between Movement along the Demand Curve and Shift in Demand Curve.

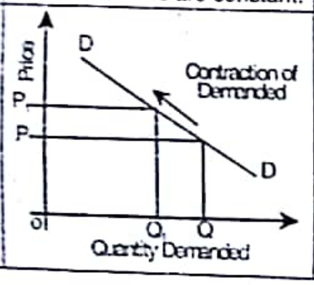
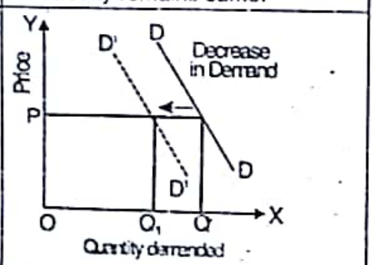
	Movement along the Demand Curve	Shift in Demand Curve
1.	When the amount demanded of a commodity changes as a result of change in its own price and factors remains constant it is known as movement along the demand curve.	When the amount demanded of a commodity changes because of change in all factors other than the own price of the commodity is known as shift in demand.
2.	It is also known as change in quantity demanded.	It is also known as change in demand.
3.	It is of two types. (a) Extension of Demand (b) Contraction of Demand  	It is of two types. (a) Increase in demand (b) Decrease in demand 

Difference between Extension of Demand and Increase in Demand

	Extension of Demand	Increase in Demand
1.	It refers to rise in quantity demanded of a good as a result of fall in its price.	It refers to the situation when consumer buy a larger amount of commodity at the same price due to change in other factors.

2.	Price of the commodity decreases and other factors are constant.	Other factors changes and price of the commodity remains constant.
		
3.	There is a downward movement along the demand curve.	There is a rightward shift in demand curve.

Difference between contraction of Demand and Decrease in Demand

	Contraction of Demand	Decrease in Demand
1.	It refers to a fall in quantity demanded of a good as a result of rise in its price.	It refers to a situation when a consumer buy a smaller amount of the commodity at the same point due to change in other factors.
2.	Price of the commodity increases and other factors are constant.	Other factor changes and price of the commodity remains same.
		

Elasticity of Demand

Meaning of Elasticity of Demand

It refers to a degree of responsiveness of quantity demanded of a commodity to a change in any of its determinants.

Three main types of elasticities are:

1. Price elasticity
2. Income elasticity
3. Gross elasticity

(a) Price Elasticity:

It refers to degree of responsiveness of a quantity demanded of a commodity to a change in price.

Symbolically:

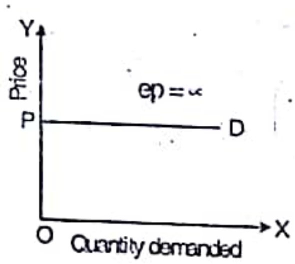
$$ep = \frac{\text{Percentage change in quantity demanded}}{\text{Percentage change in price}}$$

Degree/Classification of Price elasticity

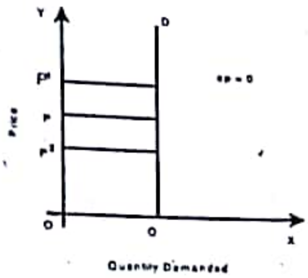
1. Perfectly elastic demand. $ep = \infty$
2. Perfectly inelastic demand. $ep = 0$
3. Unitary elastic demand. $ep = 1$
4. Greater than one/more elastic demand. $ep > 1$
5. Less than one/less elastic demand. $ep < 1$

Perfectly Elastic Demand

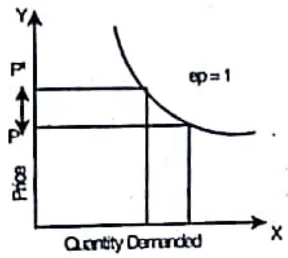
When consumers are prepared to purchase all that they can get at a particular price but nothing at all at a slight higher price. Demand curve is parallel to x-axis.



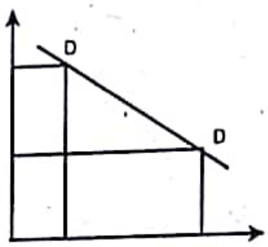
Perfectly Inelastic Demand:
When quantity demanded of a commodity does not respond to change in its price then the elasticity of demand is equals to zero. Demand curve is parallel to y-axis.



Unitary Elastic Demand:
When the percentage change in price of commodity causes an equivalent percentage change in quantity demand. The demand curve is Rectangular hyperbola.



Greater then One/More Elastic Demand:
When the percentage change in quantity demanded of a commodity exceeds or more than percentage change in its price.



PAST YEAR QUESTIONS AND ANSWERS

2018 - MAY

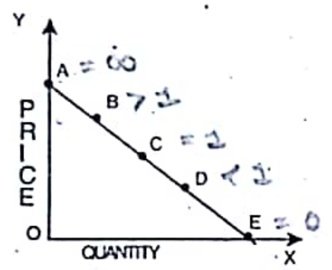
[1] "High priced goods consumed by status seeking rich people to satisfy their need for conspicuous goods" is:

Both are right
(a) Veblen effect
(b) Bandwagon effect
(c) Snob effect
(d) Demonstration effect (1 mark)

Answer:

(a) Veblen effect was given by veblen. Hence, this is called veblen effect, also known as prestige goods effect. Related to conspicuous consumption. Veblen effect takes place as some consumers measure the utility by its price i.e. if price rises they think it has got more utility so, it is used by rich people to satiety their need.

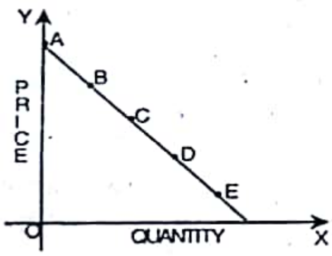
[2]



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

Answer:

(a)



(a) When change of demand is greater than price change then e > 1
(b) When change of demand is less than price change than e < 1
(c) When change of demand is same as change of price then it is e = 1
(d) When these is no change in demand as change in price then e = 0
(e) When price is change slightly but demand change at high then it is e = ∞

Here, C shows e = 1 by which we can prove that
C ⇒ e = 1, A ⇒ e = ∞, B ⇒ e > 1
D ⇒ e < 1, E ⇒ e = 0

[3] Cardinal approach is related to:
(a) Indifference curve (b) Equi marginal utility
(c) Law of diminishing returns (d) None of these. (1 mark)

Answer:

(b) Marginal utility theory is given by Alfred Marshall and he assume the Marginal utility theory is related cardinal approach which means we can measure utility in terms of money and "Money is measuring rod of utility' said by Marshall.

[4] An Increase in demand can result from:
(a) A decline in the market price
(b) An increase in income
(c) A reduction in the price of substitutes
(d) An increase in the price of complements. (1 mark)

Answer:

(b) Price and Demand are inversely related as price rises. Demand falls and *vice-versa* but income and demand are directly related. As rise in income increase the quantity demanded and fall in income decrease the quantity demanded.

[5] Cross elasticity of perfect substitutes is
(a) Zero (b) Negative
(c) One (d) Infinity (1 mark)

Answer:

(d) When there are perfectly substitutes available the cross elasticity of these perfectly substitutes leads to infinity as rise in price of one good will cause rise in demand of its substitutes **Ex:** If tea's price rise the coffee's demand rise as these both are perfectly substitutes. Cross elasticity of complementary goods leads to zero.

[6] Supply is a ______ concept.
(a) flow
(b) stock
(c) flow and stock, both
(d) qualitative (1 mark)

Answer:

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

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

(a) Inferior goods
(b) Substitutes
(c) Luxeeries
(d) Necesities (1 mark)

Answer:

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

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

(a) A.C Pigou
(b) Marshall
(c) Adam Smith
(d) Robbins (1 mark)

Answer:

(b) Marginal utility theory is given by Alfred Marshall and he assume the Marginal utility theory is related cardinal approach which means we can measure utility in terms of money and 'Money is measuring rod of utility' said by Marshall.

[9] Elasticity between two points:

(a) point elasticity
(b) Arc elasticity
(c) Cross elasticity
(d) None. (1 mark)

Answer:

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

[10] Indifference curve is L shaped then two goods will be:

(a) Perfect substitute goods
(b) Substitute goods
(c) Perfect complementary goods
(d) Complementary goods (1 mark)

Answer:

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

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

(a) The law of diminishing marginal utility.
(b) The law of equal-marginal utility
(c) The law of diminishing returns
(d) Engel's law (1 mark)

Answer:

(a) Consumer surplus is a surplus which a consumer would be willing to pay rather then go without a thing over that which he actually does pay. Consumer surplus is given by Marshall and it is derived from = what a consumer is willing to pay - what he actually pays.

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

(a) an increase
(b) expansion
(c) contraction
(d) decrease (1 mark)

Answer:

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

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

(a) Market price
(b) Showroom price
(c) Maximum retail price
(d) None of these. (1 mark)

Answer:

(a) Short run price is also known **market price** and it is determine by central them of micro economic analysis, hence, micro economic theory is also called price theory.

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

(a) increases (b) decreases
(c) remains constant (d) decreases marginally (1 mark)

Answer:

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

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

(a) Increases
(b) Decreases
(c) No change
(d) None of these (1 mark)

Answer:

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

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

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

Answer:

(a) The law of supply can be started as Other things remaining constant, the quantity of a good produced and offered for sale will Increase as the price rises.

[17] In case of inferior goods, with rise of income of consumes, demand of goodwill?

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

Answer:

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

[18] In case of necessaries, consumes surplus is?

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

Answer:

(a) In case of necessaries, the managerial utilities of the earlier limits are Infinitely large. In such case the consumer's surplus is always Infinite.

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

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

$\frac{3000}{100} \times \frac{200}{2000}$

Answer:

(a) $\frac{\Delta q}{q} \times \frac{p}{\Delta p} - \frac{3{,}000}{2{,}000} \times \frac{200}{100}$

$= 3.0.$

[20] From the following data given below answer question 18 and 19-

Units	TU	MU
1	200	200
2	380	180
3	480	100

$480 - 380 = 100$

Total utility derived from 2nd unit?

(a) 380
(b) 20
(c) 100
(d) 280

Answer: (1 mark)

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

[21] Marginal utility of 3rd unit is?

(a) 200
(b) 280
(c) 100
(d) 50

Answer: (1 mark)

(b) MU = $TU_n - TU_{n-1}$
Therefore, = 280. 100 unit.

[22] Which Equation is correct–

(a) $\frac{MUx}{MUy} = \frac{Px}{Py}$

(b) $\frac{MUx}{MUy} > \frac{Px}{Py}$

(c) $\frac{MUx}{MUy} < \frac{Px}{Py}$

(d) $\frac{MUx}{MUy} \neq \frac{Px}{Py}$ (1 mark)

Answer:

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

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

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

Answer:

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

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

(a) IC is convex to the origin
(b) IC scopes downwards from left to right
(c) Two IC can touch each other
(d) IC cannot touch either of the axis (1 mark)

Answer:

(c) Properties of Indifference curve are:
1. Indifference curves slope downward to thing
2. Indifference curve are always convex to orgin.
3. Indifference curve can never intersect each other
4. A higher Indifference curve represent higher level satisfaction
5. Indifference curve will not touch either axes.

[25] In case of Normal goods, Rise in price leads to ____?

(a) Fall in demand
(b) Rise in demand
(c) No change
(d) Initially rise then ultimately fall (1 mark)

Answer:

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

[26] Method of demand forecasting does not include?

(a) Mathematical method
(b) Barometric method
(c) Expert opinion method
(d) Statistical method (1 mark)

Answer:

(a) Method of demand forecasting are:

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

Therefore, Mathematical method is not a method of forecasting.

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

(a) Decreases
(b) Increases
(c) No change
(d) Cant say (1 mark)

Answer:

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

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

(a) Increasing
(b) Decreasing
(c) Constant
(d) Zero (1 mark)

Answer:

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

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

(a) Actual demand of a product at same future date
(b) Probable demand in future
(c) Total demand in future
(d) None of these. (1 mark)

Answer:

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

[30] Addition made to total utility refers to?

(a) Total utility
(b) Average utility
(c) Marginal utility
(d) All of the above. (1 mark)

Answer:

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

[31] Elasticity of supply is zero means?

(a) Perfectly inelastic
(b) Perfectly elastic
(c) Imperfectly elastic
(d) All of the above. (1 mark)

Answer:

(a) Elasticity of supply:

$e > 1$ → elastic supply
$e < 1$ → inelastic supply
$e = 0$ → Perfectly inelastic supply
$e = \infty$ → Perfectly elastic supply
$e = 1$ → Unit elastic

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

$\frac{\Delta Q}{\Delta P} \times \frac{P}{Q}$

PRACTICE QUESTIONS OF MCQ

[1] Demand for a commodity refers to :
(a) Desire for the commodity
(b) Need for the commodity
(c) Quantity demanded of that commodity
(d) Quantity of the commodity demanded at a certain price during any particular period of time.

[2] Suppose the price of movies seen at a theatre rises from ₹ 120 per person to ₹ 200 per person. The theatre manager observed that the rise in prices has lead to a fall in attendance at a given movie from 300 persons to 200 persons. What is the price elasticity of demand for the movie? (Arc elasticity)
(a) 0.5 (b) 0.8
(c) 1.00 (d) None of these.

$\frac{100}{80} \times \frac{120}{300}$

[3] In case of an inferior good, the income elasticity of demand is :
(a) Positive (b) Zero
(c) Negative (d) Infinite

[4] For what type of goods does demand fall with a rise in income levels of households?
(a) Inferior goods (b) Substitutes
(c) Luxuries (d) Necessities

[5] In case of Inferior goods like bajra, a fall in its price tends to :
(a) Make the demand remain constant
(b) Reduce the demand
(c) Increase the demand
(d) Change the demand in an abnormal way

[6] Movement along the same demand curve shows:
(a) Expansion of demand
(b) Expansion of supply
(c) Expansion and contraction of demand
(d) Increase and decrease of demand

[7] The price of hot-dogs increases by 22% and the quantity demanded falls by 25% this indicates that demand for hot dogs is :
(a) Elastic (b) Inelastic
(c) Unitary elastic (d) Perfectly elastic

[8] The quantity demanded does not respond to price change and so the elasticity is :
(a) Zero (b) One
(c) Infinite (d) None

[9] What is an Engels curve?
(a) Another name of demand curve
(b) Curve showing both demand & supply curves
(c) Curve named after Lord Engels
(d) All

Y demand & inco

[10] Which factor generally keeps the price-elasticity of demand for a goods low:
(a) Variety of uses for that goods
(b) Its low price
(c) Close substitutes for that goods
(d) High proportion of the consumer's income spent on it

[11] In case of a straight line demand curve meeting the two axes, the price elasticity of demand at the mid-point of the line would be :
(a) 0 (b) 1
(c) 1.5 (d) 2

[12] An increase in demand can result from:
(a) A decline in the market price
(b) An increase in income
(c) A reduction in the price of substitutes
(d) An increase in the price of complements

[13] Compute income elasticity if demand increases by 5% and income by 1%.
(a) 5 (b) 1/5
(c) 0 (d) None

[14] For a commodity with a unitary elastic demand curve if the price of the commodity rises, then the consumer's total expenditure on this commodity would :

(a) Increase (b) Decrease
(c) Remains constant (d) Either increase or decrease

[15] What is the value of elasticity of demand if the demand for the goods is perfectly elastic?

(a) 0 (b) 1
(c) Infinity (d) Less than 0

[16] What is the original price of a commodity when price elasticity is 0.71 and demand changes form 20 units to 15 units and the new price is ₹ 10? [Point elasticity]

(a) ₹ 15.4 (b) ₹ 18
(c) ₹ 20 (d) ₹ 8

$0.71 = \frac{5}{(10-x)} \times \frac{x}{20}$

$(0.71)(10-x)(20) = 5x$

$14.2(10-x) = 5x$

$142 - 14.2x = 5x$

$142 = 14.7x$

$x = \frac{142}{147}$

[17] If the price of any complement goods rises :

(a) Demand curve shifts to left
(b) Demand curve shifts to right
(c) Demand curve moves downwards
(d) Demand curve moves upward

[18] Cross elasticity of demand in Monopoly market is :

(a) Elastic (b) Zero
(c) Infinite (d) One

[19] What is income elasticity of demand, when income changes by 20% and demand changes by 40%

(a) 1/2 (b) 2
(c) 0.33 (d) None

[20] If demand is parallel to x axis, what will be the nature of elasticity?

(a) Perfectly elastic (b) Inelastic
(c) Elastic (d) Highly elastic

[21] Giffen Paradox is an exception of

(a) Demand (b) Supply
(c) Production (d) Utility

[22] Law of demand is a__________

(a) quantitative statement (b) qualitative statement
(c) Both (a) & (b) (d) Hypothetical

[23] The demand of which type of goods do not decrease with increase in its price

(a) Comforts (b) Luxury
(c) Necessities (d) Capital goods

[24] Increase in Price from ₹ 4 to ₹ 6 then decrease in demand from 15 units to 10 units. What is the price elasticity. (Point elasticity)

(a) 0.66 (b) 5
(c) –1.5 (d) 2

[25] Expansion & contraction of Demand curve occurs due to:

(a) Change in the price of commodity
(b) Change in price of substitute or complementary goods
(c) Change in income
(d) None

[26] Elasticity between two points:

(a) Point elasticity (b) Arc elasticity
(c) Cross elasticity (d) None

[27] When price remains constant and quantity demanded changes, then the elasticity of demand will be:

(a) Vertical to X axis (b) Horizontal to X axis
(c) Either (a) or (b) (d) None

[28] Demand of a commodity depends upon:

(a) Price (b) Income
(c) Price of related good (d) All of the above

[29] In case of substitute goods, cross elasticity is __________.

(a) negative (b) zero
(c) positive (d) none of these

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

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

[31] Other things remaining constant, if the price of the inferior goods decreases then what will be the effect?
(a) Demand increases
(b) Demand decreases
(c) Quantity demanded increases
(d) Quantity demand decreases.

[32] When price falls from ₹ 6 to ₹ 4, the demand rises from 10 to 15 units. Calculate price elasticity of demand. (Point elasticity)
(a) 1.5 (b) 3.5
(c) 0.5 (d) 2

$\frac{-5}{2} \times \frac{6}{10} = -\frac{3}{2}$

[33] Cross elasticity of perfect substitutes is:
(a) Zero (b) Negative
(c) One (d) Infinity

[34] What is Engel's Curve?
(a) Curve showing three demand curve
(b) Named after Ernst Engel
(c) Both (a) and (b)
(d) None

[35] A consumer spends ₹ 80 on purchasing a commodity when its price is ₹ 1 per unit and spends ₹ 96 when the price is ₹ 2 per unit. Calculate the price elasticity of demand. ArC
(a) 0.2 (b) 0.3
(c) 0.4 (d) 0.5

[36] When the price of cylinder rises from ₹ 120 to ₹ 200, the demand falls from 300 to 200. Calculate price elasticity of demand.
(a) 1.00 (b) 0.50
(c) 5.00 (d) None

[37] If the price is decreased from ₹ 10 to ₹ 8 of a commodity but the quantity demanded remains the same price elasticity is ______.
(a) 1 (b) 0
(c) 8 (d) none

[38] Demand for electricity power is elastic because ______.
(a) it is available at a very high price.
(b) it is essential for life.
(c) it has many uses.
(d) it has many substitutes.

[39] If income of a person increases by 10% and his demand for goods increases by 30%, income elasticity will be______.
(a) equal to one. (b) less than one.
(c) more than one. (d) none of these.

[40] In case of luxury goods, the income elasticity of demand will be______.
(a) zero.
(b) negative but greater than one.
(c) positive but greater than one.
(d) positive but less than one.

[41] In case of straight line demand curve meeting two axis, the price elasticity of demand at the point where the curve meets y- axis would be______.
(a) zero. (b) greater than one.
(c) less than one. (d) infinity.

[42] Calculate income elasticity for the household when the income of the household increases by 10% and the demand for cars rises by 20%.
(a) + 2. (b) – 2.
(c) + 5. (d) – 5.

[43] The commodity whose demand is associated with the name of Sir Robert Giffen?
(a) Necessary good. (b) Luxury good.
(c) Inferior good. (d) Ordinary good.

[44] In expansion and contraction of demand ______.
(a) demand curve remains unchanged.
(b) demand curve changes.
(c) slope of the demand curve changes.
(d) both (a) & (c) above.

[45] Certain goods for which Quantity demanded decreases when Income Increases are called ______.
(a) superior goods (b) inferior goods
(c) prestige goods (d) conspicuous goods

[46] When price falls by 5% and demand increases by 6%, then elasticity of demand is __________.
(a) elastic (b) inelastic
(c) unitary elastic (d) zero.

[47] Cross elasticity of complementary goods is :
(a) Positive (b) Negative
(c) Infinity (d) None of these.

[48] Demand of i-pod increases from 950 to 980 and income increases from 9,000 to 9,800. What is income elasticity?
(a) 0.53 (b) 0.35
(c) 0.43 (d) None.

$= \frac{30}{800} \times \frac{9800}{950}$

$= \frac{294}{760}$

[49] Contraction of demand results due to ______.
(a) increase in price of goods
(b) decrease in no. of producers
(c) decrease in output of sellers
(d) decrease in price of goods.

[50] Bricks for houses is an example of which kind of demand?
(a) Composite (b) Competitive
(c) Joint (d) Derived.

[51] Normal goods have_______.
(a) zero income elasticity (b) negative income elasticity
(c) positive income elasticity (d) infinite income elasticity

[52] In which of the following cases the demand for goods tends to be less elastic?
(a) Good is necessary
(b) Time period is shorter
(c) Number of close substitutes is less
(d) All of the above

[53] Which of the following elasticity of demand measures a movement along the demand curve rather than a shift in the curve?
(a) Income elasticity of demand
(b) Price elasticity of demand
(c) Substitution elasticity of demand
(d) None of these.

[54] If the price elasticity of demand is zero, the shape of the curve will be:
(a) Horizontal (b) Vertical
(c) Sloping downwards (d) None of these.

[55] If a 20% fall in price of a commodity brings about a 40% increase in its demand, then the demand for the commodity will be termed as:
(a) Inelastic (b) Elastic
(c) Highly elastic (d) Perfectly elastic.

[56] Expansion and contraction in demand are caused by:
(a) Change in income of buyer
(b) Change in taste and preference of buyer
(c) Change in price of the commodity
(d) Change in price of related goods.

[57] A fall in price of normal goods leads to:
(a) Shift in demand curve
(b) Fall in demand
(c) A rise in consumer's real income
(d) A fall in consumer's real income.

[58] A 10% increase in the price of tea results is an 8% increase in the demand for coffee. Cross elasticity of demand will be :
(a) 0.80 (b) 1.25
(c) 1.50 (d) 1.80.

[59] When the total expenditure incurred by the consumers on a commodity due to a change is its price remains the same, then the elasticity of demand for that commodity will be:-
(a) Zero (b) One
(c) More than one (d) Less than one

[60] What will be the price elasticity if original price is ₹ 5, original quantity is 8 units and changed price is ₹ 6, changed quantity is 4 units:
(a) 2.5 (b) 2.0
(c) 1.5 (d) 1.0

[61] Original price of a commodity is ₹ 500 and quantity demanded of that is 20 kgs. If the price rises to ₹ 750 and the quantity demanded reduces to 15 kgs. The price elasticity of demand will be:
(a) 0.25 (b) 0.50
(c) 1.00 (d) 1.50

[62] The demand for factors of production is ——

(a) fundamental demand (b) derived demand

(c) market demand (d) joint demand.

[63] Cross elasticity of demand between two perfect substitutes will be

(a) Very high (b) Very low

(c) Infinity (d) Zero

[64] What is the elasticity between mid point and upper extreme point of a straight line continuous demand curve ?

(a) Infinite (b) Zero

(c) Greater than one (d) Less than one

[65] Price of Tiffin Box is ₹ 100 per unit and the quantity demanded in market is 1,25,000 units. Company increased the price to ₹125. Due to this increase in price, quantity demanded decreases to 1,00,000 units. What will be the price elasticity of demand ?

(a) 1.25 (b) 0.80

(c) 1.00 (d) None of the above.

[66] The price of a commodity decreases from 10 to 8 and the quantity demanded of it increases from 25 to 30 units, then the coefficient of price elasticity will be —— most appropriate

(a) 1.00 (b) -1.00

(c) 1.5 (d) -1.5

[67] Which statement is true about the law of demand ?

(a) Income rises, demand rises

(b) Price rises, demand rises

(c) Price falls, demand falls

(d) Price falls, demand rises

[68] Which of the following is not a determinant of demand ?

(a) Consumer's tastes and preferences

(b) Quality supplied of a commodity

(c) Income of the consumers

(d) Price of related goods

[69] A demand curve parallel to the Y-axis implies:

(a) Ep = 0 (b) Ep = 1

(c) Ep < 1 (d) Ep > 1

[70] Generally, when income of consumer increases, he goes in for superior goods, leading to a fall in demand for inferior goods. It means, income elasticity of demand of superior goods______.

(a) less than 1 (b) unitary

(c) zero (d) negative

[71] If the quantity demanded of X commodity increases by 5% when the price of Y commodity increases by 20%, the cross-price elasticity of demand between X and Y commodity will be:

(a) -0.25 (b) 0.25

(c) -4.00 (d) 4.00

[72] Which amongst the following is the right formula for calculating price elasticity of demand using ratio method?

(a) (ΔQ/ΔP) × (P/Q) (b) (ΔP/ΔQ) × (Q/P)

(c) (ΔQ/ΔP) × (Q/P) (d) (ΔP/ΔQ) × (1/P)

[73] Straight line demand curve at the point of meeting the x-axis will indicate elasticity coefficient Equal to ________.

(a) one (b) infinity

(c) zero (d) more than one

[74] Changes in the quantity demanded in response to changes in the price of same commodity is called:

(a) change in demand (b) change in quantity demanded

(c) income demand (d) cross demand

[75] Other things being equal, a fall in the price of the complementary goodwill cause the ________ of the other to rise.

(a) price (b) supply

(c) demand (d) utility

[76] A horizontal demand curve parallel to X-axis shows that the elasticity of demand is:

(a) zero (b) equal to unity

(c) greater than unity (d) infinite.

[77] When the price of a commodity increases from ₹ 8 to ₹ 9, its demand decreases by 10%. The price elasticity of demand for the commodity is:

(a) 0.8 (b) 0.9

(c) 1.0 (d) 1.1

[78] Which one of the following is correct about the price elasticity of demand of a commodity?
(a) It remains same under all situations
(b) It has several degrees/nature
(c) It remains unaffected by the price of any other commodity
(d) It is an immeasurable concept.

[79] The supply of a good refers to :
(a) Actual production of goods
(b) Total stock of goods
(c) Stock available for sale
(d) Amount of goods offered for sale at a particular price per unit of time

[80] Increase or Decrease In Supply means:
(a) Shift in Supply curve
(b) Movement along same supply curve
(c) Both (a) and (b)
(d) Neither (a) or (b)

[81] If supply curve is Perfectly Inelastic, the supply curve is:
(a) Vertical (b) Horizontal
(c) Upward sloping (d) Downward sloping

[82] When supply price increase in the short run, the profit of the producer ______ :
(a) increases (b) decreases
(c) remains constant (d) decreases marginally

[83] A change in the supply of a commodity along with same supply curve may occur due to:
(a) Change in the price of the commodity
(b) Change in the prices of related goods
(c) Change in the future expectations about the price of the goods
(d) Change in the cost of inputs

[84] What is the elasticity of supply, when price changes from ₹ 15 to ₹ 12 and supply change from 6 units to 5 units?
(a) 0.77 (b) 0.87
(c) 0.833 (d) 0.58

$\frac{1}{3} \times \frac{15}{6}$ 5

[85] A perfectly inelastic supply curve will be:
(a) Parallel to X axis (b) Parallel to Y axis
(c) Downward sloping (d) None of these

[86] If the supply of a commodity is perfectly elastic, an increase in demand will result in:
(a) Decrease in both price and quantity at equilibrium
(b) Increase in both price and quantity at equilibrium
(c) Increase in equilibrium quantity, equilibrium price remaining constant
(d) Increase in equilibrium price, equilibrium quantity remaining constant

[87] When change in the quantity supplied is proportionate to the change in the price, the producer is said to have ____:
(a) perfectly elastic supply (b) relatively elastic supply
(c) unitary elastic supply (d) perfectly inelastic supply

[88] Expansion in supply refers to a situation when the producers are willing to supply a:
(a) Larger quantity of the commodity at an increased price
(b) Larger quantity of the commodity due to increased taxation on that commodity
(c) Larger quantity of the commodity at the same price
(d) Larger quantity of the commodity at the decreased price

[89] When supply is perfectly inelastic, elasticity of supply is equal to :
(a) + 1 (b) 0
(c) .1 (d) Infinity

[90] If there is an improvement in the technology, ______:
(a) the supply curve shifts to the left
(b) the supply curve shifts to the right
(c) quantity supplied increase
(d) Both (b) and (c)

[91] If the price of apples rises from ₹ 30 per Kg to ₹ 40 per Kg and the supply increases from 240 Kg to 300 Kg. Elasticity of supply is :
(a) 0.75 (b) 0.67
(c) 00.67 (d) 00.77

$\frac{60}{10} \times \frac{30}{240}$ 8

[92] A horizontal supply curve parallel to the quantity axis implies that the elasticity of supply is :
(a) Zero
(b) Infinite
(c) Equal to one
(d) Greater than zero but less than one

[93] Supply refers to quantity supplied at a particular price for a particular period of time:
(a) True
(b) False
(c) Partly true
(d) None

[94] Increase or decrease in supply means:
(a) Change in supply due to change in its own price
(b) Change in supply due to change in factors other than its own price
(c) Both of above
(d) None of above

[95] When Supply Curve shifts to the right there is________ in Supply.
(a) an increase
(b) expansion
(c) contraction
(d) decrease.

[96] Elasticity of supply is defined as responsiveness of quantity supplied of a good to change in ________.
(a) price of concerned good
(b) price of substitute good
(c) demand
(d) none.

[97] The supply of the commodity implies?
(a) Total Output during a specified period
(b) Its total stock
(c) Its stock available for sale
(d) Its Quantity Offered for sale at a particular price per unit of time

[98] Supply of a commodity is a ________.
(a) stock concept
(b) flow concept
(c) both stock and flow concept
(d) whole sale concept

[99] The price of mangoes increases from ₹ 30 per kilogram to ₹ 40 per kilogram and the supply increases from 240 kilograms the 300 kilograms. What will be the elasticity of supply for mangoes?
(a) – 0.67
(b) + 0.67
(c) – 0.77
(d) + 0.77

$-\frac{60}{-10} \times \frac{30}{240}$
$= 0.75$

[100] If a 20% fall in price brings about a 10% fall in quantity supplied, in such a case elasticity of supply will be equal to:
(a) 2.0
(b) 0.5
(c) 1.0
(d) 1.5

[101] At a price of ₹ 25 per kg, the supply of a commodity is 10,000 kg per week. An increase in its price to ₹ 30 per kg, increases the supply of the commodity to 12,000 kg per week. The elasticity of supply will be:
(a) 0.75
(b) 1.00
(c) 1.50
(d) 1.75

$\frac{2000}{20,000} \times \frac{5}{5}$

[102] Short run price is also called by the name of ________.
(a) market price
(b) showroom price
(c) maximum retail price
(d) none of these.

[103] If a 20% fall in the price brings about a 10% fall in the quantity supplied, then the elasticity of supply will be equal to:
(a) 2.0
(b) 0.5
(c) 1.0
(d) 1.5

[104] Elasticity of supply is greater than one when:
(a) Proportionate change in price is more than the proportionate change in quantity supplied
(b) Proportionate change in quantity supplied is more than the proportionate change in price
(c) Change in price and quantity supplied are equal
(d) All of the above

[105] Supply refers to which of the following?
(a) Total stock of the goods
(b) Stock of the goods available for sale
(c) Quantity of a good offered for sale at a particular price
(d) Quantity of a good actually sold.

[106] After reaching saturation point consumption of additional units of commodity causes
(a) Total utility to fall and marginal utility to increase
(b) Total and marginal utility both to increase
(c) Total utility to fall and marginal utility to become negative
(d) Total utility to become negative and marginal utility to fall.

[107] Elasticity of supply is greater than one when
- (a) Proportionate change in price is greater than the proportionate change in quantity supplied
- (b) Proportionate change in quantity supplied is more than the proportionate change in price
- (c) Change in price and quantity supplied are equal
- (d) All of the above.

[108] As the price of a commodity increases, normally, its supply:
- (a) Decreases
- (b) Remains unchanged
- (c) Increases
- (d) Cannot be determined.

[109] If equilibrium is present in a market then it can be said that:
- (a) The price of the product will tend to rise
- (b) Quantity demanded equals quantity supplied
- (c) Quantity demanded exceeds quantity supplied
- (d) Quantity supplied exceeds quantity demanded.

[110] Supply is a ____________concept.
- (a) flow
- (b) stock
- (c) flow and stock, both
- (d) qualitative

[111] Elasticity of supply is measured by dividing the percentage change in quantity supplied of a good by:
- (a) Percentage change in income
- (b) Percentage change in price
- (c) Percentage change in quantity demanded of goods
- (d) Percentage change in taste preferences.

[112] Increase in supply denotes a shift in the supply curve to the right. If there is an increase in supply without change in demand, equilibrium price will ______ and the quantity demanded will go up.
- (a) fall
- (b) remain constant
- (c) increase
- (d) becomes zero.

[113] Which among the following is not a determinant of supply?
- (a) Price of the commodity concerned
- (b) Prices of the factors of production
- (c) State of technology used in the production process
- (d) Customs and the traditions in the society.

[114] When the price of the commodity increases from ₹ 200 per unit to ₹ 250 per unit and consequently the quantity supplied rises from 1000 units to 1100 units. What will be the coefficient of elasticity of supply?
- (a) 4.0
- (b) 0.4
- (c) 5.0
- (d) 0.5

[115] The Supply Curve shifts to the right because of:
- (a) Improved technology
- (b) Increased price of factors of production
- (c) Increased excise duty
- (d) All of the above.

[116] The supply of a good refers to
- (a) Stock available for sale
- (b) Total stock in the warehouse
- (c) Actual production of the goods
- (d) Quantity of the good offered for sale at a particular price per unit of time.

ANSWER

1	(d)	2	(b)	3	(c)	4	(a)	5	(b)	6	(c)
7	(a)	8	(a)	9	(b)	10	(b)	11	(b)	12	(b)
13	(a)	14	(c)	15	(c)	16	(a)	17	(a)	18	(b)
19	(b)	20	(a)	21	(a)	22	(b)	23	(c)	24	(a)
25	(a)	26	(b)	27	(b)	28	(d)	29	(c)	30	(a)
31	(d)	32	(a)	33	(d)	34	(c)	35	(c)	36	(b)
37	(b)	38	(c)	39	(c)	40	(c)	41	(d)	42	(a)
43	(c)	44	(d)	45	(b)	46	(a)	47	(b)	48	(b)
49	(a)	50	(d)	51	(c)	52	(d)	53	(b)	54	(b)
55	(b)	56	(c)	57	(c)	58	(a)	59	(b)	60	(a)

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61	(b)	62	(b)	63	(a)	64	(c)	65	(b)	66	(b)
67	(d)	68	(b)	69	(a)	70	(a)	71	(b)	72	(a)
73	(c)	74	(b)	75	(c)	76	(d)	77	(a)	78	(c)
79	(d)	80	(a)	81	(a)	82	(a)	83	(a).	84	(c)
85	(b)	86	(c)	87	(c)	88	(a)	89	(b)	90	(b)
91	(a)	92	(b)	93	(a)	94	(b)	95	(a)	96	(a)
97	(d)	98	(b)	99	(d)	100	(b)	101	(b)	102	(a)
103	(b)	104	(b)	105	(c)	106	(c)	107	(b)	108	(c)
109	(b)	110	(a)	111	(b)	112	(a)	113	(d)	114	(b)
115	(a)	116	(d)								

✿

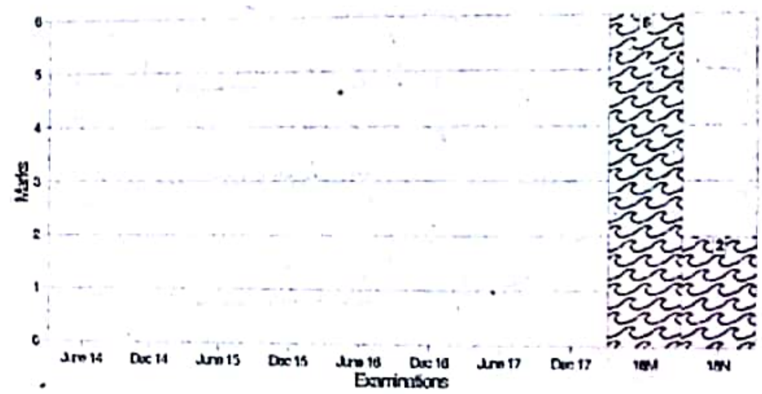
3 THEORY OF PRODUCTION AND COST

Unit:1 Theory of Production

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

Legend

Objective Short Notes Distinguish Descriptive Practical



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PAST YEAR QUESTIONS AND ANSWERS

2006 - NOVEMBER

[1] _______ shows the overall output generated at a given level of input:
(a) Cost function
(b) Production function
(c) ISO cost
(d) Marginal rate of technical substitution (1 mark)

Answer:

(b) Production function states the relationship between inputs and outputs generated.

[2] If LAC curve falls as output expands, this is due to _______:
(a) law of diminishing returns (b) economics of scale
(c) law of variable proportion (d) dis-economics of scale (1 mark)

Answer:

(b) In the long run, when output expands total cost first increases, then becomes constant and finally decreases.
When output expands, and cost curve falls it is the first stage of returns to scale which occurs due to economics of scale.

[3] Isoquants are equal to:
(a) Product Lines
(b) Total utility lines
(c) Cost lines
(d) Revenue lines (1 mark)

Answer:

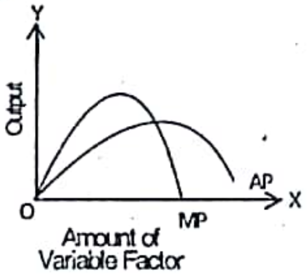
(a) An consist of alternative combinations of input to produce a given quantity of output and product lines are lines representing various combinations of factors of production to produce a given output.

2007 - FEBRUARY

[4] The marginal product curve is above the average product curve when the average product is:
(a) Increasing (b) Decreasing
(c) Constant (d) None (1 mark)

Answer:

(a) Marginal product and average product are so related that when average product increases, MP increases at a faster rate and cuts AP at its Maximum and when AP falls MP falls as a faster rate. So the marginal product curve is above average product curve when AP is increasing.



[5] Increasing returns to scale can be explained in terms of:
(a) External and internal economies
(b) External and internal dis economies
(c) External economics and internal dis economies
(d) All of these (1 mark)

Answer:

(a) Increasing returns to scale i.e. When output increases more than the increase in input. It occurs due to external and internal economics.

2007 - MAY

level of output

[6] An isoquant is ________ to an ISO cost line at equilibrium point:

(a) convex (b) concave
(c) tangent (d) perpendicular (1 mark)

Answer:

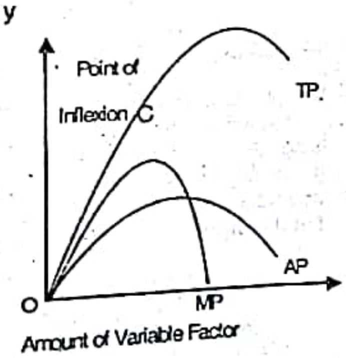
(c) An iso cost is tangent to an iso cost Line. This point of tangency defines the equilibrium position of a firm. A higher isoquant shows an unalternable point and a lower one shows under utilized resources. Hence an isoquant with an iso cost line as tangent is the equilibrium position.

[7] At the point of inflexion, the marginal product is:

(a) Increasing (b) Decreasing
(c) Maximum (d) Negative (1 mark)

Answer:

(c) Point of inflexion is a point in the first stage of law of variable proportion i.e. When MP becomes maximum. At this point the slope of TP changes.



[8] Diminishing marginal returns implies:

(a) Decreasing average variable costs
(b) Decreasing marginal costs
(c) Increasing marginal costs
(d) Decreasing average fixed costs (1 mark)

Answer:

(c) Keeping other things constant when marginal cost increases with a considerable increase in variable factors, the marginal product declines. This is the second stage of law of variable proportion or the stage of diminishing returns.

2007 - AUGUST

[9] If the marginal product of labour is below the average product of labour, It must be true that:

(a) Marginal product of labour is negative
(b) Marginal product of labour is zero
(c) Average product of labour is falling
(d) Average product of labour is negative (1 mark)

Answer:

(c) *Same as Ans. 4*

2007 - NOVEMBER

[10] Law of variable proportion is valid when:

(a) Only one input is fixed and all other inputs are kept variable
(b) All factors are kept constant
(c) All inputs are varied in the same proportion
(d) None of these (1 mark)

Answer:

(a) Law of variable proportion occurs in short run. Short run is a period defined when only one input is fixed and all other inputs are kept variable.

[11] Change in total revenue due to incremental change in quantity supplied is called:

(a) Marginal Revenue (b) Marginal Change
(c) Average Revenue (d) Average Change (1 mark)

Answer:

(a) Marginal revenue may be defined as an addition made to the total revenue by selling one more unit of a commodity. It is the incremental change in total revenue.
$M.R._n = T.R._n - T.R._{n-1}$

2008 - FEBRUARY

[12] Increase in all input leading to less than proportional increase in output is called__________.

(a) increasing returns to scale
(b) decreasing returns to scale
(c) constant returns to scale
(d) both increasing and decreasing returns to scale (1 mark)

Answer:

(b) Decreasing returns to scale is the stage when the increase in output is less than the increase in input, this occurs due internal and external diseconomies.

[13] Consider the following combinations of inputs and outputs:
This production technology satisfies

Labour	Capital	Output
5	10	1
6	12	2
7	14	3
8	16	4
9	18	5
10	20	6

(a) Increasing returns to scale
(b) Diminishing returns to scale
(c) Constant returns to scale
(d) Increasing returns initially, following by decreasing returns to scale (1 mark)

Answer:

(c) In the given production technology the increase in input is proportionate to the increase in output.
With an increase of every 1 unit of labour and 2 units of capital the output increases by 1 unit.
Hence, it is the case of constant returns to scale as both fixed and variable factors are changing (all factors are variable).

2008 - JUNE

[14] During IInd stage of law of Diminishing returns:

(a) MP and TP is maximum (b) MP and AP are decreasing
(c) AP is negative (d) TP is negative (1 mark)

Answer:

(b) During the second stage of Law of Diminishing Returns (i.e. Law of Variable Proportion) both MP and AP are decreasing because at this stage the optimum combination between fixed and variable factors have been attained and now if the input is increased, output starts decreasing. At this stage, total product increases at diminishing rate i.e. MP and AP decreases.

[15] Consider the following table:

Labour	Total Output	Marginal Product
0		
1	100	100
2	180	80
3	240	

160

What is the total output, when 2 labour are employed?

(a) 80 (b) 100

(c) 180 (d) 200 (1 mark)

Answer:

(c) When 1 unit of labour is employed TP = 100, MP = 100 when 2nd unit of labour is employed MP = 80 i.e. addition made to total product is 80.

Total product when 2 labours are employed is 100 + 80 = 180.

OR

$MP_2 = TP_2 - TP_{2-1}$

$80 = TP_2 - 100.$

$TP2 = 80+100 = 180.$

[16] Who has given the concept of Innovative Entrepreneurship?

(a) Robbins (b) Adam Smith

(c) Schumpeter (d) Sweezy (1 mark)

Answer:

(c) The concept of Innovative Entrepreneurship was given by Schumpeter.

2008 - DECEMBER

[17] AT 10 units Total Cost → ₹ 200

20 units Total Cost → ₹ 600

Marginal Cost = ?

(a) 50 (b) 40

(c) 30 (d) 400 (1 mark)

Answer:

(b) Given Original total cost = ₹ 200

Original quantity produced = 10 units

New total cost = ₹ 600

New quantity produced = 20 units

Marginal cost is the addition made to the total cost by production of an additional unit of output:

Additional Cost = ₹ 600 - ₹ 200

= ₹ 400

Additional quantity produced = 20 units - 10 units

= 10 units

∴ M.C = $\frac{1}{2}$

= ₹ 40

$AFC = \frac{TFC}{Q}$

[18] Average Fixed Cost = ₹ 20

Quantity Produced = 10 units

$20 = \frac{TFC}{10}$

What will be the Average Fixed Cost of 20th unit?

TFC = 200

(a) ₹ 10 (b) ₹ 20

(c) ₹ 5 (d) None

$AFC = \frac{200}{20}$ (1 mark)

Answer:

(a) Average fixed cost (AFC) is the total fixed cost divided by the number of units produced i.e. AFC = $\frac{TFC}{Q}$

Where Q is the number of units produced

TFC = ₹ 20 × 10 units

= ₹ 200

Q = 10 units

AFC = $\frac{200}{20}$

= ₹ 10

Since AFC steadily falls as output increases hence for 20th unit AFC is ₹ 10.

[19] What is Production in Economics:

(a) Creation / Addition of Utility

(b) Production of food grains

(c) Creation of services

(d) Manufacturing of goods (1 mark)

Answer:

(a) In Economics, by production we mean the process by which man utilizes or converts the resources of nature, working upon them so as to make them satisfy human wants. The satisfying power of goods and services is called utility. Hence we can conclude that, production can also be defined as creation or addition of utility.

[20] External Economies of Scale are obtained by:
(a) a firm (b) a group of firm
(c) Small Production (d) Society (1 mark)

Answer:

(b) External Economics of scale accrue to firms as a result of expansion in the output of whole industry and they are not dependant on the output level of individual firms. They are external in the sense they accrue to firms not because of their internal situation but from outside i.e. expansion of the industry.

2009 - JUNE

[21] If a firm's output is zero, then:
(a) AFC will be positive (b) AVC will be zero
(c) Both of (a) and (b) (d) None of (a) and (b) (1 mark)

Answer:

(c) Average fixed cost may be expressed as:

Fixed cost divided by the number of units. When the firm's output is zero, average fixed cost is positive as fixed cost is incurred even if no units are produced.

Average variable cost may be expressed as variable cost per unit produced. When the firms output is zero, there will be no variable cost hence average variable cost will be zero.

[22] Functions of the entrepreneur are:
(a) Risk bearing
(b) Initiating a business enterprise and resource co-ordinating
(c) Introducing new innovations
(d) All of the above (1 mark)

Answer:

(d) Entrepreneur has also been called the organiser, the manager or risk taker. The task of entrepreneur is to initiate production work and to bear the risk involved. An entrepreneur performs the following functions:
(i) Initiating a business enterprise and resource co-ordination
(ii) Risk bearing or uncertainty bearing.
(iii) Innovation

[23] Law of diminishing returns is applicable in:
(a) Manufacturing industry
(b) Agriculture
(c) Neither (a) nor (b)
(d) Any economic activity at a point of time. (1 mark)

Answer:

(d) Law of diminishing returns states that as more and more factors of production are employed, the total production first increases then eventually declines. This law applies to all economic activities at some point or other.

2009 - DECEMBER

[24] Labour force wants more ________.
(a) facility (b) leisure
(c) benefit (d) all of the above (1 mark)

Answer:

(b) Labour is one of the factors of production. A labourer has to make a choice between hours of labour and hours of leisure. Labour force prefers to have more of rest and leisure than earning money.

[25] Production activity in the short run is analysed by:
(a) Returns to scale (b) Economies of scale
(c) Law of variable proportion (d) None of these (1 mark)

Answer:

(c) Short run is a time period when only one factor is fixed and rest all are variable. Law of variable proportion operates in the short run. Therefore, in short run production activity is analysed by this law.

[26] Increasing returns to scale occurs due to:

(a) Economies of scale (b) Specialization
(c) Indivisibility of factors (d) All of these (1 mark)

Answer:

(d) Increasing returns to scale occurs when the output increases more than the increase in input. This occurs due to economies of scale also it occurs due to indivisibility of factor and returns to scale may also increase because of greater possibilities of specialization of land and machinery.

2010 - JUNE

[27] Law of diminishing returns is applicable in ______.

(a) only manufacturing industries.
(b) only agriculture.
(c) neither in agriculture nor in industries.
(d) in all economic activities after a limit. (1 mark)

Answer:

(d) Law of diminishing returns states that as more and more factors of production are employed, the total product first increases and then eventually declines. This law applies to all economic activities after a limit.

[28] Law of increasing returns is applicable because of______.

(a) indivisibility of factors. (b) specialization.
(c) economies of scale. (d) both (a) & (b) above. (1 mark)

Answer:

(d) The two causes of Law of Increasing Returns are:
(A) Indivisibility of Factors.
(B) Division of Labour and specialization.
Hence both options A and B are correct.

[29] When output decreases by 20% due to increase in inputs by 20%, this stage is called the law of ________.

(a) increasing returns to scale. (b) decreasing returns to scale.
(c) constant returns to scale. (d) none of the above. (1 mark)

Answer:

(d) Law of constant returns states that with increase in input the output also increases in the same proportion.

However in the given question the output is decreasing by 20% due to increase in input by 20%. This is not the case of Constant Returns to scale. This is neither the case of Increasing returns to scale nor Decreasing returns to scale hence the answer would be none of the above.

2010 - DECEMBER

[30] In the first stage of law of variable proportions, total product increases at the ________.

(a) decreasing rate (b) increasing rate
(c) constant rate (d) both a and b. (1 mark)

Answer:

(b) The law of Variable Proportion states that as we increase the quantity of one input which is combined with other fixed inputs, the MP of variable input eventually declines. It is divided into three stages (laws) are:
(i) Law of increasing returns
(ii) Law of decreasing returns
(iii) Law of negative returns

[31] What will be the total product when two labourers are hired according to the table given Below?

No. of labourers	Total product	Marginal product
0	–	–
1	350	350
2	[illegible]	230

(a) 680 (b) 580
(c) 350 (d) 230 (1 mark)

Answer:

(b) $TP_n = TP_{n-1} + MP_n$
$= 350 + 230$
$= 580$

[32] Which function shows relationship between input and output?
(a) Consumption function (b) Investment function
(c) Production function (d) Cost function (1 mark)

Answer:

(c) Production function states the relationship between inputs and output i.e. the maximum amount of output that can be produced with given quantities of inputs under a given state of technical knowledge.

2011 - JUNE

[33] External economics are enjoyed:
(a) By large producers only (b) As firm expands
(c) Both (a) and (b) (d) None of above. (1 mark)

Answer:

(c) External economics are those economics which accrue to firms as a result of expansion in the output of whole industry and they are not dependent on the output level of individual firms. External economics are enjoyed by large producers.

2012 - JUNE

[34] The Law of Diminishing Returns is applicable in ______.
(a) only manufacturing industries
(b) only Agriculture
(c) neither in Agriculture nor in industries
(d) all Economic activities after a point. (1 mark)

Answer:

(d) Law of diminishing returns occurs in the short run and states that as more and more units of variable factor are employed to a fixed factor total product first increases and then eventually declines.

This law occurs on all economic activities after a point of time because after reaching an optimum combination the factors become over utilized and lead to lesser production.

[35] The concept of Returns to Scale is related with:
(a) Very short period
(b) Short period
(c) Long period
(d) None of above. (1 mark)

Answer:

(c) Long Run refers to the time period when all the factors change and no factor is fixed.
•When all inputs are changed in the same proportion, it leads to a change in scale. Therefore, returns to scale occurs in the long run.

[36] The function of an entrepreneur is:
(a) Initiating an enterprise and resource coordination
(b) Risk bearing
(c) Introducing innovations
(d) All of the above. (1 mark)

Answer:

(d) An entrepreneur is a person who combines all factors of production, bears risk and initiates the process of production. An entrepreneur performs the following functions:
(a) Initiating a business and resource coordination
(b) Risk bearing and uncertainty bearing
(c) Taking innovations

2012 - DECEMBER

[37] Which of the following is not a characteristics of Land?

(a) It is a free gift of nature
(b) It is a mobile factor of production
(c) It is limited in quantity
(d) Its productive power is indestructible. (1 mark)

Answer:

(b) Factor of production should have following characteristics to be called a land :

1. It is a free gift of nature
2. It is strictly limited in quantity
3. It is indestructible
4. It cannot be shifted from one place to another.
5. It is a specific factor of production

[38] A production function is defined as the relationship between _______.

(a) the quantity of physical inputs and physical output of a firm
(b) stock of inputs and stock of output
(c) prices of inputs and output
(d) price and supply of a firm. (1 mark)

Answer:

(a) Production function states the relationship between Inputs and output i.e. the maximum amount of output that can be produced with given quantities of inputs under a given state of technical knowledge.

[39] Production activity in the short period is analysed with the help of:

(a) Law of variable proportion (b) Laws of returns to scale
(c) Both (a) & (b) (d) None of the above. (1 mark)

Answer:

(a) Production function states the relationship between inputs and outputs. 'The production activity can be in short run or long run. Short period is that period of time which is too short for a firm to install a new capital equipment to increase production. This is done when the law of variable proportion is derived.

2013 - JUNE

[40] Which of the following is the reason of the working of law of increasing returns?

(a) Fuller utilisation of fixed factors
(b) Indivisibility of the factors
(c) Greater specialization of labour
(d) All of the above. (1 mark)

Answer:

(d) The causes of law of increasing return are:

— Indivisibility of factors.
— Division of labour and specialisation.

When variable factor is increased, fuller utilisation of fixed factor becomes possible and it results in increasing return.

Hence, all of the above are the reasons of working of law of increasing return.

[41] External economies can be achieved through:

(a) Foreign trade only
(b) Superior managerial skill
(c) Extension of transport and credit facilities
(d) External assistance. (1 mark)

Answer:

(c) External economies of scale are those which accrue to firms as a result of expansion in the output of whole industry. These are available to one or more of the firm in the form of —

(i) Cheaper raw materials and capital equipment
(ii) Technological external economies
(iii) Development of skilled labour
(iv) Growth of ancillary industries
(v) Better transportation and marketing facilities. Thus, external economies can be achieved through extension of transport and credit facilities.

[42] External Economies arise due to:
(a) Growth of ancillary industries
(b) High cost of technologies
(c) Increase in the price of factors of production
(d) None of the above. (1 mark)

Answer:

(a) External economies arises due to following reasons:
(i) Cheaper raw materials and capital equipment
(ii) Technological external economies
(iii) Development of skilled labour
(iv) Growth of ancillary industries
(v) Better transportation and marketing facilities.

2013 - DECEMBER

[43] Innovation theory of entrepreneurship is propounded by:
(a) Knight (b) Schumpeter
(c) Max Weber (d) Peter Drucker (1 mark)

Answer:

(b) The concept of innovative Entrepreneurship was propounded by Schumpeter.

[44] Production function is:
(a) Purely a technical relationship between input & output
(b) Purely an economic relationship between input & output
(c) Both the technical & economical relationship between input & output
(d) None of the above. (1 mark)

Answer:

(a) Production function states the relationship between inputs and output i.e. the maximum amount of output that can be produced with given quantities of inputs under a given state of technical knowledge.

Thus, production function is purely a technical relationship between input & output.

[45] The concept of returns to scale is related with:
(a) very short period (b) short period
(c) long period (d) none of the above. (1 mark)

Answer:

(c) Long Run refers to the time period when all the factors change and no factor is fixed, when all inputs are changed in the same proportion, it leads to a change in scale. Therefore, returns to scale occurs in the long run.

Thus, option (c) is correct.

[46] In Cobb-Douglas production function, two inputs are:
(a) Land and Labour (b) Labour and Capital
(c) Capital and Entrepreneur (d) Entrepreneur and land (1 mark)

Answer:

(b) Cobb-Douglas Production function applies not to an individual firm but to the whole of manufacturing. In this case, output is manufacturing production and inputs used are labour and capital.

2014 - JUNE

[47] Which one of the following is not a characteristic of land?
(a) A free gift of nature
(b) Its supply is fixed
(c) An active factor of production
(d) It has different uses. (1 mark)

Answer:

(c) As a theoretical concept, land has the following characteristics:
(1) Land is Nature's gift.
(2) Supply of land is fixed.
(3) It has indestructible powers.
(4) It is a passive factor.
(5) It has different uses.

Hence, land is not an active factor of production, thus option (c) is the correct answer.

[48] An Entrepreneur undertakes which one of the following functions?
(a) Initiating a business and resource co-ordination
(b) Risk or uncertainty bearing
(c) Innovations
(d) All of the above. (1 mark)

Answer:

(d) An entrepreneur performs the following functions in general:
(1) Initiating a business enterprise & resource co-ordination.
(2) Risk bearing/uncertainty bearing.
(3) Innovations.
Hence, option (d) i.e. all of the above is the correct answer.

[49] With a view to increase his production, Hariharan a manufacturer of shoes, increases all the factors of production in his unit by 100%. But at the end of the year, he finds that instead of an increase of 100%, his production has increased by only 80%. Which law of returns to scale is operating in this case?
(a) Increasing returns to scale (b) Decreasing returns to scale
(c) Constant returns to scale (d) None of the above. (1 mark)

Answer:

(b) When output increases in a smaller proportion with an increase in all inputs, decreasing returns to scale are said to prevail. In this case, inputs are increased by 100% in comparison to outputs which are increased by 80%.
Hence, option (b) is correct.

2014 - DECEMBER

[50] Linear homogeneous production function is based on:
(a) Increasing returns to scale (b) Decreasing returns to scale
(c) Constant returns to scale (d) None of the above (1 mark)

Answer:

(c) Linear homogeneous production function is based on constant returns to scale. It occurs when the inputs increase by some proportion and the output also increases by the same proportion.

2015 - JUNE

[51] Which of the following statement is true in relation to an ISO-Quant Curve?
(a) It represents those combinations of two factors of production that will give the same level of output
(b) It represents those combinations of all the factors that will give the same level of output
(c) It slopes upward to the right
(d) It can touch either axis. (1 mark)

Answer:

(a) An iso-quant represents all those combinations of two factors of production which are capable of producing the same level of output.

[52] Production is defined as:
(a) Creation of matter
(b) Creation of utility in matter
(c) Creation of infrastructural facilities
(d) None of the above. (1 mark)

Answer:

(b) By production we mean that process by which man utilises or converts the resources of nature, working upon them so as to make them satisfy human wants.

[53] Long period production function is related to:
(a) Law of variable proportions
(b) Laws of returns to scale
(c) Law of diminishing returns
(d) None of the above. (1 mark)

Answer:

(b) Long period production function is related to law of returns to scale which relate to the long-period production function by changing one or more of its factors.Long period production function is related to law of returns to scale which relate to the long-period production function by changing one or more of its factors.

2015 - DECEMBER

[54] The conclusion drawn from Cobb-Douglas production function is that labour contributed about_____ and capital about _____ of the increase in the manufacturing production.

(a) $\frac{3^{th}}{4}, \frac{1^{th}}{4}$

(b) $\frac{1}{2}, \frac{1}{2}$

(c) $\frac{1^{th}}{4}, \frac{3^{th}}{4}$

(d) None of the above. (1 mark)

Answer:

(a) Cobb-Douglas production function states that labour contributed about $\frac{3}{4}$th and capital about $\frac{1}{4}$th of the increase in the manufacturing production $Q = KL^a C^{(1-a)}$

Where 'Q' is output, 'L' the quantity of labour, 'C' the Quantity of capital, 'K' and 'a' are positive constants.

2016 - JUNE

[55] ISO quants are also known as:

(a) Production possibility curves

(b) Indifference curves

(c) Production indifference curves

(d) None of the above. (1 mark)

Answer:

(c) ISO quants are also known as production indifference curves. They show all those combinations of different factors of production which gives the same output to the producer. ISO quants are similar to indifference curves of the theory of consumer behaviour.

[56] Human capital refers to:

(a) Savings by individuals

(b) Mobilisation of savings

(c) Human skills and abilities

(d) Productive investment. (1 mark)

Answer:

(c) Human capital refers to human skill and ability. This is called human capital because a good deal of investment has gone into creation of these abilities in human.

[57] The Law of Variable Proportions is associated with:

(a) Short period

(b) Long period

(c) Both short and long periods

(d) Neither short nor long period. (1 mark)

Answer:

(a) The law of variable proportions examines the production function with one factor variable, keeping quantities of other factor fixed. This law operates in the short run when all the factors of production cannot be increased or decreased simultaneously. In other words, it refers to input-output relationship.

[58] Which one of the following statements is not correct?

(a) Land has indestructible powers

(b) Labour is mobile

(c) Capital is nature's gift

(d) Land is a passive factor. (1 mark)

Answer:

(c) Capital has been rightly defined as 'produced means of production'. It has been produced by man by working with nature. Therefore, capital may well be defined as man made instruments of production. Example: machine, tools, instruments, factories etc.

2016 - DECEMBER

[59] Which of the following is not a characteristic of labour?

(a) It is perishable

(b) It has weak bargaining power

(c) Labour and Labour power cannot be seperated

(d) Labour is not mobile (1 mark)

Answer:

(d) Labour is not mobile. This is not a characteristic of labour. Labour is mobile.

[60] Which among the following is not a characteristic of Land?

(a) It is an active factor

(b) It has variety of uses

(c) Its production powers are indestructible

(d) Its supply is limited (1 mark)

Answer:

(a) Land is a passive factor of production. It is not a active factor.

[61] When average product rises as a result of an increase in the quantity of variable factor, marginal product is:

(a) Equal to average product

(b) More than average product

(c) Less than average product

(d) Becomes negative (1 mark)

Answer:

(b) When average product rises as a result of an increase in the quantity of variable factor, marginal product is more than average product.

[62] Suppose the first four units of a variable input generate corresponding total output of 150, 200, 350, 550. What will be the marginal product of the third unit of input?

(a) 50 (b) 100

(c) 150 (d) 200 (1 mark)

Answer:

(d) Marginal product of the third unit of input

$= TP_4 - TP_3$

$= 550 - 350$

$= 200$

(c) $TP_3 - TP_2$

$= 350 - 200$

$= 150$

2017 - JUNE

[63] The famous Cobb-Douglas production function is based on studies of ______ industries in the United States of America.

(a) manufacturing (b) construction

(c) consumer (d) aviation. (1 mark)

Answer:

(a) A famous statistical production function is Cobb-Douglas production function. Paul H. Douglas and C.W. Cobb of the U.S.A. Studied the production function of the American manufacturing industries. In its original form, this production function applies not to an individual firm but to the whole of manufacturing in the United States. Thus, option (a) is correct.

[64] In Economics, entire process of ______ is nothing but creation of utilities in the form of goods and services.

(a) consumption (b) production

(c) exchange (d) distribution. (1 mark)

Answer:

(b) Production is nothing but the creation of utilities in the form of goods and services. For example, in the production of a woolen suit, utility is created in some form or the other. Firstly wool is changed into woolen cloth at the spinning and weaving mill (utility created by changing the form) then it is taken to a place where it is to be sold (utility added by transporting it). Since woolen clothes are used only in winter, it will be retained until such time when then they are required by purchasers(time utility). In the whole process ,services of various groups of people are utilized (as that of mill workers, shopkeepers, agents etc.) to contribute to the enhancement of utility. Thus, the entire process of production is nothing but creation of form utility, place utility, time utility and/or personal utility.

2018 - MAY

[65] Cobb Douglas function is given by $Q = KL^a C^b$
(a) If $\alpha + \beta > 1$, increasing returns
(b) If $\alpha + \beta > 1$, increasing returns to scale
(c) if $\alpha + \beta < 1$, diminishing returns
(d) if $\alpha + \beta = 1$, decreasing returns to scale. (1 mark)

Answer:

(b) Cobb-Douglas function is given by Paul H. Douglas and C.W. Cobb of U.S.A. studied the production of American Manufacturing industries. They describe that output is manufacturing and input are labour and capital. It is given by $Q = K L^a C^{(1-a)}$ if, $a + b > 1$, increasing return to scale.

[66] Production is defined as:
(a) Creation of matter
(b) Creation of utility in matter
(c) Creation of infrastructural facilities
(d) None of the above. (1 mark)

Answer:

(b) Man cannot create matter. Man can create only utility in matter. Production should not be taken as creation of matter but it is taken as creation of utility in matter.

For Example: When man produces a table, he does not create the matter of which the wood is composed of. He only transforms wood into chair and utility to wood which did not have utility before.

[67] The conclusion drawn from Cobb Douglas production function is that labour contributed about 3/4 ______ and capital about 1/4 ______ of the increase in the manufacturing production.

(a) $\frac{3^{th}}{4}, \frac{1^{th}}{4}$
(b) $\frac{1^{th}}{2}, \frac{1^{th}}{2}$
(c) $\frac{1^{th}}{4}, \frac{3^{th}}{4}$
(d) None of the above. (1 mark)

Answer:

(a) As Cobb-Douglas function is below:
$Q = K L^a C^{(1-a)}$
Which shows that labour produces $3/4^{th}$ and capital produces 1/4 of the increase in manufacturing production

[68] At the point of inflexion, the marginal product is:
(a) Increasing
(b) Decreasing
(c) Maximum
(d) Negative (1 mark)

Answer:

(c) Point of inflexion is a point where marginal product is at maximum. First marginal product utility increase then reach at maximum points which is point of inflexion and then decrease. Marginal product can be negative.

[69] Isoquante's are equal to:
(a) Product lines
(b) Total utility lines
(c) Cost lines
(d) Revenue lines (1 mark)

Answer:

(a) Isoquants are similar to Indifference curves of theory of consumer behaviour. An isoquants represents all those combinations which are capable of producing same level of output. Production indifference curve is another. Name of isoquants as it represents product lines.

[70] Increasing returns to scale can be explained in terms of:
(a) External and internal economics
(b) External and internal diseconomies
(c) External economies and internal diseconomies
(d) All of these. (1 mark)

Answer:

(a) Increasing return to scale means increase in output is greater than increase in input and increasing return to scale causes due to external and internal economies while decreasing return to scale causes due to external and internal diseconomies.

2018 - NOVEMBER

[71] According to Cobb-Douglas production function, will get_____ returns to scale?

(a) Constant

(b) Diminishing

(c) Increasing

(d) Any of the above (1 mark)

Answer:

(a) According to Cobb- Douglas production function is stated as $Q = KL^aC^{(1-a)}$

When 'Q' is output, 'L' is the quantity of labour and 'C' the quantity of capital. 'K' and 'a' are positive constants.

[72] Which of the following statement about factors of production is not true?

(a) Land is a passive factor

(b) Land is a free gift of nature

(c) Land is immobile

(d) Land is perishable (1 mark)

Answer:

(d) Characteristics of land are

1. Land is a free gift of nature
2. Supply of land is fixed
3. Land is permanent and has indestructible power
4. Passive factor
5. Land in Immobils.

Therefore, land is not perishable and (d) option will the answer.

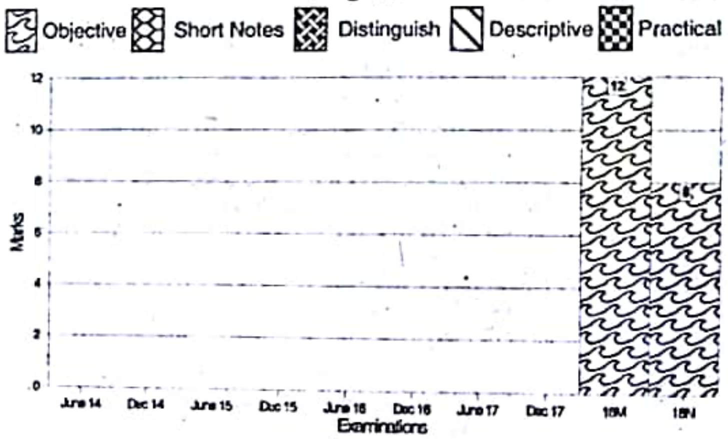
✿

3 THEORY OF PRODUCTION AND COST

Unit:2 Theory of Cost

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

Legend



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PAST YEAR QUESTIONS AND ANSWERS

2006 - NOVEMBER

[1] Opportunity cost is:

(a) Direct cost (b) Total cost
(c) Accounting cost (d) Cost of foregone opportunity

(1 mark)

Answer:

(d) Opportunity cost is the cost of the next best alternative forgone. It's the cost of foregone opportunity.

[2] As output increases, average fixed cost:

(a) Remains constant (b) Starts falling
(c) Start rising (d) None (1 mark)

Answer:

(b) Average fixed cost is expressed as :

$$AFC = \frac{\text{Fixed Cost}}{\text{No. of units produced}}$$

Fixed cost always remains fixed. It does not increase with an increase in output. So the average fixed cost falls as more and more units are produced as the fixed cost remains the same.

[3] Average fixed cost can be obtained through :

(a) $AFC = \frac{TFC}{TS}$ (b) $AFC = \frac{EC}{TU}$
(c) $AFC = \frac{TC}{PC}$ (d) $AFC = \frac{TFC}{TU}$ (1 mark)

Answer:

(d) $\text{Average fixed cost} = \frac{\text{Total Fixed Cost}}{\text{No. of units produced}}$

In given Question,
AFC = Average fixed cost
TFC = Total fixed cost
TU = Total no. of units produced.

2007 - FEBRUARY

[4] AFC curve is :

(a) Convex & downward sloping
(b) Concave & downward sloping
(c) Convex & upward sloping
(d) Concave & upward rising (1 mark)

Answer:

(a) Average fixed cost always decreases with an increase in output so the AFC curve is convex and downward sloping.

[5] A firm's average fixed cost is ₹ 20 at 6 units of output what will it be at 4 units of output?

(a) ₹ 60 (b) ₹ 30
(c) ₹ 40 (d) ₹ 20

TC = 120
AFC = $\frac{120}{4}$ = 30.

Answer:

(b) $AFC = \frac{TFC}{\text{No. of units}}$

$$20 = \frac{TFC}{6}$$

So Total fixed cost = 20× 6
= ₹ 120.

So Average Fixed Cost of 4 units of output

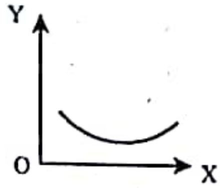
$$AFC = \frac{TFC}{\text{No. of units}}$$

$$AFC = \frac{120}{4} = ₹\,30$$

[6] U-shaped average cost curve is based on:
(a) Law of increasing cost
(b) Law of decreasing cost
(c) Law of constant returns to scale
(d) Law of variable proportions

Answer: (1 mark)

(d) Average cost curve is U shaped due to law of variable proportion. In the first stage T.P increases so AC decreases, then T.P becomes constant and finally T. P decreases and A C increases. Hence, it gives a U shape to the average cost curve.



2007 - MAY

[7] When shape of average cost curve is upward, marginal cost :
(a) Must be decreasing (b) Must be constant
(c) Must be rising (d) Any of these (1 mark)

Answer:

(c) Average cost and marginal cost are so related that when average cost falls, MC falls at a faster rate, when AC rises, MC cuts AC at its minimum.
So when AC curve is upward MC must be rising.

[8] If total cost at 10 units is ₹ 600 and ₹ 640 for 11th unit. The marginal cost of 11th unit is :
(a) ₹ 20 (b) ₹ 30
(c) ₹ 40 (d) ₹ 50 (1 mark)

Answer:

(c) Marginal Cost$_n$ = TC$_n$ - TC$_{n-1}$
= TC$_{11}$ - TC$_{11-1}$
= 640 - 600
= ₹ 40
Marginal cost of 11th unit is ₹ 40.

[9] Economic cost excludes which of the following :
(a) Accounting cost + explicit cost
(b) Accounting cost + Implicit cost
(c) Explicit cost + Implicit cost
(d) Accounting cost + opportunity cost (1 mark)

Answer:

(a) Economic cost take into account accounting (explicit) cost and in addition to this it also includes amount of money the entrepreneur could have earned if he had invested his money and sold his services and other factors in the next best alternative use.
In a nutshell:

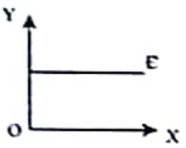
Economic Cost	= Implicit cost + Explicit cost
OR	= Accounting cost + Implicit cost
OR	= Accounting cost + opportunity cost

2007 - AUGUST

[10] Which of the following cost curves is never 'U' shaped?
(a) Average total cost curve (b) Marginal cost curve
(c) Total cost curve (d) Total Fixed cost curve (1 mark)

Answer:

(d) Total fixed cost refers to the cost which remains same even if the production total increases. Fixed cost has no effect with an increase or decrease in production. Examples of such cost are rent of factory, electricity charges, etc. Since fixed cost always remains constant so the fixed cost curve is not U shaped but it's a straight line.



[11] Suppose, the total cost of production of commodity X is ₹ 1,25,000. Out of this cost implicit cost is ₹ 35,000 and normal profit is ₹ 25,000. What will be the explicit cost of commodity X?

(a) 90,000 (b) 65,000
(c) 60,000 (d) 1,00,000 **(1 mark)**

Answer:

(b) Total cost = ₹ 1,25,000 1,25,000 = ? + 35000 + 25000
Implicit cost = ₹ 35,000
Normal profit = ₹ 25,000
Explicit cost = ?
Total cost = Explicit Cost + Implicit Cost + Normal Profit
1,25,000 = Explicit Cost + 35,000 + 25,000
Explicit Cost = ₹ 65,000

[12] What is the total cost of production of 20 units, if fixed cost is ₹ 5,000 and variable cost is ₹2/-?

(a) 5,400 (b) 5,040
(c) 4,960 (d) 5,020 **(1 mark)**

Answer:

(b) Total Cost = Fixed Cost + Variable Cost
₹ 5,000 + 20 × 2.
= ₹ 5,040

2007 - NOVEMBER

[13] External economies accrue due to________:

(a) increasing returns to scale (b) increasing returns to factor
(c) law of variable proportion (d) low cost **(1 mark)**

Answer:

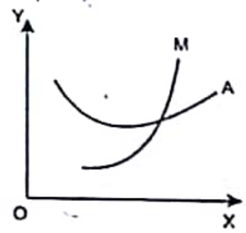
(a) External economics accrue to firms as a result of expansion of output of whole industry. Increasing returns to scale occurs due to external economies.

[14] At which point does the marginal cost curve intersect the average variable cost curve and short run average total cost curve?

(a) At equilibrium points (b) At their lowest points
(c) At their optimum points (d) They don't intersect at all
(1 mark)

Answer:

(b) Marginal cost curve and average cost curve have a tendency that when AC curve falls, MC curve falls faster when AC curve rises MC curve rises on a faster rate and MC curve cuts the AC curve at its minimum (lowest point).



[15] Implicit cost may be defined as the:

(a) Costs which do not change over a period of time
(b) Costs which the firm incurs but doesn't disclose
(c) Payment to the non-owners of the firm for the resources
(d) Money payment which the self employed resources could have earned in their best alternative employment **(1 mark)**

Answer:

(d) Implicit cost is the cost of self employed resources.
It is the cost of inputs owned by the firms and used by the firm in its own production process.

Implicit cost includes:

(a) return on money invested by the entrepreneur in its own business

(b) rent of self owned building of the entrepreneur.

2008 - FEBRUARY

[16] A firm's average fixed cost is ₹ 40 at 12 units. What will be the average fixed cost at 8 units:

(a) ₹ 60 (b) ₹ 70

(c) ₹ 90 (d) ₹ 80 (1 mark)

Answer:

(a) $AFC = \frac{TFC}{\text{No. of units produced}}$

$40 = \frac{TFC}{12}$

TFC = 40 × 12 = ₹ 480

Average fixed cost of 8 units:

$AFC = \frac{TFC}{\text{No. of units produced}} = \frac{480}{8} = ₹ 60.$

[17] Returns to scale will said to be in operation when quantity of :

(a) All inputs are changed

(b) All inputs are changed in already established proportion

(c) All inputs are not changed

(d) One input is changed while quantity of all other inputs remain the same (1 mark)

Answer:

(b) Returns to scale comes into operation when all inputs whether fixed or variable are changed in same proportion i.e. the scale of production changes.

[18] Which of the following curves never touch any axis but is downward?

(a) Marginal cost curve (b) Total cost curve

(c) Average fixed cost curve (d) Average variable cost curve (1 mark)

Answer:

(c) Average fixed cost curve never touches any axes but it slopes downward. Average fixed cost can never be zero even if there is no production so it can never touch any axes. AFC falls when output increases as fixed cost is always fixed. Hence, the curve is downward sloping.

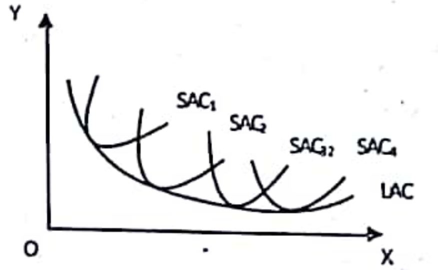
[19] Which of the following is known as Envelope curve?

(a) MC curve (b) AFC curve

(c) LAC curve (d) TFC curve (1 mark)

Answer:

(c) Long run average cost curve is called enveloping curve as it envelops all short run average cost curves (SAC curves are tangent to LAC curve)



2008 - JUNE

[20] A firm producing 7 units of output has an average total cost of ₹ 150 and has to pay ₹ 350 to its fixed factors of production. How much of the average total cost is made up of variable cost?

(a) ₹ 200 (b) ₹ 50
(c) ₹ 300 (d) ₹ 100 (1 mark)

Answer:

(d) $\text{ATC} = \dfrac{\text{TC}}{\text{No. of units}}$

$150 = \dfrac{\text{T.C.}}{7}$

Total cost of 7 units = 150 × 7 = 1050
Fixed Cost = ₹ 350
Total cost = Fixed Cost + Variable Cost
1050 = 350 + V.C.
So variable cost of 7 units = 1050 - 350 = ₹ 700
Average variable cost of 7 units = $\dfrac{700}{7}$ = ₹ 100

[21] A firm's average fixed cost is ₹ 20 at 6 units of output. What will it be at 3 units of output?

(a) ₹ 60 (b) ₹ 30
(c) ₹ 40 (d) ₹ 20 (1 mark)

Answer:

(c) Average fixed cost = $\dfrac{\text{TFC}}{\text{No. of units}}$

$20 = \dfrac{\text{TFC}}{6}$

T.F.C. = 20 × 6 = ₹ 120.

Average fixed cost of 3 units of output = $\dfrac{\text{TFC}}{\text{Total units}} = \dfrac{120}{3}$ = ₹ 40.

2008 - DECEMBER

[22] Calculate total cost of 4 units :

Units	Total Cost (₹)	Marginal Cost (₹)
2	80	40
4	70	30

(a) 140 (b) 120
(c) 50 (d) 40 (1 mark)

Answer:

(a) Let the total cost of producing 4 units be ₹ x

Marginal Cost = $\dfrac{\text{Change in Total Cost}}{\text{Change in Total Quantity}}$

$= \dfrac{x - 80}{4 - 2} = 30$

$= \dfrac{x - 80}{2} = 30$

= x - 80 = 60
= x = 60 + 80
= ₹ 140

[23]

OUTPUT(Units)	TOTAL COST
0	30
1	40
2	50
3	60

Find Average Fixed Cost of 3 units

(a) 10 (b) 30
(c) 65 (d) 60 (1 mark)

Answer:

(a) Average Fixed Cost

$= \dfrac{\text{Average Fixed Cost}}{\text{Quantity}} = \dfrac{30}{3}$ = ₹ 10

[24] Long run does not have:

(a) Average Cost (b) Total Cost
(c) Fixed Cost (d) Variable Cost (1 mark)

Answer:

(c) Long run is a period of time during which the firm can vary all its inputs, unlike short run in which some inputs are fixed and other are variable. In other words, in short run the firm is tied with a given plant, in the long run the firm moves from one plant to another, so long run does not have any fixed cost.

2009 - June

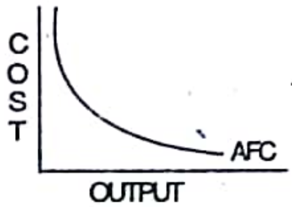
[25] Which of the following curve is not U shaped?

(a) AFC (b) AVC

(c) MC (d) TC. (1 mark)

Answer:

(a) Fixed cost remains fixed irrespective of number of units produced and therefore average fixed cost keeps on decreasing as more and more units are produced. Due to this, the average fixed cost curve always slopes downward throughout its length and it is not of U shape.



[26] From the following details, find out the average variable cost of 10 units:

OUTPUT :	0	10	20
Total cost:	₹ 200	₹ 400	₹ 800

(a) ₹ 40 (b) ₹ 20

(c) ₹ 200 (d) ₹ 400 (1 mark)

Answer:

(b) Variable cost per unit = $\frac{\text{Difference in cost}}{\text{Difference in units produced}}$

$= \frac{₹400 - ₹200}{10} = ₹\ 20$ per unit

Variable cost of 10 units = ₹ 20 × 10 = ₹ 200

Therefore, average variable cost = $\frac{₹200}{10}$ = ₹ 20

[27] The total cost incurred for 10 units is ₹ 400 and 20 units is ₹ 800. Find the marginal cost.

(a) ₹ 400 (b) ₹ 40

(c) ₹ 200 (d) ₹ 20 (1 mark)

Answer:

(b) Variable/Marginal cost may be expressed as :

Difference in cost/difference in units

In the given case,

Marginal cost = $\frac{₹800 - ₹400}{20 - 10} = \frac{₹400}{10}$ = ₹ 40 per unit.

2009 - December

[28] Which one of the following is correct?

(a) AFC = AVC + ATC (b) ATC = AFC - AVC

(c) AVC = AFC + ATC (d) AFC = ATC - AVC. (1 mark)

Answer:

(d) Total cost of a business is the sum of total variable cost and total fixed cost. Symbolically, TC = TFC + TVC. Similarly, average total cost is a sum of average variable cost and average fixed cost i.e. ATC = AFC + AVC. This formula can also be expressed as:

AFC = ATC – AVC

[29] Calculate AFC of 3 units from the following data:

Unit	0	1	2	3
Total Cost	30	40	50	60

(a) 30 (b) 15

(c) 10 (d) 5 (1 mark)

Answer:

(c) Fixed cost is the cost incurred even when no production is done, whereas cost incurred on production of units is called variable cost. Total cost is the summation of fixed cost and variable cost.

In the given case, at 0 units of output, the total cost is ₹ 30. This total cost comprises of only fixed cost and not variable cost as no units are produced.

Fixed cost always remains same, irrespective of the number of units.

Therefore, average fixed cost of 3 units will be:

$$AFC = \frac{TEC}{\text{No. of units}}$$

$$\text{AFC of 3 units} = \frac{₹30}{3} = ₹10.$$

[30] Find AFC of 3 units :

Unit	0	1	2	3
Total Cost	15	25	35	45

(a) 5 (b) 10

(c) 15 (d) 25 (1 mark)

Answer:

(a) Fixed cost remains same, irrespective of the level of output.

In the given case, fixed cost = ₹ 15

$$\text{Average fixed cost of 3 units} = \frac{\text{Total fixed cost}}{\text{No. of units}} = \frac{₹15}{3}$$

AFC of 3 units = ₹ 5

2010 - JUNE

[31] What will be the TVC if we produce 2 units?

Units	0	1	2
TC	20	37	50

(a) 15 (b) 05

(c) 17 (d) 30 (1 mark)

Answer:

(d) At zero units of output TC=FC (since TC=FC+VC)

So FC= 20,

At 2 units of output: TC=50 and FC=20 so

variable cost = Total cost – Fixed cost

50- 20= 30

[32] The total cost of production of 10 units is ₹ 200. When production is increased to 20 units its total cost becomes ₹ 600. What will be its marginal cost.

(a) 400 (b) 40

(c) 4 (d) 30 (1 mark)

Answer:

(b) Marginal Cost is expressed as:

$$= \frac{\text{Difference in total cost}}{\text{Difference in total units}}$$

$$= \frac{₹600 - ₹200}{20 - 10} = \frac{₹400}{10}$$

= ₹ 40 per unit.

[33]

Units	0	1	2	3	4
Total Cost	20	30	40	45	50

What will be the AFC at 4 units of output.

(a) 2 (b) 3

(c) 4 (d) 5 (1 mark)

Answer:

(d) Average fixed cost is expressed as:

$$= \frac{\text{Total fixed cost}}{\text{Quantity}} = \frac{₹20}{4 \text{ units}} = ₹5 \text{ per unit.}$$

2010 - DECEMBER

[34] Payment made to outsiders for their goods and services are called:

(a) Opportunity cost (b) Real cost

(c) Explicit cost (d) Implicit cost (1 mark)

Answer:

(c) Explicit cost (or Accounting cost) takes care of all the payments and charges made by the entrepreneur to the suppliers of various productive factors E.g. wages to workers employed, prices for the raw materials, fuel and power used, rent for hired building, interest on money borrowed for doing business etc. These costs are included in cost of production.

[35] Direct Cost is also known as :

(a) Indirect Cost (b) Traceable Cost
(c) Opportunity Cost (d) Accounting Cost. (1 mark)

Answer:

(b) Indirect cost also known as non-traceable cost. Traceable cost also known as direct cost. Accounting cost also known as explicit cost.

[36] A firms AFC is ₹ 200 at 10 units of output what will be it at 20 units of output?

$AFC = \frac{TFC}{Q}$

(a) 500 (b) 100
(c) 150 (d) 200 (1 mark)

Answer:

(b) $AFC = \frac{TFC}{Output}$

Now, TFC for 10 units of output = 200 × 10 = 2000

$\therefore$ AFC for 20 units = $\frac{2000}{20} = 100$

[37] Long run price is also called by the name of __________.

(a) market price (b) normal price
(c) administered price (d) wholesale price. (1 mark)

Answer:

(b) Long Run price is also known as Normal price

[38] What will be the AFC of 2 units according to the table given below :

Output	0	1	2
Total Cost (in ₹)	580	689	850

(a) 105 (b) 135
(c) 235 (d) 290 (1 mark)

Answer:

(d) TC at 0 Units of output = ₹ 580

$\therefore$ TFC = ₹ 580

$AFC = \frac{TFC}{Output} = \frac{580}{2} = 290$

[39] Fixed cost is known as _______ cost.

(a) prime (b) supplementary
(c) overhead (d) direct (1 mark)

Answer:

(c) Fixed cost is also known as overhead cost since it continues to exist even if the operations are suspended. For example rent of factory.

[40] Average Revenue Curve is also known as _______.

(a) profit curve. (b) demand curve.
(c) supply curve. (d) average cost curve. (1 mark)

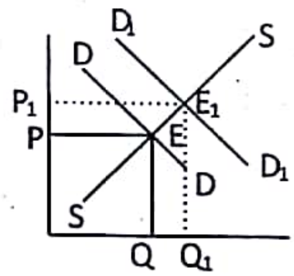
Answer:

(b) Average Revenue Curve is also known as Demand Curve.

[41] Supply curve remaining unchanged, an increase in demand will lead to.

(a) A fall in price (b) A rise in price
(c) No change in price (d) An increase in supply. (1 mark)

Answer:



(b) An increase in demand without a change in supply leads to a rise in price and quantity.

2011 - June

[42] Find out AFC of 3 unit :

Unit	0	1	2	3
TC	300	1,000	2,000	3,000

(a) 100 (b) 200
(c) 300 (d) 400. (1 mark)

Answer:

(a) Average fixed cost (AFC) = $\frac{\text{Total Fixed cost}}{\text{No. of units}}$

In the given case,
Total fixed cost = ₹ 300

$\therefore$ AFC for 3 units = $\frac{300}{3}$ = ₹ 100

Hence, AFC for 3 units is ₹ 100

[43]

Units	0	1	2
TC	580	1,200	1,500

Calculate AFC at 2nd unit of output

(a) 235 (b) 290
(c) 310 (d) 920. (1 mark)

Answer:

(b) Average fixed cost (AFC) = $\frac{\text{Total Fixed cost}}{\text{No. of units}}$

In the given case, fixed cost = ₹ 580

$\therefore$ AFC of 2 unit = $\frac{580}{2}$ = ₹ 290.

[44] In the long run all factors are –
(a) Fixed
(b) Variable
(c) All factors remain unchanged
(d) None. (1 mark)

Answer:

(b) Long run is the period of time during which the firm can vary all of its inputs. In other words, in the long run all factors are variable and no factor is fixed.

[45] What is the total cost of production of 20 units, if fixed cost is ₹ 5,000 and variable cost is ₹2/-?

(a) 5,400 (b) 5,040
(c) 4,960 (d) 5,020

Answer:

Same as Ans. 12

2011 - December

[46] What will be the AFC of 3 units of Output as per table given below?

Output	0	1	2	3
Total Cost (in ₹)	300	1,000	2,500	3,000

(a) 100 (b) 1,000
(c) 200 (d) 400 (1 mark)

Answer:

(a) Total Fixed Cost = ₹ 300
Total output = 3 units

$\therefore$ AFC = $\frac{TFC}{Q} = \frac{300}{3}$ = ₹ 100

[47] What will be marginal cost of 67 units of production accounting to the table given below :

Units of Production	0	10	25	37	67
Total Cost	160	200	300	500	1,400

(a) 10 (b) 20
(c) 30 (d) 50 (1 mark)

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Answer:

(c) Change in total cost = 1400 – 500 = ₹ 900

Change in units of production = 67 – 37 = 30 units

$$\text{MC per unit} = \frac{\text{Change in Total Cost}}{\text{Change in units}} = \frac{900}{30} = ₹\ 30$$

[48] Which of the following is known as Envelop Curve?

(a) Average variable cost curve

(b) Average total cost curve

(c) Long run average cost curve

(d) Short run average cost curve (1 mark)

Answer:

(c) If is a firm has a choice that a plant can be varied by infinitely small gradations so that there are infinite number of plants corresponding to which there are numerous average cost curves. In this case, the Long Run average cost Curve will be a smooth curve enveloping all these short run average cost curves. Thus, Long Run average cost curve is also known as envelope curve.

[49] The average fixed cost for producing an output of 6 units of a product by a firm is ₹ 30. The same cost for producing an output of 4 units will be ₹________.

(a) 50 (b) 45

(c) 25 (d) 20 (1 mark)

Answer:

(b) Total fixed cost = 30 × 6 = ₹ 180

$$\therefore \text{AFC for 4 units of output} = \frac{\text{TFC}}{\text{Q}} = \frac{180}{\text{Q}} = ₹\ 45$$

[50] Given

Output	0	4	8
Total Cost (₹)	20	24	48

What will be the AFC of 4 units of Output

(a) 2 (b) 3

(c) 4 (d) 5 (1 mark)

Answer:

(d) Total Fixed Cost (TFC) = ₹ 20

Total units of output (Q) = 4 units

$$\text{AFC} = \frac{\text{TFC}}{\text{Q}} = \frac{20}{4} = ₹\ 5$$

[51] Suppose the total cost of production of commodity 'X' is ₹ 1,25,000 Out of other cost implicit is ₹ 35,000 and normal profit is ₹ 25,000 what will be the explicit cost of commodity 'X'?

(a) ₹ 60,000 (b) ₹ 65,000

(c) ₹ 90,000 (d) ₹ 80,000 (1 mark)

Answer:

(b) Explicit Cost = Total Cost – Implicit Cost – Normal Profit

= 1,25,000 – 35,000 – 25,000 = ₹ 65,000

2012 - JUNE

[52] What will be the total fixed cost for the production of three units as per the details given below:

Units	0	1	2	3
Total Cost	620	940	1555	3670

(a) 620 (b) 640

(c) 1115 (d) 2650 (1 mark)

Answer:

(a) Fixed cost is the cost which remains fixed even if the total output is zero. Also,

Total Cost = Fixed Cost + Variable Cost

At zero units of output, variable cost will be zero.

620 = Fixed Cost + 0

So total fixed cost = ₹ 620.

Fixed cost remains constant irrespective of units of output. Hence at 3 units of output also total fixed cost will be ₹ 620.

[53] Cost in terms of pain, discomfort, disability involved in supplying the various factors of production by their owners are termed as _____.

(a) social cost (b) explicit cost

(c) real cost (d) implicit cost (1 mark)

Answer:

(c) Real cost refers to all those payments which are made to the factors of production to compensate for the efforts, pains, exertions or sacrifices suffered by them.

Real cost = efforts, pains, exertions and sacrifices of labour and capital + wait and abstinence of entrepreneur.

Real cost is the cost in terms of pain and sacrifice made to produce goods and services. It includes the cost of producing goods and services as well as the cost of all resources used and the cost of not employing those resources in alternative uses.

[54] Which of the following is known as the Envelope Curve?

(a) Average variable cost curve

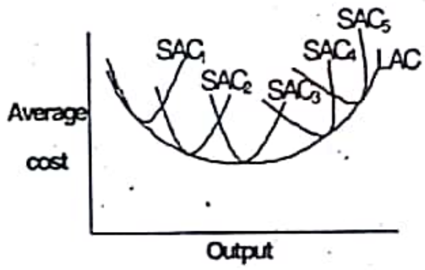
(b) Average total cost curve

(c) Long run average cost curve

(d) Short run average cost curve. (1 mark)

Answer:

(c) Long Run Average Cost Curve (LAC) is a U shaped curve. When LAC curve is declining it is tangent to the falling portions of the short run cost curves and when LAC is rising it is tangent to the rising portions of the short run cost curves. In simple words, long run average cost curve envelops all the short run cost curves and hence is known as the envelope curve.



[55] The cost of resources owned and employed by the entrepreneur himself in his business is termed as _______ cost.

(a) explicit (b) implicit

(c) fixed (d) variable. (1 mark)

Answer:

(b) Implicit costs are the cost for which payment in money terms is not made. These are the cost of factors owned by the entrepreneur himself and employed in his own business. For e.g. An entrepreneur uses his own land for production. If he would have rented that land he would have earned rent. So the cost of using his own land in the business is known as the implicit cost.

[56] A firm will close down in the short period if its average revenue is less than its:

(a) Average cost (b) Average variable cost

(c) Marginal cost (d) Average fixed cost (1 mark)

Answer:

(b) A firm should close down in the short run if it is not able to recover its variable cost. A firm shall continue to run if it is not able to meet its fixed cost because it may recover it in future. But variable cost is incurred to meet the payment of raw material, labour etc. which should be met otherwise the firm should close down.

2012 - December

[57] A firm's total cost is ₹ 200 at 5 units of output and ₹ 220 at 6 units of output. The marginal cost of producing 6th unit of output will be ________.

(a) 20 (b) 120
(c) 220 (d) 320. (1 mark)

Answer:

(a) Marginal Cost$_n$ = $TC_n - TC_{n-1}$
$= TC_6 - TC_{6-1}$
$= TC_6 - TC_5$
$= 220 - 200$
= ₹ 20 per unit

[58] Consider the following data

Units of output : 0 1 2 3 4
Total Cost : 25 45 60 85 105

The Average Variable Cost (AVC) for an output of 4 units will be :-

(a) ₹ 20 (b) ₹ 30
(c) ₹ 25 (d) ₹ 26 (1 mark)

Answer:

(a) VC P.u. = $\frac{\text{Difference in Total Cost}}{\text{Difference in units produced}}$

$= \frac{105 - 25}{4 - 0}$

$= \frac{80}{4}$ = ₹ 20 p.u.

VC of 4 units = 20 x 4 = ₹ 80

∴ AVC = $\frac{80}{4}$ = ₹ 20

[59] The change in total cost due to one unit change in the output is called ________ cost.

(a) marginal (b) average
(c) average variable (d) average fixed (1 mark)

Answer:

(a) Marginal cost is the addition made to the total cost by production of an additional unit of output.

[60] When AC curve is rising, the MC curve must be ________ to it.

(a) equal (b) above
(c) below (d) parallel. (1 mark)

Answer:

(b) When the AC curve rises as a result of an increase in output, MC is more than AC i.e. MC curve is above AC curve.

[61] The Average fixed cost for producing an output of 6 units of a product by a firm is ₹ 30. The same cost for producing an output of 4 units will be ₹ ________.

(a) 50 (b) 45
(c) 25 (d) 20 (1 mark)

Answer:

(b) AFC = $\frac{\text{TFC}}{\text{No. of units}}$

$30 = \frac{\text{TFC}}{6}$

∴ TFC = 30 x 6 = ₹180

So, AVC for 4 units of output = $\frac{180}{4}$

= ₹45

2013 - June

[62] Which of the following cost curve will slope downward and does not touch the x-axis?

(a) Average cost curve
(b) Marginal cost curve
(c) Average variable cost curve
(d) Average fixed cost curve. (1 mark)

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Answer:

(d) The total fixed cost is a constant amount, i.e. it is fixed in nature. Average fixed cost will steadily fall as output increases. Therefore, if we draw average fixed cost curve it will slope downwards throughout its length but will not touch to x-axis as AFC cannot be zero.

[63] Suppose the total cost production of a commodity 'x' is ₹ 1,25,000 out of which Implicit cost is ₹ 35,000 and normal profit is ₹ 25,000. What would be the explicit cost of commodity x?

(a) ₹ 90,000 (b) ₹ 65,000
(c) ₹ 1,00,000 (d) ₹ 60,000 (1 mark)

Answer:

(b) Total cost = ₹ 1,25,000
Implicit cost = ₹ 35,000
Normal profit = ₹ 2,50,000
Explicit cost = ?
Total cost = Explicit cost + Implicit cost + Normal profit
1,25,000 = Explicit cost + 35,000 + 25,000
Explicit cost = 1,25,000 - 35,000 - 25,000
= 65,000

[64] In which of the following cases opportunity cost concept applies?

(a) Resources have alternative uses
(b) Resources have limited uses
(c) Resources have no use
(d) None of the above. (1 mark)

Answer:

(a) Opportunity cost refers to the cost of opportunity forgone involving a comparison between the alternative chosen and the alternative forgone. It relates to the sacrificed alternatives.

Thus, opportunity cost concept applies where the resources have alternative uses.

[65] Direct costs are also known as ________.

(a) traceable costs (b) indirect costs
(c) opportunity costs (d) real costs. (1 mark)

Answer:

(a) Direct cost are costs that are readily identified and are traceable to a particular product operation or plant. It is also known as Traceable Cost.

2013 - DECEMBER

[66] Which statement among below is correct in reference in Average Fixed Cost

(a) Never becomes zero (b) Curve never touches x-axis
(c) Curve never touches y-axis (d) All of the above. (1 mark)

Answer:

(d) Average fixed cost never touches any axis but it slopes downward. Average fixed cost can never be zero even if there is no production so it can never touch any axis. AFC falls when output increases as fixed cost is always fixed.

Thus option (d) is correct.

2014 - JUNE

[67] Marginal cost changes due to change in ______ cost.

(a) total (b) fixed
(c) average (d) variable (1 mark)

Answer:

(d) Marginal cost is the addition made to the total cost by the production of an additional unit of output. It is only the variable costs which changes with a change in the level of output in a short run. It is independent of fixed cost.

[68] A firm produces 10 units of a commodity at an average total cost of ₹ 200 and with a fixed cost of ₹ 500. Find out the component of average variable cost in the total cost :

(a) ₹ 300 (b) ₹ 200
(c) ₹ 150 (d) ₹ 100 (1 mark)

Answer:

(c) Average total cost of 1 unit = ₹ 200
Total cost of 10 units = 200 × 10 = ₹ 2,000

- Total fixed cost = ₹ 500
- Total variable cost = total cost - total fixed cost = 2,000 - 500 = ₹ 1,500
- Variable cost of 1 unit = $\frac{1,500}{10}$ = ₹ 150
- Hence, component of average variable cost in the total cost is ₹ 150.

[69] Average total cost to a firm is ₹ 600 when it produces 10 units of output and ₹ 640 when the output is 11 units. The MC of the 11th unit is :

(a) ₹ 40 (b) ₹ 540
(c) ₹ 840 (d) ₹ 1,040 (1 mark)

Answer:

(d) Average total cost of 10 units of output = ₹ 600
Average total cost of 11 units of output = ₹ 640
∴ Marginal cost of 11^{th} unit = Total cost of 11 units - Total cost of 10 units
= (640 × 11) - (600 × 10)
= ₹ 1,040

2014 - DECEMBER

[70] Average cost of producing 50 units of any commodity is ₹ 250 and fixed cost is ₹ 1,000. What will be the average fixed cost of producing 100 units of the commodity?

(a) ₹ 10 (b) ₹ 30
(c) ₹ 20 (d) ₹ 05 (1 mark)

Answer:

(a) Fixed Cost of producing 50 units is ₹ 1,000 and the fixed cost of producing 100 units will also be the same i.e. ₹ 1,000.
∴ The Average Fixed Cost of 100 units

$$AFC = \frac{\text{Fixed Cost}}{\text{Quantity}} = \frac{1,000}{100} = ₹\ 10$$

[71] A company produces 10 units of output and incurs ₹ 30 per unit as variable cost and ₹ 5 per unit of fixed cost. What will be its total cost of producing 10 units?

(a) ₹ 300 (b) ₹ 35
(c) ₹ 305 (d) ₹ 350 (1 mark)

Answer:

(d) The total cost of producing 10 units is:
Total Cost = Total Fixed Cost + Total Var. Cost
= 10 x 5 + 10 x 30
= 50 + 300
= ₹ 350

[72] On the basis of the following data what will be the marginal cost of the 6th unit of output?

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

(a) ₹ 133 (b) ₹ 75
(c) ₹ 80 (d) ₹ 450 (1 mark)

Answer:

(c)

Output	Total Cost	Marginal Cost
0	240	0
1	330	90
2	410	80
3	480	70

4	540	60
5	610	70
6	690	80

[73] The positively sloped (rising) part of the long run average cost curve indicates working of the ________.
(a) diseconomies of scale (b) increasing returns to scale
(c) constant returns to scale (d) economies of scale (1 mark)

Answer:

(a) The positively sloped (rising) part of the long run average cost curve indicates working of the diseconopmies of scale. Because rising LFAC and diminishing returns to scale result from internal and external diseconomies of scale.

[74] Average fixed cost curve is always:
(a) Declining when output increases
(b) U-Shaped, if there are increasing returns to scale
(c) U-Shaped, if there are decreasing returns to scale
(d) Intersected by marginal cost at its minimum point (1 mark)

Answer:

(a) Average fixed cost will steadily decline as output increases. If we draw an AFC it will slope downwards throughout its length but will not touch the x-axis as AFC can't be zero.

2015 - June

[75] Planning curve is related to which of the following?
(a) Short run average cost curve
(b) Long run average cost curve
(c) Average variable cost
(d) Average total cost. (1 mark)

Answer:

(b) Long range average cost curve is often called a planning curve because a firm plans to produce any output in long run by choosing a particular plant in the long run and the average cost curve corresponding to the given output.

[76] Using the following data find out the marginal cost (MC) of the sixth unit of output:

Output	0	1	2	3	4	5	6	7
Total Cost	48	73	94	114	130	148	168	189

(a) 24 (b) 16
(c) 20 (d) 21 (1 mark)

Answer:

(c) $MC = \frac{\Delta TC}{\Delta Q}$ or $MC_n = TC_n - TC_{n-1}$
$MC_6 = TC_6 - TC_5$

$MC = 168 - 148$
$= 20$

2015 - December

Solve question no. 77 given below the following table:

Output (Units)	TFC (in ₹)	TVC (in ₹)	MC (in ₹)
0	500	–	500
1	500	400	400
5	500	1600	300

[77] What will be marginal cost, when output is 5 units?
(a) 300 (b) 400
(c) 500 (d) 600. (1 mark)

Answer:

(a) $M.C = \frac{\Delta T.C}{\Delta Q} = \frac{\text{Change in Total Cost}}{\text{Change in Quantity}}$

T.F.C = 500 T.V.C for 5 units = 1,600

T.C. for 5 units = T.F.C + T.V.C = 500 + 1,600 = 2,100

T.F.C = 500 T.V.C for 1 unit = 400

T.C. for 1 unit = 500 + 400 = 900

$= \frac{1,200}{4} = 300$

[78] Diminishing marginal returns implies
(a) Decreasing average variable costs
(b) Decreasing marginal costs
(c) Increasing marginal costs
(d) Decreasing fixed costs. (1 mark)

Answer:

(c) It states that as one input variable is increased there is a point at which the marginal increase in output increase and then begins to decrease, leading to the increase in the marginal cost with every additional unit.

[79] When the output of a firm increase in the short run, its average fixed cost
(a) Increases (b) Decreases
(c) Remains constant (d) First declines and then rises. (1 mark)

Answer:

(b) Since TFC is a constant amount, AFC will steadily fall as output increases.

[80] 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. (1 mark)

Answer:

(d) Average fixed cost curve is never "U" shaped because it slopes Downward through its length and never touch X1 axis.

2016 - JUNE

[81] Fixed cost curve normally:
(a) Starts from the origin (b) Is U shaped
(c) Is vertical line (d) Is horizontal line. (1 mark)

Answer:

(d) Fixed cost are those cost which are independent of output i.e. they do not change with changes in output. Thus, fixed cost curve normally is a horizontal line.

[82] A rational producer will produce in the stage in which marginal product is positive and :
(a) MP > AP (b) MP = AP
(c) MP < AP (d) MP is zero. (1 mark)

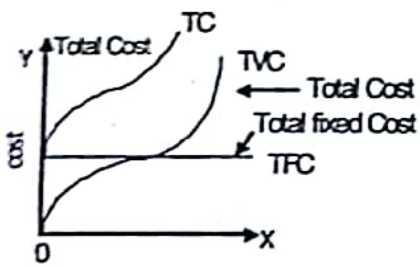
Answer:

(c) A rational producer will produce in the stage in which marginal product is positive and MP<AP. As in this case a producer could increase the average product of labour by decreasing the quantity of labour slightly.

[83] The vertical difference between TVC and TC curves is equal to:
(a) MC (b) AVC
(c) TFC (d) None of the above. (1 mark)

Answer:

(c) Total cost of a business is the sum of total variable cost and total fixed cost or symbolically TC = TFC + TVC.



The total variable cost curve rises upward showing thereby that as output increases, total variable cost increases. This curve starts from the origin which shows when output is zero, variable cost are also nil. The total cost curve thus has obtained by adding vertically the total fixed cost curve and the total variable cost curve.

[84] What happens to marginal cost when average cost increases?

(a) Marginal cost is below average cost
(b) Marginal cost is above average cost
(c) Marginal cost is equal to average variable cost
(d) Marginal cost is equal to average cost. (1 mark)

Answer:

(b) The relationship between marginal cost and average cost is the same as that between any other marginal average quantities when average cost rises as a result of increase in output marginal cost is more than the average cost.

[85] If the market price of good is more than the opportunity cost of producing it, then:

(a) The market price of the product will increase in the long run
(b) Producers will increase supply in the long run

(c) Resources will flow away from production of the good, causing supply to decline with the passage of time
(d) The situation will remain unchanged as long as supply and demand remain in balance. (1 mark)

Answer:

(b) If the market price of good is more than the opportunity cost of producing it then producer will increase supply in long run that is the amount of a good or services that producer are willing and able to offer to the market at various prices during the time.

2016 - DECEMBER

[86] A firm has variable cost of ₹ 1,000 at 5 units of output. If fixed costs are ₹ 400, what will be the average total cost at 5 units of output?

(a) 380 (b) 600
(c) 280 (d) 400 (1 mark)

Answer:

(c) Variable Cost = ₹ 1,000 at 5 unit
Fixed Cost = ₹ 400
Total cost = Variable cost + Fixed cost
∵ =1,000 + 400
=1,400 at 5 unit.
∴ Average total cost = $\frac{1,400}{5}$
= ₹ 280

[87] The average total cost of producing 50 units is ₹ 250 and total fixed cost is ₹ 1,000. What is the average fixed cost of producing 100 units?

(a) 5 (b) 30
(c) 20 (d) 10 (1 mark)

Answer:

(d) ATC of 50 units = ₹ 250

TFC = ₹ 1,000

AFC of 100 units = $\frac{1,000}{100}$

= ₹ 10.

[88] When average fixed cost is ₹ 20 at 6 units of output, what will it be at 4 units of output?

(a) ₹ 60
(b) ₹ 30
(c) ₹ 40
(d) ₹ 20 (1 mark)

Answer:

(b) AFC = 20 at 6 units of output

∴ TFC = 20 × 6 = 120

∴ AFC at 4 units of output

= $\frac{120}{4}$ = ₹ 30

2017 - JUNE

[89] Modern industrial units face ________ cost curve due to change in their technology of production.

(a) U shaped
(b) L shaped
(c) Dish shaped
(d) J shaped. (1 mark)

Answer:

(b) l shaped cost curve.

U shaped cost curve could exist only when the state of technology remains constant but, the empirical evidence shows that the state of technology changes in the long run.

Therefore, modern industrial units face 'L' shaped cost curve than 'U' shaped cost curve.

[90] What will be AVC in the production of 3 units according to the following cost data?

Production (units)	:	0 1 2 3
Total Cost (₹)	:	140 230 310 380

(a) ₹ 80
(b) ₹ 100
(c) ₹ 110
(d) ₹ 240 (1 mark)

Answer:

(a) AVC = $\frac{TVC}{Q} = \frac{TC - TFC}{Q} = \frac{380 - 140}{3} = \frac{240}{3} = 80$

[91] The costs which remain fixed over certain range of output but suddenly jump to a new higher level when production goes beyond a given limit are called:

(a) Variable cost
(b) Semi- variable cost
(c) Stair- step variable cost
(d) Jumping cost. (1 mark)

Answer:

(c) STAIR-STEP VARIABLE COSTS are the costs which increase in a stair step fashion i.e. they remain fixed over certain range of output; but suddenly jump to a new higher level when output goes beyond a given limit. Eg. Fixed salary of foreman will have a sudden jump if another foreman is appointed when the output crosses a particular limit.

[92] A firm producing 9 units of output has an average total cost of ₹ 200 and has to pay ₹ 630 to its fixed cost of production. How much of the average total cost is made up of variable cost?

(a) ₹ 150
(b) ₹ 130
(c) ₹ 70
(d) ₹ 300 (1 mark)

Answer:

(b) Variable Cost = Total Cost - Fixed Cost

= (200 × 9) - 630

= 1,170

AVC = $\frac{TVC}{Q} = \frac{1,170}{9}$ = ₹ 130

[93] The cost of one thing in terms of alternative given up is known as:

(a) Opportunity Cost (b) Real Cost
(c) Production Cost (d) Physical Cost. (1 mark)

Answer:

(a) Opportunity cost is concerned with the cost of forgone opportunity; it involves a comparison between the policy that was chosen and the policy that was rejected.

For example, the opportunity cost of using capital is the interest that it can earn in the next best use with equal risk.

2017 - DECEMBER

[94] In the short run, when the output of a firm increases, its average fixed cost

(a) Remains constant (b) Decreases
(c) Increases (d) First decreases and then rises (1 mark)

Answer:

(b) Yes in the short run, when the output of a firm increases its average fixed cost decreases. When the output is 100 units the AFC will be ₹ 20. And now if the output increases to 200 units, AFC will be ₹ 10. Hence, cost decreases.

[95] What will be average variable cost of producing 5 units of blankets as per details given in the following table?

Blankets	0	1	2	3	4	5
Total Cost (in ₹)	1,500	2,575	3,800	4,500	5,300	6,000

(a) ₹ 500 (b) ₹ 750
(c) ₹ 900 (d) ₹ 1,000 (1 mark)

Answer:

(c) Average variable $= \dfrac{\text{Difference in Total Cost}}{\text{Different in units}}$

$= \dfrac{6{,}000 - 1{,}500}{5 - 0}$

$= \dfrac{4{,}500}{5}$

= ₹ 900 per unit

[96] Which of the following is/are example(s) of an economic cost?

(a) wage paid to labourers
(b) raw materials purchase cost
(c) interest paid on short term loan
(d) all of the above. (1 mark)

Answer:

(d) Economic cost = explicit cost + implicit cost.

Explicit cost refers to those costs only which involve cash payments of the entrepreneur of the firm.

Implicit cost refers to the amount of money the entrepreneur could have earned if he had invested his money and sold his own services and other factors in the next best alternatives.

2018 - MAY

[97] Opportunity Cost is:

(a) Marginal cost (b) Variable cost
(c) Total fixed cost (d) None of these. (1 mark)

Answer:

(d) Opportunity Cost of a given activity defined as the value of next best activity and it is not related with any cost. It means sacrifice of one good for another good to give satisfaction to self.

[98] The "law of diminishing retures" applies to

(a) the short run, but not the long run
(b) the long run, but not the short run
(c) both the short run and the long run
(d) neither the short run nor the long run (1 mark)

Answer:

(a) 'Law of diminishing return' applies to short run but not in long run as in short run a fixed cost do not charge while variable cost changes but in long run both are changes. Supply/Production cannot increase in short run whether there is loss or profit.

[99] Linear homogenous production function is based on

(a) Increasing returns to scale

(b) Decreasing returns to scale

(c) Constant returns to scale

(d) None of the above. (1 mark)

Answer:

(c) Linear Homogenous production is based on constant return to scale because output increase in the same way as increase in input or we can say that increase in output is equal to increase in input. Sole proprietorship production is based on constant return to scale for lifetime.

[100] Which of the following curve is not U shaped?

(a) AFC (b) MC

(c) AVC (d) TC (1 mark)

Answer:

(a) AFC is the cost obtained by dividing total fixed cost by the number of units of output.

$$AFC = \frac{TFC}{Q}\ \frac{(\text{Total Fixed Cost})}{(\text{No. of units of output})}$$

TFC can never be U-shaped as it will fall as total output increases and will not touch the X-axis. It can also never be zero.

[101]

Unit	0	1	2
TC	580	1200	1500

Calculated AFC at 2nd unit of output:

(a) 235 (b) 290

(c) 310 (d) 920 (1 mark)

Answer:

(b) Here: 580 is a fixed cost because it will be incurred whether firm produces or not. So, it is fixed cost.

We know

$$AFC = \frac{TFC}{Q}$$

AFC = ?, TFC = 580, Q = 2

So,

$$AFC = \frac{580}{2}$$

$$= 290$$

[102] Which of the following curves never touch any axis but is downward

(a) Marginal cost curve

(b) Total cost curve

(c) Average fixed cost curve

(d) Average variable cost curve (1 mark)

Answer:

(c) Average fixed cost is a curve which cannot touch any axis so, it can never be zero. When total production increases then average fixed cost steadily falls but never touch axis.

[103] External economies accrue due to ______.

(a) Increasing returns to scale (b) Increasing returns to factor

(c) Law of variable proportions (d) LOW cost (1 mark)

Answer:

(a) Increase return to scale means when there is a increase in output is more than increase in input or in other words increase in, output > increase in input and there are some factors or external economies which tends to increasing return to scale.

[104] A firms average fixed cost is ₹ 20 at 6 units of output what will be at 3 units of output?

(a) ₹ 60 (b) ₹ 30

(c) ₹ 40 (d) ₹ 20 (1 mark)

Answer:

(c) Average fixed cost is 20 at 6 units and what will be at 3 units?

AFC at 6 units = 20

AFC at 3 units = $\frac{20}{3} \times 6$

= ₹ 40

as we AFC is decreasing steadily by increasing total production. So, AFC at 3 units is 40 and at 6 is 20.

[105] Which of the following is correct?

(a) AFC = AVC + ATC

(b) ATC = AFC - AVC

(c) AVC = AFC + ATC

(d) AFC = ATC - AVC **(1 mark)**

Answer:

(d) Average fixed can be obtained in two ways:

(a) AFC = $\frac{TFC}{Q}$ $\frac{\text{Total Fixed Cost}}{\text{No. of units of output}}$

(b) AFC = ATC – AVC

Where, ATC = Average total cost and AVC = Average variable cost.

(c) When two goods are perfect complementary goods, the indifference curve will consist of two straight line with a right angle bent which is convex to the origin or in other words, it will be L shaped.

[106] The vertical difference between TVC and TC curves is equal to:

(a) MC (b) AVC

(c) TFC (d) None of the above. **(1 mark)**

Answer:

(c) Total Variable Cost (TVC) and Total Cost (TC) is differences of TFC (Total Fixed Cost) Formula Derived is:

TC = TVC + TFC

TC – TVC = TFC

This is vertical difference between Total Variable Cost and Total Cost.

[107] The cost of one thing in terms of alternative given up:

(a) Real cost (b) Production cost

(c) Opportunity cost (d) Physical cost **(1 mark)**

Answer:

(c) Opportunity cost is the cost which means the next best activity sacrificing of one good thing for other.

[108] The cost which remains fixed over certain range of output but suddenly jumps to a new higher level when production goes beyond a given limit are called:

(a) Variable cost (b) Semi-variable cost

(c) Stair-step variable cost (d) Jumping cost **(1 mark)**

Answer:

(c) There are so many types of variable cost and these are:

(a) Variable cost or pure Variable Cost

(b) Semi-Variable or mixture of fixed and Variable cost.

(c) Stair-step Variable cost which means the cost which remain fixed for a long time but suddenly jumped to a new higher level when production goes beyond a given limit.

2018 - NOVEMBER

[109] The slope of Average Fixed cost curve is?

(a) Falls from left to right

(b) Rises from left to right

(c) Parallel to x-axis

(d) Parallel to y-axis **(1 mark)**

Answer:

(a) Shape of Average Fixed Cost is hyperbola in shape it falls from left to right but does not touch x axis.

[110] Price of a commodity is best expressed as
(a) Exchange value
(b) Cost of goods sold
(c) Production cost
(d) Nominal value (1 mark)

Answer:

(a) Price of commodity is expressed as its exchange value as it is the price at which it will be sold or purchased.

[111] Accounting cost is ______ of Economic cost
(a) Equal to
(b) Less than
(c) More than
(d) Not Included (1 mark)

Answer:

(b) Accounting cost is explicit cost and economic cost is Explicit + Cost + National cost therefore, accounting cost is less than economic cost.

[112] When AC Curve is at minimum then MC Curve is ______?
(a) Minimum then AC Curve
(b) Equals to AC Curve
(c) Above AC Curve
(d) Less then AC Curve (1 mark)

Answer:

(b) When average cost is minimum, MC is equal to the Ac. In other word, MC curve cuts AC curve at its minimum point.

[113] Which of the following equation represents profit maximisation condition?
(a) MC = MR
(b) MC > MR
(c) MC < MR
(d) None. (1 mark)

Answer:

(a) Profit will be at maximum level when marginal Revenue is equal to marginal cost therefore, it is able to cover its cost and survive in economy.

[114] MC curve of a firm in a perfectly competitive industry depicts?
(a) Demand curve
(b) Supply curve
(c) Average cost curve
(d) Total cost curve (1 mark)

Answer:

(b) MC curve is rising upward in a competitive market therefore, it depicts supply curve.

[115] Issues requiring decision making in the context of business are:
(a) How much should be the optimum output at what price should the firm sell?
(b) How will the product be placed in the market?
(c) How to combat the risks and uncertainties involved?
(d) All of the above. (1 mark)

Answer:

(d) All the given options are required for making business decisions in context of business therefore, answer will be **(d)** all of the above.

[116] Law of production does not include?
(a) Returns to scale
(b) Law of variable proportion
(c) Law of diminishing returns to a factor
(d) Least cost combination factors (1 mark)

Answer:

(d) Least cost combination factor is not included in law of production function.

✿

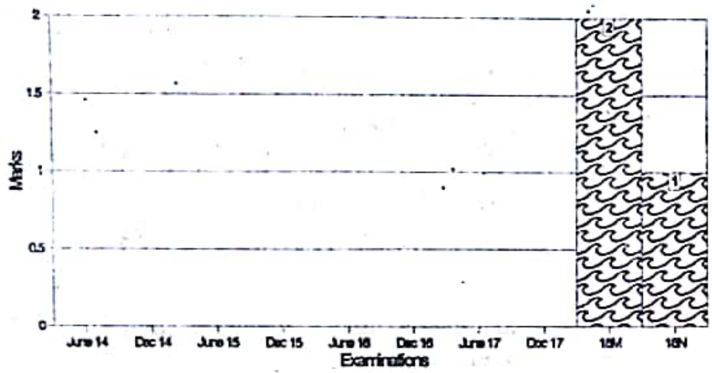
4 MEANING AND TYPES OF MARKET

Unit: 1 **Meaning and Types of Market**

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

Legend

Objective Short Notes Distinguish Descriptive Practical



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PAST YEAR QUESTIONS AND ANSWERS

2006 - NOVEMBER

[1] 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 (1 mark)

Answer:

(d) Pure competition is a part of perfect competition. The essential conditions of pure competition are:
(a) Large number of buyers and sellers
(b) Homogeneous products
(c) Freedom of entry and exit of firms.

2007 - FEBRUARY

[2] Under which of the following forms of market structure does a firm has no control over the price of its product :
(a) Monopoly (b) Oligopoly
(c) Monopolistic competition (d) Perfect competition (1 mark)

Answer:

(d) Perfect competition is a price taking firm. The prices in such a market are determined by market forces of demand and supply. Neither the buyer nor the seller can influence the prices.

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[3] Given the relation $MR = P\left(1 - \frac{1}{e}\right)$ if $e > 1$, then:

(a) MR > 0
(b) MR < 0
(c) MR = 0
(d) None (1 mark)

Answer:

(a) $MR = P\left(\frac{e-1}{e}\right)$

If e >1

The relation $\frac{e-1}{e}$ will be positive.

2007 - MAY

[4] Profits of the firm will be more at :

(a) MR = MC
(b) Additional revenue from extra unit equals its additional cost
(c) Both of above
(d) None (1 mark)

Answer:

(c) Profits of the firm are maximum at profit maximization level i.e. MC=MR. Additional revenue from extra unit equals its additional cost.

[5] What should firm do when Marginal revenue is greater than marginal cost?

(a) Firm should expand output
(b) Effect should be made to make them equal
(c) Prices should be covered down
(d) All of these (1 mark)

Answer:

(a) When marginal revenue is greater than marginal cost, the producer shall expand output as it is profitable for the firm to expand output.

2007 - AUGUST

[6] Under monopoly price discrimination depends upon :

(a) Elasticity of demand for commodity
(b) Elasticity of supply for commodity
(c) Size of market
(d) All of above (1 mark)

Answer:

(a) Monopoly has a feature of price discrimination i.e. charging different prices from different customer. It depends upon the elasticity of demand of various customers. Difference in elasticity forces the monopolist to charge different prices from different customers.

[7] Firms in a monopolistic market are price ________ :

(a) takers
(b) givers
(c) makers
(d) acceptors (1 mark)

Answer:

(c) In a monopoly market the prices are decided by the monopolist. He is the maker of the price. Buyers cannot influence the prices.

2007 - NOVEMBER

[8] Market which have two firms are known as :

(a) Oligopoly
(b) Duopoly
(c) Monopsony
(d) Oligopsony (1 mark)

Answer:

(b) Duopoly is composed of two words - "Duo" and "Poly". Duo means two and "poly" means seller. Hence, duopoly is a market where there are two sellers.

2008 - FEBRUARY

[9] Monopolist can determine :
(a) Price (b) Output
(c) Either price or output (d) None (1 mark)

Answer:

(c) Monopolist firm is the price maker firm. In this market only the seller can influence the prices. He can determine either output or price.

[10] MR of n th unit is given by :
(a) TR_n / TR_{n-1} (b) $TR_n + TR_{n-1}$
(c) $TR_n - TR_{n-1}$ (d) All of these (1 mark)

Answer:

(c) Marginal revenue is the addition made to the total revenue by producing one more unit of a commodity. It is expressed as:
$M.R._n = TR_n - TR_{n-1}$

2008 - JUNE

[11] The market structure in which the number of sellers is small and there is inter dependence in decision making by the firms is known as :
(a) Perfect competition
(b) Oligopoly
(c) Monopoly
(d) Monopolistic competition (1 mark)

Answer:

(b) Oligopoly is often described as "competition among the few". It is characterized by small number of sellers who are interdependent in decision making.

[12] In perfect competition, since the firm is a price taker, the ______ curve is a straight line :

(a) marginal cost
(b) total cost
(c) total revenue
(d) marginal revenue (1 mark)

Answer:

(d) In a perfect competitive market, the prices of all the firms are same. Hence, there is no change in marginal revenue and the MR curve is a straight line.

2011 - JUNE

[13] Given the relation $MR = P\left(1 - \frac{1}{e}\right)$, *if* $e < 1$, *then*:
(a) MR < 0
(b) MR > 0
(c) MR = 0
(d) None of these. (1 mark)

Answer:

(a) If MR = P(1 - 1/e) and e < 1
Lets assume e = 0.5
putting it in the formula we get

$$P\left(1 - \frac{1}{0.5}\right)$$

MR = - P

So MR will always be less than zero.

2012 - JUNE

[14] For a discriminating monopolist the condition for equilibrium is:
(a) MR > MC (b) $MR_1 = MR_2$
(c) $MR_a = MR_b = MC$ (d) All of the above. (1 mark)

Answer:

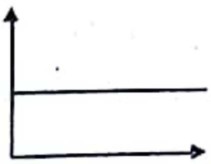
(c) One of the important conditions of price discrimination is that the seller should be able to divide his market into two or more submarkets. If marginal revenue in both markets are different then price discrimination is possible. The seller will transfer his products more to that market which gives more marginal revenue. Suppose MR of market A is more than market B. So the seller will transfer the products from market B to market. A Due to this the prices of market B will rise and A will fall. Gradually the MR of B will start increasing. He will continue to transfer units from B to A till the marginal revenue from both markets become equal. After this point it will be no longer profitable to transfer units and hence the position of equilibrium will be when

$$MR_a = MR_b = MC$$

[15] Average revenue curve is also known as:
(a) Profit curve (b) Demand curve
(c) Supply curve (d) Average cost curve. **(1 mark)**

Answer:

(b) In perfect competition market the same price prevails throughout the market. Since the price is constant hence the demand of the commodity determines the total revenue and average revenue. Due to this reason the A.R. curve can also be called as the demand curve.



PR = AR = MR

2013 - JUNE

[16] Given, AR = 5 and Elasticity of demand = 2 Find MR.
(a) + 2.5 (b) - 2.5
(c) + 1.5 (d) + 2.0 **(1 mark)**

Answer:

(a) $MR = AR \times \frac{e-1}{e}$

$= 5 \times \frac{2-1}{2}$

$= +2.5$

Hence, option (a) is the correct answer.

$MR = 5 \times \frac{e-1}{e}$ +

$= 5 \times \frac{1}{2} = 2.5$

2013 - DECEMBER

[17] If a seller obtains ₹ 3,000 after selling 50 units and ₹ 3,100 after selling 52 units, then marginal revenue will be
(a) ₹ 59.62 (b) ₹ 50.00
(c) ₹ 60.00 (d) ₹ 59.80 **(1 mark)**

Answer:

(b) S.P of 50 units = ₹ 3,000
S.P of 52 units = ₹ 3,100
∴ S.P of additional 2 units = ₹ 100 & marginal revenue of 1 unit.
$= \frac{100}{2} = ₹ 50.$

Thus, option (b) is correct.

$\frac{100}{2}$

2014 - JUNE

[18] A firm will close down in the short period, if its AR is less than :

(a) AC (b) AVC

(c) MC (d) None of the above (1 mark)

Answer:

(b) In short run, if the firm is able to meet its VC and a part of fixed cost it will try to continue production in the short run. If it recovers a part of FC, it will be beneficial to continue production. However, if a firm is unable to meet its AVC, it will be better for it to shut down.

2016 - JUNE

[19] Which one of the following expressions is correct for Marginal Revenue?

(a) $MR = AR\left(\frac{1-e}{e}\right)$ (b) $MR = TR_n - TR_{n+1}$

(c) $MR = \frac{\Delta TR}{\Delta Q}$ (d) $MR = \frac{TR}{Q}$ (1 mark)

Answer:

(c) Marginal revenue is the rate of change in total revenue resulting from the sale of an additional unit.

$$MR = \frac{\Delta TR}{\Delta Q}$$

Where MR is marginal revenue
TR is total revenue
Q is quantity of commodity sold
Δ stands for small change.

2016 - DECEMBER

[20] The market for ultimate consumer is known as:

(a) Wholesale market
(b) Regulated market
(c) Unregulated market
(d) Retail market (1 mark)

Answer:

(d) The market for ultimate consumer is known as retail market.

2017 - JUNE

[21] For a firm to become profitable it should expand output whenever:

(a) Marginal revenue is equal to marginal cost
(b) Marginal revenue is less than marginal cost
(c) Marginal revenue is greater than marginal cost
(d) Average revenue is greater than average cost. (1 mark)

Answer:

(c) It will be profitable for the firm to expand output whenever marginal revenue is greater than the marginal cost, and to keep on expanding output until marginal revenue equals marginal cost. Not only marginal cost should be equal to marginal revenue, its curve should cut marginal revenue curve from below.

[22] On the basis of nature of transactions, a market may be classified into:

(a) Spot market and future market
(b) Regulated market and unregulated market
(c) Wholesale market and retail market
(d) Local market and national market. (1 mark)

Answer:

(a) On the basis of nature of transactions market may be classified into:-

a. Spot Market: It refers to those markets where goods are physically transacted on the spot.

b. Future Market: It is related to those transaction which involves contracts of a future date.

2018 - MAY

[23] In very short period market:

(a) Supply changes but demand remains same

(b) Supply changes but price remains same

(c) Supply remains fixed

(d) Supply and demand both changes (1 mark)

Answer:

(c) In very short period market, it is not possible and easy to increase the supply as it is very difficult to install new machinery or increase more labour so, in this market supply is fixed. This leads to only profits commodities like vegetables flower, fish, eggs, fruit, milk etc. which are of perishable nature are examples of very short period market.

[24] A firm will close down in the short period, if its AR is less than:

(a) AC

(b) AVC

(c) MC

(d) None of the above. (1 mark)

Answer:

(b) In the short run, fixed cost is fixed and variable cost is not fixed and if average revenue or total revenue is less than its average variable cost or total variable cost then firm has to close down its business because no one want to suffer losses by increase cost than revenue.

2018 - NOVEMBER

[25] Which of the following is correct?

(a) MR = AR (e -1)/e

(b) MR = AR (e +1)/e

(c) MR = AR (1- e)/e

(d) None of the above (1 mark)

Answer:

(a) MR, AR and price elascity of demand are uniquely related to one another through the formula, MR = AR × $\frac{e-1}{e}$, therefore **(a)** is the correct option.

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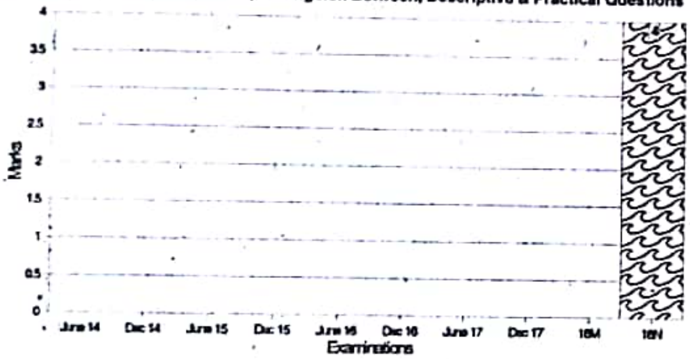
4 MEANING AND TYPES OF MARKET

Unit:2 Determination of Prices

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



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PAST YEAR QUESTIONS AND ANSWERS

2006 - NOVEMBER

[1] For maximum profit, the condition is :
(a) AR = AC (b) MR = MC
(c) MR = AR (d) MC = AR (1 mark)

Answer:

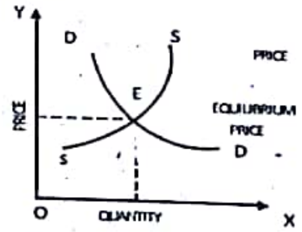
(b) Profit maximization level of a firm is the level at which its marginal revenue is equal to marginal cost. The condition for maximum profit is: MC = MR.

2007 - MAY

[2] Equilibrium price may be determined through:
(a) Only demand (b) Only supply
(c) Both demand & supply (d) None (1 mark)

Answer:

(c) Equilibrium price is the price of a product when its demand equals supply. The point of intersection of demand and supply curves is the equilibrium price.



Equilibrium price involves both demand and supply.

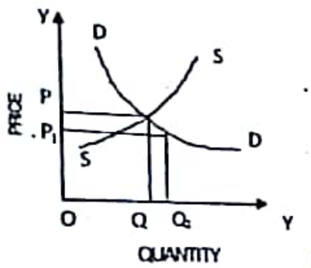
2007 - August

[3] If price is forced to stay below equilibrium price then consequently it can be said that:

(a) Excess supply exists.
(b) Excess demand exists
(c) Either (a) or (b)
(d) Neither (a) nor (b) (1 mark)

Answer:

(b) If the price is below equilibrium price, supply remaining the same, the demand of the commodity increases.



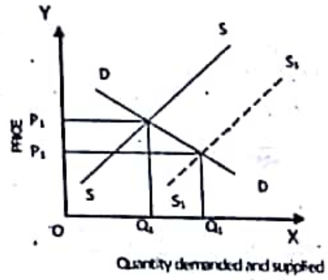
2007 - November

[4] An increase in supply with unchanged demand leads to :

(a) Rise in price and fall in quantity
(b) Fall in both price and quantity
(c) Rise in both price and quantity
(d) Fall in price and rise in quantity (1 mark)

Answer:

(d) When there is an increase in supply, demand remaining the same, the price of the good decreases and quantity demanded increases. It is evident from the following diagram:



2008 - February

[5] In the long run :

(a) Only demand can change
(b) Only supply can change
(c) Both demand and supply can change
(d) None of these (1 mark)

Answer:

(c) Long run is the period when both buyers and sellers get sufficient time to adjust their demand and supply. Hence, both demand and supply can change in long run.

2008 - June

[6] Condition for producer equilibrium is :

(a) TR = TVC
(b) MC = MR
(c) TC = TAC
(d) None of these (1 mark)

Answer:

(b) Conditions for producer's equilibrium are :

a. MC = MR
b. MC should cut MR from below.

2010 - June

[7] An increase in supply with demand remaining the same, brings about.

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

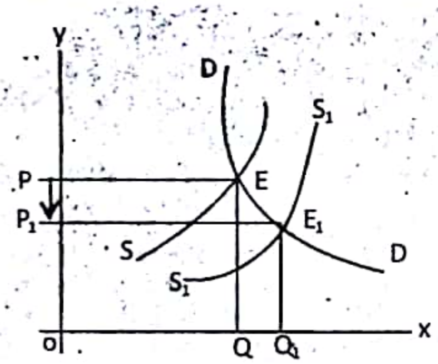
(b) An increase in equilibrium price and decrease in equilibrium quantity.

(c) Decrease in both equilibrium price and quantity.

(d) None of these. (1 mark)

Answer:

(a) When there is an increase in supply, demand remaining the same, the equilibrium price of good decreases and equilibrium quantity increases. It is evident from the following diagram.



2014 - December

[8] When the price of a commodity is ₹ 20, the quantity demanded is 9 units and when its price is ₹ 19, the Quantity demanded is 10 units. Based on this information what will be the marginal revenue resulting from an increase in output from 9 units to 10 units?

(a) ₹ 20 (b) ₹ 19

(c) ₹ 10 (d) ₹ 01 (1 mark)

Answer:

(c) The marginal revenue resulting from an increase in output from 9 units to 10 units is ₹ 10.

Price	Quantity	Revenue
20	9	180
19	10	190

Marginal Revenue is [190 - 180] ➡ ₹ 10.

2016 - November

[9] From the following table, what will be equilibrium market price?

Price (in ₹)	Demand (Tonnes per annum)	Supply (Tonner per annum)
1	500	200
2	450	250
3	400	300
4	350	350
5	300	400
6	250	450
7	200	500
8	150	550

(a) ₹ 2 (b) ₹ 3

(c) ₹ 4 (d) ₹ 5 (1 mark)

Answer:

(c) Equilibrium Market price is ₹ 4 because at this price demand and price are equal so market price will tend to settle at this figure.

2017 - DECEMBER

[10] If the price of a commodity is fixed, then with every increase in its sold quantity the total revenue will ________ and the marginal revenue will ________.

(a) increase, also increase (b) increase, remain unchanged
(c) increase, decline (d) remain fixed, increase. (1 mark)

Answer:

(b) If the price of a commodity is fixed, then with every increase in its sold quantity the total revenue will increase and the marginal revenue will remain unchanged. As marginal revenue is the change in total revenue. Resulting from the sale of an additional unit of the commodity.

2018 - NOVEMBER

[11] If supply decreases and demand remains constant, then equilibrium price will be?

(a) Increases
(b) Decreases
(c) No change
(d) Become Negative (1 mark)

Answer:

(a) When supply falls and demand remains constant, then there will be excess demand in the economy and in order to meet the demand the price of the commodity will rise (Increase).

[12] According to pigou, first degree price discrimination charges price to;

(a) Individual capacity
(b) Quantities sold
(c) Location
(d) None of the above (1 mark)

Answer:

(a) Under first degree price discrimination, the monopolist separates the market into each individual consumer and charges them the price they are willing and able to pay and thereby extract the entire consumer surplus.

Therefore, **(a)** is the correct option, individual capacity.

[13] What is the shape of monopolist Average Revenue Curve?

(a) Falls from left to right
(b) Is parallel to X – axis
(c) Is parallel to Y – axis
(d) Rise from left to right (1 mark)

Answer:

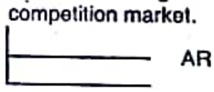
(a) The shape of monopolist average revenue curve falls from left to right.

[14] What is the shape of perfectly competitive Average Revenue Curve?

(a) Parallel to X axis
(b) Parallel to Y axis
(c) Fall from left to right
(d) Rise from left to right (1 mark)

Answer:

(a) Curve of average revenue is parallel to X axis as per perfect competition market.



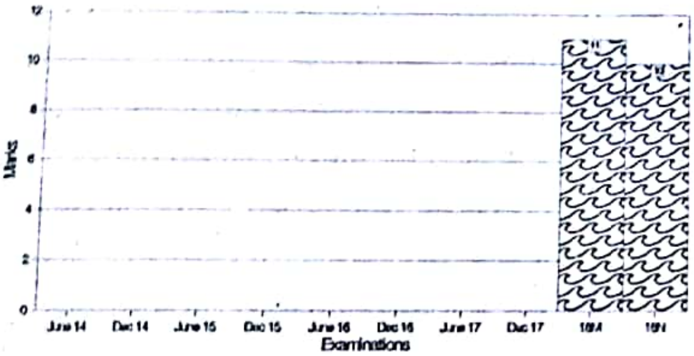
4 MEANING AND TYPES OF MARKET

Unit:3 Price Output Determination Under Different Market Forms

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

Legend

Objective Short Notes Distinguish Descriptive Practical



For detailed analysis Login at *www.scannerclasses.com* for registration and password see first page of this book.

PAST YEAR QUESTIONS AND ANSWERS

2006 - NOVEMBER

[1] A competitive firm in the short run incur losses. The firm continues production, if:

(a) P > AVC (b) P = AVC
(c) P < AVC (d) P >= AVC (1 mark)

Answer:

(d) In short run if the competitive firm is incurring losses then it will continue production only if its price is greater or equal to average variable cost. If price is less than variable cost it means neither the fixed cost nor the variable cost can be covered. In such a situation, the producer shall stop production.

[2] Under _______ market condition, firms make normal profits in the long run:

(a) perfect competition (b) monopoly
(c) oligopoly (d) none (1 mark)

Answer:

(a) Perfect competitive market is characterized by free entry and exit of firms. In the long run if the firm makes profit, more seller enter the industry and hence the profits are reduced to the equilibrium level. If there are losses, then and more firms leave the industry resulting into increase in profits to the equilibrium level. Hence, competitive firms always incur normal profits.

2007 - FEBRUARY

[3] A monopolist is able to maximize his profits when :
(a) His output is maximum
(b) He charges a high price
(c) His average cost is minimum
(d) His marginal cost is equal to marginal revenue (1 mark)

Answer:

(d) Profit maximization level is the level at which :
MC = MR

[4] Under which of the following market structure AR of the firm will be equal to MR?
(a) Monopoly
(b) Monopolistic Competition
(c) Oligopoly
(d) Perfect Competition (1 mark)

Answer:

(d) In perfect competition firms are price taker. Hence they offer same price i.e. the prices are same throughout the market. Since the prices are same or the AR and MR are also equal.

2007 - MAY

[5] Under Monopolistic competition the cross elasticity of demand for the product of a single firm would be :
(a) Infinite
(b) Highly elastic
(c) Highly inelastic
(d) Zero (1 mark)

Answer:

(b) In case of monopolistic competition, the products are less differentiated and all the brands are close substitutes of one another hence it has highly elastic of cross elasticity.

[6] When AR = ₹ 10 and AC = ₹ 8 the firm makes______ :
(a) normal profit
(b) net profit
(c) gross profit
(d) supernormal profit (1 mark)

Answer:

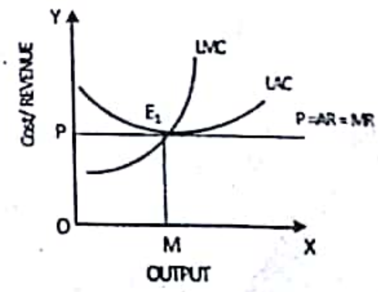
(d) A firm makes normal profit when AC = AR .
In the given question AR = 10 and AC = 8 i.e. average revenue is greater than average cost. So the firm makes super normal profit. (Profit above normal profit is super normal profit).

2007 - AUGUST

[7] What are the conditions for the long run equilibrium of the competitive firm?
(a) LMC = LAC = P
(b) SMC = SAC = LMC
(c) P = MR
(d) All of these (1 mark)

Answer: .

(d) In the long run, a competitive will be at equilibrium at
LMC = LAC = P
(When long run marginal cost, long run average cost and price are equal)
Also in long run in the firms operating under perfect competition is efficient at point E' where P = MR
and SMC = SAC = LMC.



[8] Kinked demand curve hypothesis is given by:
(a) Alfred marshal (b) A.C Pigou
(c) Sweezy (d) Hicks & Allen (1 mark)

Answer:

(c) Kinked Demand hypothesis was given by Sweezy, an American economist.

2007 - November

[9] Supernormal profits occur, when :
(a) Total revenue is equal to total cost
(b) Total revenue is equal to variable cost
(c) Average revenue is more than average cost
(d) Average revenue is equal to average cost (1 mark)

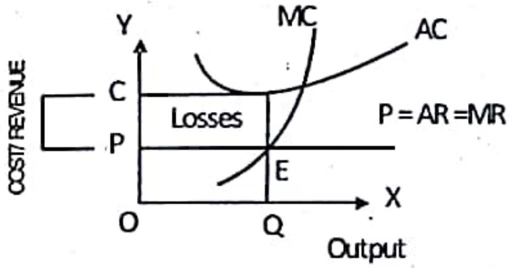
Answer:

(c) Super normal profits are the profits over and above the normal profit. Normal profit is included in the cost of the product (This profit is for recovering the fixed cost). If the product is sold above its cost supernormal profits occurs. In other words, when AR > AC, supernormal profits occurs.

[10] If under perfect competition, the price line lies below the average cost curve, the firm would :
(a) Make only Normal profits (b) Incur losses
(c) Make abnormal profit (d) Profit cannot be determined (1 mark)

Answer:

(b) In the perfect competition if the price line (AR and MR curve) are below AC curve so the firm incurs losses i.e. AR or MR is less than AC.

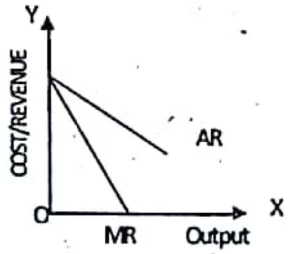


2008 - February

[11] The MR curve cuts the horizontal line between Y axis and demand curve into:
(a) Two unequal parts
(b) Two equal parts
(c) May be equal or unequal parts
(d) None of these (1 mark)

Answer:

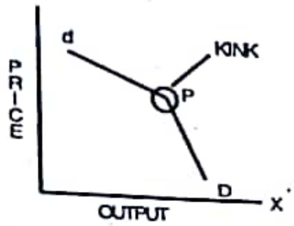
(b) The slope of average revenue curve is twice the slope of marginal revenue curve hence MR curve units it into two equal parts.



[12] Kinked demand curve is observed in ______.
(a) duopoly market (b) monopoly market
(c) competitive market (d) oligopoly market. (1 mark)

Answer:

(d) In oligopolistic industries prices remain sticky or inflexible for a long time. They tend to change infrequently even if in the face of declining cost. These inflexibilities lead to kink shape of the demand curve. Therefore, oligopolistic markets have kinked demand curve.



[13] Competitive firms in the long run earn:
(a) Super normal profit (b) Normal profit
(c) Losses (d) None (1 mark)

Answer:

(b) Same as Ans. 2

2008 - JUNE

[14] For a monopolist, the necessary condition for equilibrium is:
(a) P = MC (b) P = MR = AR
(c) MR = MC (d) None (1 mark)

Answer:

(c) A firm is in equilibrium when:
MC = MR

[15] A firm will shut down in the short run if :
(a) It is suffering a loss
(b) Fixed costs exceeds revenue
(c) Variable costs exceed revenues
(d) Total costs exceed revenues (1 mark)

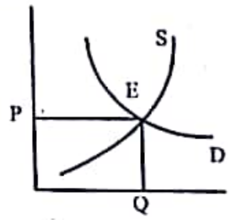
Answer:

(c) In the short run if the firms will be in break even point when variable cost = revenues. When variable cost is above revenues it means that the firm can neither recover its variable cost nor fixed cost. With this situation, the producer cannot survive for a long so he may shut down.

[16] ______ is the price at which demand for a commodity is equal to its supply :
(a) Normal Price (b) Equilibrium Price
(c) Short run Price (d) Secular Price (1 mark)

Answer:

(b) Equilibrium price is the price at which demand of a commodity is equal to its supply.



Point E is the equilibrium price.

2008 - DECEMBER

[17] OPEC is an example of :
(a) Monopolistic competition (b) Monopoly
(c) Oligopoly (d) Duopoly (1 mark)

Answer:

(c) OPEC [Organisation for Petroleum Exporting Countries] is an example of oligopoly market because there are few seller for petroleum in the world.

[18] __________ is a ideal Market.
(a) Monopoly
(b) Monopolistic
(c) Perfect Competition
(d) Oligopoly (1 mark)

Answer:

(c) Perfectly Competitive Market is an ideal Market because it is characterized by many sellers selling identical products to many buyers and there is a freedom of entry and exit.

[19] Under which Market Situation demand curve is linear and parallel to X axis :
(a) Perfect Competition (b) Monopoly
(c) Monopolistic Competition (d) Oligopoly (1 mark)

Answer:

(a) Under Perfect competition demand curve is Linear and parallel to X axis because there are huge number of buyers selling the same commodity at a particular price and as a result each buyer and seller makes transactions in the market at a prevailing price.

[20] Which market have characteristic of product differentiation?
(a) Perfect Competition (b) Monopoly
(c) Monopolistic Competition (d) Oligopoly (1 mark)

Answer:

(c) Monopolistic markets have a characteristic of product differentiation which is the most prominent feature of such a form of market where firms do not produce identical goods. They rather produce different varieties of a commodity which are close substitutes of each other.

[21] Which of these are characteristics of Perfect Competition.
(a) Many Sellers & Buyers (b) Homogeneous Product
(c) Free Entry and Exit (d) All of the above (1 mark)

Answer:

(d) Under perfect competition there are large number of buyers and sellers. A particular buyer has a negligible role to determine the price.

The product sold under this type of market structure is a homogenious product i.e. all units of a good are identical colour, shape, size or packing of the product of each seller. Lastly, there is no legal or social restriction upon the entry of new firms into the industry. The choice of entering or leaving an industry lies on individual firms.

[22]The demand curve of oligopoly is :
(a) Horizontal (b) Vertical
(c) Kinked (d) Rising left to right (1 mark)

Answer:

(c) In many oligopolistic industries, prices remain sticky or inflexible for a long time. This price rigidity has been clearly explained by the kinked demand curve hypothesis. The demand curve of an oligopoly market has a 'Kink' at the level of the prevailing prices. The kink is formed at the prevailing price level. It is because the segment of the demand curve above the prevailing price level is highly elastic and the segment of the demand curve below the prevailing price level is inelastic.

Therefore, the demand curve formed under an oligopolistic market is kinked.

[23] MR Curve = AR = Demand Curve is a feature of which kind of Market?
(a) Perfect Competition (b) Monopoly
(c) Monopolistic (d) Oligopoly (1 mark)

Answer:

(a) In perfect competition, all the goods are sold at a single price, by which average revenue (AR) equals marginal revenue (MR). This price is determined by the industry through the forces of demand and supply and this price is adopted by the firms. All the goods are sold at a prevailing price in the market by which AR equals MR at each level of quantity sold.

2009 - JUNE

[24] In the long-run monopolist can:
(a) Incur losses (b) Must earn super normal profits
(c) Wants to shut-down (d) Earns only normal profits. (1 mark)

Answer:

(b) Long run is a period long enough to allow the monopolist to adjust his plant size or use,his existing plant at any level that maximizes his profit. In the absence of competition the monopolist need not produce at the optimum level.
Therefore, the monopolist will not continue if he makes losses in the long run. He will continue to make super normal profits even in the long run as entry of outside firm is blocked.

[25] The demand curve of the firm and industry will be same in which form of market :
(a) Monopolistic Competition (b) Perfect Competition
(c) Monopoly (d) Oligopoly. (1 mark)

Answer:

(c) In case of monopoly market, the firm and the industry are same as there is only one seller in the market. Hence the demand curve of the firm and industry are same.

[26] Oligopoly having identical products is:
(a) Pure oligopoly (b) Imperfect oligopoly
(c) Price leadership (d) Collusion. (1 mark)

Answer:

(a) Oligopoly is a market situation when there are few sellers in the market. When the sellers in the market sell homogeneous products, such oligopoly is termed as pure oligopoly.

2009 - DECEMBER

[27] The demand curve of oligopoly is :
(a) Horizontal (b) Vertical
(c) Kinked (d) Rising left to right

Answer:

(c) Same as Ans. 22

[28] Demand curve is equal to M. R. curve in which market?
(a) Oligopoly (b) Monopoly
(c) Monopolistic Competition (d) Perfect Competition (1 mark)

Answer:

(d) In a perfectly competitive market, all units are priced at the same level.
Therefore, P = MR = AR. Since every demand curve is the average revenue curve, so in a perfectly competitive market, the demand curve is a straight line parallel to X axis, i.e. demand is perfectly elastic.

[29] Kinked demand hypothesis is designed to explain ______ in context of oligopoly.
(a) price and output determination
(b) price rigidity
(c) collusion between firm
(d) all of the above (1 mark)

Answer:

(b) Kinked demand hypothesis is designed to explain the rigidity of price under oligopolistic market. It helps to determine the price and output of the firm.

[30] Price discrimination can take place only in_______.

(a) monopolistic competition (b) oligopoly
(c) perfect competition (d) monopoly (1 mark)

Answer:

(d) Price discrimination refers to charging different prices from different customers. This is a feature of monopoly, as this situation is possible only in case of monopoly as there is only one seller in the market and there is no competition.

2010 - JUNE

[31] In oligopoly, the kink on the demand curve is more due to______.

(a) discontinuity in MR.
(b) discontinuity in AR.
(c) Fulfillment of the assumption that a price cut is followed by others and a price increase by a firm is not followed by others.
(d) price war amongst the firms. (1 mark)

Answer:

(c) In case of oligopoly there is a 'kink' on the demand curve because the Segment of demand curve above prevailing price is highly elastic and segment of the demand curve below prevailing price level is inelastic.

The reason for the above is that the oligopolist believes if he lowers the price below prevailing level its competitors will follow him but if he raises the price above the prevailing level, its competitors will not follow him.

[32] Price Discrimination is possible only when.

(a) Seller is alone.
(b) Goods are homogeneous.
(c) Market is controlled by the government.
(d) None of the above. (1 mark)

Answer:

(a) In case of price discrimination there is a condition that the seller should have some control over the supply of his product i.e. monopoly power in some form is necessary (not sufficient) to discriminate price.

So it can be said that in order to have monopoly power the seller should be alone to exercise price discrimination.

[33] Which of the following is not the feature of an imperfect competition?

(a) Product differentiation. (b) Few sellers.
(c) Homogeneous products. (d) Price wars. (1 mark)

Answer:

(c) Features of imperfect competition are:

(i) Large number of sellers.
(ii) Product differentiation
(iii) Freedom of Entry or Exit
(iv) Non-price competition.

[34] Price taker firms__________.

(a) do not advertise their product because it misleads the customers.
(b) advertise their products to boost the level of demand.
(c) do not advertise but give gifts along with the sold items to attract customers.
(d) do not advertise because they can sell as much as they wish at the prevailing price. (1 mark)

Answer:

(d) In case of perfect competition firms are price takers which need not advertise their products because they can sell as much as they wish at the prevailing prices.

[35] Price rigidity is a situation found in which of the following market forms?
(a) Perfect competition.
(b) Monopoly.
(c) Monopolistic competition.
(d) Oligopoly.
Answer: (1 mark)
(d) Oligopoly is a market structure having few sellers characterized by price rigidity which helps to determine the price and output of the firm.

2010 - DECEMBER

[36] When elasticity of demand is Equal to one in monopoly, marginal Revenue will be_________.
(a) equal to one.
(b) greater than one.
(c) less than one.
(d) zero. (1 mark)
Answer:
(d) $MR = AR\left[\frac{e-1}{e}\right]$
Where, e =1
$\therefore MR = AR\left[\frac{1-1}{1}\right] = AR\left[\frac{0}{1}\right]$
MR = 0

[37] Which one of the following statement is Incorrect?
(a) Competitive firms are price takers and not price makers.
(b) Price discrimination is possible in monopoly only.
(c) Duopoly may lead to monopoly.
(d) Competitive firm always seeks to discriminate prices. (1 mark)
Answer:
(d) Monopoly control over the product gives rise to price-discrimination, hence it can take place only in monopoly and not in competitive firms.

[38] Under which of the following market structure AR of the firm will be equal to MR?
(a) Monopoly
(b) Monopolistic Competition
(c) Oligopoly
(d) Perfect Competition (1 mark)
Answer:
Same as Ans. 4

[39] Tooth paste industry is an example of _________.
(a) monopoly
(b) monopolistic competition
(c) oligopoly
(d) perfect competition. (1 mark)
Answer:
(b) Monopolistic competition is a market in which many sellers offering differentiated products to many buyers Example- Toothpaste industry where product differential is only slight, and the degree of control over price is only some.

[40] OPEC is an example of :
(a) Monopolistic competition
(b) Monopoly
(c) Oligopoly
(d) Duopoly (1 mark)
Answer:
(c) Same as Ans. 17

[41] Monopolistic Competitive firms _________.
(a) are small in size
(b) have small share in total market
(c) are very large in size
(d) both (A) and (B) (1 mark)
Answer:
(d) Monopolistic competitive firms are small in size as compared to monopolies and every monopolistic competitive firms have small share in the total market Example – Soap industry

[42] The price discrimination under monopoly will be possible under which of the following conditions?
(a) The seller has no control over the supply of his product
(b) The market has the same condition all over
(c) The price elasticity of demand is different in different markets
(d) The price elasticity of demand is uniform. (1 mark)

Answer:

(c) Conditions for price discrimination under monopoly are:
- (i) seller should have control over the supply of his product
- (ii) seller should be able to divide his market into sub-markets
- (iii) price elasticity of product should be different in different markets
- (iv) not possible for buyers of low-priced market to resell the product to the buyers of high priced market.

2011 - JUNE

[43] Oligopoly having identical products is known as__________.
(a) pure oligopoly (b) collusive oligopoly
(c) independent oligopoly (d) none of these. (1 mark)

Answer:

(a) Oligopoly having identical products is known as pure oligopoly. For example-aluminium industry.

[44] Which of these is the best example of oligopoly?
(a) OPEC (b) SAARC
(c) WTO (d) GATT. (1 mark)

Answer:

(a) Oligopoly is defined as 'competition among few'. In other words when there are few sellers in the market selling homogeneous or differentiated products, oligopoly is said to exist.
OPEC (Oil and Petroleum Exporting Countries) is the best example of oligopoly.

[45] Monopolist can fix him price of goods whose elasticity is _______.
(a) less than 1 (b) more than 1
(c) elastic (d) inelastic. (1 mark)

Answer:

(a) Monopoly is a situation when there is a single seller in the market. Here the firm is the price maker. The price elasticity demand for monopolist is less than one hence he can fix price of the goods whose elasticity is less than one.

[46] Kinked demand curve is observed in ______.
(a) duopoly market (b) monopoly market
(c) competitive market (d) oligopoly market. (1 mark)

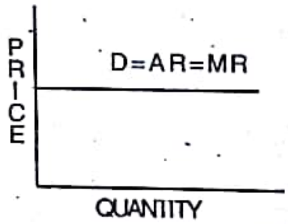
Answer:

(d) Same as Ans. 12

[47] Perfectly competitive firm faces:
(a) Perfectly elastic demand curve
(b) Perfectly inelastic demand curve
(c) Zero
(d) Negative. (1 mark)

Answer:

(a) Firms in a competitive market are price takers. This is because there are a large number of firms in the market who are producing identical or homogeneous products. As such these firms cannot influence the price of their products and hence they have a perfectly elastic demand curve.

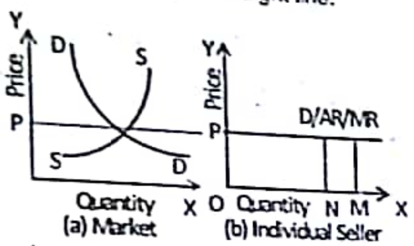


2011 - DECEMBER

[48] In perfect Competition when the firm is a price taker, which curve among the following will be a straight line?
(a) Marginal Cost (b) Average Cost
(c) Total Cost (d) Marginal Revenue (1 mark)

Answer:

(d) In a perfect competitive market the firms are price-takers and the marginal revenue curve is a straight line.



Firm's Demand Curve Under Perfect Competition

[49] "Price Discrimination" can be best exercised by the Seller in_______.

(a) oligopoly

(b) monopoly

(c) monopolistic competition

(d) perfect competition (1 mark)

Answer:

(b) Price discrimination cannot persists under perfect competition because the seller has no influence over market determined rate. Price Discrimination requires an element of monopoly so that the seller can influence the price of his product.

[50] In Oligopoly the kink in the demand curve is more due to_________.

(a) discontinuity in MR

(b) discontinuity in AR

(c) fulfillment of the assumption that a price fall is followed by the other and a price increase by a firm is not followed by the other

(d) price war among the firms (1 mark)

Answer:

(c) In oligopoly, the kinked demand curve is based on the assumption that:

Each oligopolist believes that if he lowers the price below the prevailing level, its competitors will follow him and will accordingly lower the prices, whereas if he raises the price above the prevailing level, its competitors will not follow its increase in price. This feature gives a kink shape to the demand curve.

[51] A firm encounters "shut down" point when_________.

(a) marginal cost equals the price of the profit maximising level of output

(b) average fixed cost equals the price at the profit maximising level of output

(c) average variable cost equals the price at the profit maximising level of output

(d) average total cost equals the price at the profit maximising level of output (1 mark)

Answer:

(c) A firm reaches a shutdown level when it is not being able to meet its variable cost. This means that the firm will not be able to make payment to labour, raw material suppliers etc. In such a situation, the firm will not be able to recover its variable cost even in the long run. Hence at this stage the firm should stop production and shut down.

[52] Under which market Condition firms make only normal profits in the long run?

(a) Oligopoly (b) Monopoly

(c) Monopolistic competition (d) Duopoly (1 mark)

Answer:

(c) In short-run, firm earn super-normal profits in the monopolistic competition thus giving incentives to new firms to enter the industry. As more firms enter, profits per firm will go on decreasing as the total demand will be shared among large number of firms. This will happen till all the profits are wiped away and all the firms earn only normal profits.

[53] In monopolistic competition excess capacity in the firm______.
(a) always exists (b) sometimes exists
(c) never exists (d) none of the above (1 mark)

Answer:

(a) An individual firm in the long run is in equilibrium position at a position where it has excess capacity. Thus, the firms in monopolistic competition are not of optimum size and there exists excess capacity of production with each firm.

2012 - June

[54] Selling costs have to be incurred in case of:
(a) Perfect Competition (b) Monopolistic Competition
(c) Monopoly (d) None of these. (1 mark)

Answer:

(b) Non price competition is an essential feature of monopolistic competition. Here the firms compete not on basis of price but on other factors such as aggressive marketing, product development, after sale services etc. Hence incurring of selling cost is an essential feature of monopolistic competition.

[55] In market, the price and output equilibrium is determined on the basis of:
(a) Total revenue and total cost
(b) Total cost and marginal cost
(c) Marginal revenue and marginal cost
(d) Only marginal cost. (1 mark)

Answer:

(c) For the condition of equilibrium two conditions are necessary –
(i) Marginal revenue should be equal to marginal cost.
(ii) Marginal cost curve should cut MR from below.

Hence, equilibrium is determined on the basis of marginal cost and marginal revenue.

2012 - December

[56] A perfect market is characterised by :-
(a) Existence of large number of buyers and sellers
(b) Homogenous products
(c) Perfect knowledge of the market
(d) All of the above. (1 mark)

Answer:

(d) A perfect market has following characteristics :
1. Large number of buyers and sellers
2. Homogeneous products
3. Free entry and exit Perfect knowledge of the market
5. Movement of goods from one centre to another
6. Uniform price.

[57] Which of the following is not a feature of oligopoly market?
(a) Interdependence of the firms in decision making
(b) Price rigidity
(c) Group behaviour
(d) Existence of large number of firms. (1 mark)

Answer:

(d) Oligopoly is described as 'competition among the few'. It has the following characteristics:
1. Interdependence of few firms in decision making
2. Great importance of advertising and selling cost, firms compete on non-price basis.
3. Group behaviour.

[58] A monopolist can fix:
(a) Both price and output (b) Either price or output
(c) Neither price nor output. (d) None of the above. (1 mark)

Answer:

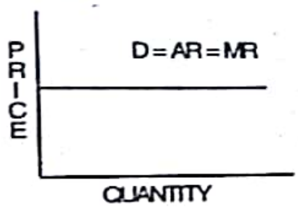
(a) The term 'monopoly' means 'alone to sell'. In a monopoly market there is only one firm producing or supplying a product. Thus, the monopolist is free to determine both his price and output.

[59] In a perfectly competitive market, the demand curve of a firm is:-

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

Answer:

(b) Firms in a competitive market are price takers. This is because there are a large number of firms in the market who are producing identical or homogeneous products. As such these firms cannot influence the price of their products and hence, they have a perfectly elastic demand curve.



[60] In a competitive market, if price exceeds Average Variable Cost (AVC) but remains less than Average Cost (AC) at the equilibrium, the firm is:

(a) Making a profit
(b) Planning to quit
(c) Experiencing loss but should continue production
(d) Experiencing loss but should discontinue production. (1 mark)

Answer:

(c) The firm can be in an equilibrium position and still make losses. When the firm is able to meet its VC and a part of FC, it will try to continue production in short run. If it recovers a part of FC, it will be beneficial for it to continue production because FC are already incurred and in such a case, it will be able to recover a part of them.

Thus, if price exceeds the AVC but remains less than AC at equilibrium in a competitive market, the firm is experiencing loss but should continue production.

2013 - June

[61] Price under perfect competition is determined by the ________.

(a) firm (b) industry
(c) government (d) society. (1 mark)

Answer:

(b) An industry consist of a large number of independent firms, having a number of factories, firms or mines under its control. Each such unit in the industry produces a homogeneous product so that there is competition amongst goods produced by different units called firms. When the total output of the industry is equal to the total demand, we say the industry is in equilibrium, the price prevailing is equilibrium price. Thus it can be said that price under perfect competition is determined by industry.

[62] Under monopoly, which of the following is correct:

(a) AR and MR both are downward sloping
(b) MR lies halfway between AR and Y-axis
(c) MR can be zero or even negative
(d) All of the above. (1 mark)

Answer:

(d) The relationship between AR and MR of a monopoly firm can be stated as follows:

(i) AR and MR are both negative sloped (downward sloping) curves.
(ii) MR curve lies half way between the AR curve and Y axis, i.e. it cuts the horizontal line between Y axis and AR into two equal parts.
(iii) AR cannot be zero, but MR can be zero or even negative.

Thus, all of the above statements are correct under monopoly.

[63] Non-price competition is very popular in:

(a) Monopoly market
(b) Monopolistic competition
(c) Oligopolistic market
(d) Perfect competition. (1 mark)

Answer:

(b) In a monopolistically competitive market, seller try to compete on basis other than price, as for example aggressive advertising, product development, better distribution arrangements, efficient after-sale service, and so on. A key base of non-price competition is a deliberate policy of product differentiation.

[64] In the 'kinked-demand' curve model, the upper portion of the demand curve is:
(a) Elastic
(b) Inelastic
(c) Perfectly Elastic
(d) Unitary Elastic. (1 mark)

Answer:

(a) The demand curve faced by an oligopolist according to kinked demand curve hypothesis, has a 'kink' at the level of prevailing price. It is because the segment of the demand curve above the prevailing price level is highly elastic and the segment of the demand curve below the prevailing price level is inelastic.

[65] Equilibrium price for an industry in perfect competition is fixed through.
(a) Input and Output
(b) Market demand and market Supply
(c) Market demand and firms supply
(d) None of the above. (1 mark)

Answer:

(b) Firms in a competitive market are price takers. This is because there are a large number of firms in the market who are producing identical or homogeneous products. As such these firms cannot influence the price in their individual capacities. They have to accept the price fixed (through Interaction of market demand and supply) by the industry as a whole.

2013 - DECEMBER

[66] In a perfectly competitive market, if MR is greater than MC, then a firm should—
(a) Increase its production
(b) Decrease its production
(c) Decrease its sales
(d) Increase its sales (1 mark)

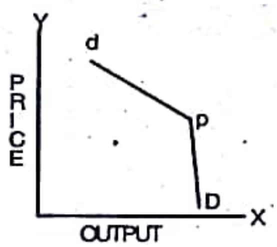
Answer:

(a) In a perfectly competitive market, if MR is greater than MC, there is always an incentive for the firm to expand its production further and gain by sale additional units.
Thus, the firm should increase its production if MR is greater than MC.

[67] Kinked demand curve is related to which market structure
(a) Oligopoly
(b) Monopoly
(c) Monopsony
(d) Monopolistic competition. (1 mark)

Answer:

(a) In oligopolistic industries prices remain sticky or inflexible for a long time. They tend to change infrequently even if in the face of declining cost. These inflexibilities lead to kink shape of the demand curve.
Therefore, oligopolistic markets have kinked demand curve.



Thus, option a is correct.

[68] In the long run a monopolist always earns
(a) Normal profit (b) Abnormal profit
(c) Zero profit (d) Loss (1 mark)

Answer:

(b) Long run is a period long enough to allow the monopolist to adjust his plant size or use his existing plant at any level that maximizes his profit. In the absence of competition the monopolist need not produce at the optimum level.
Therefore, the monopolist will not continue if he makes losses in the long run.
He will continue to make super normal profits abnormal even in the long run as entry of outside firm is blocked.
Thus, option b is correct.

[69] Under which of the following forms of market structure does a firm has a very considerable control over the price of its product?
(a) Monopoly
(b) Monopolistic Competition
(c) Oligopoly
(d) Perfect Competition (1 mark)

Answer:

(a) In monopoly since there is a single seller and there is only one firm producing and supplying a product. Each firm is a price maker and is in a position to determine price of its own product.

2014 - JUNE

[70] One of the essential conditions of Perfect Competition is :
(a) Product differentiation
(b) Many sellers and few buyers
(c) Only one price for identical goods at any one time
(d) Multiplicity of prices for identical product at any one time (1 mark)

Answer:

(c) In case of perfect competition, the commodity or the goods are sold at uniform price throughout the market at any given point of time. In other words, all firms individually are price takers; they have to accept the price determined by the market forces of demand and supply.

[71] The demand curve of an oligopolist is :
(a) Determinate (b) Indeterminate
(c) Circular (d) Vertical (1 mark)

Answer:

(b) When an oligopolistic firm changes its price, its rival firms will retaliate or react and change their prices which in turn would affect the demand of the former firm. Therefore, an oligopolistic firm cannot have sure and definite demand curve, since it keeps shifting as the rivals changes their prices in reaction to the price changes made by it.
Hence, option (b) is correct.

[72] Abnormal profits exist in the long run only under_____
(a) perfect competition (b) monopoly
(c) monopolistic competition (d) oligopoly (1 mark)

Answer:

(b) Abnormal profits exist in the long run only under monopoly. He will continue to make supernormal profits even in the long run as entry of outside firms is blocked.
Thus, option (b) is correct.

[73] The distinction between a single firm and an Industry vanishes in which of the following market conditions?
(a) Perfect Competition (b) Imperfect Competition
(c) Pure Competition (d) Monopoly (1 mark)

Answer:

(d) In a monopoly market, there is only one firm producing or supplying a product. This single firm constitutes the industry and as such there is no distinction between firm and industry in a monopolistic market or monopoly.

[74] Selling outlay is an essential part of which of the following market situations?

(a) Perfect Competition (b) Monopoly
(c) Monopolistic Competition (d) Pure Competition. (1 mark)

Answer:

(c) In a monopolistically competitive market, sellers try to compete on bases of selling cost/outlay. Sellers attempt to promote their product not by cutting prices but by incurring high expenditure on publicity and advertisement and sales promoting techniques.
Thus, selling outlay is an essential part of monopolistic competitive market.

[75] The Kinked demand curve model explains the market situation

(a) Pure Oligopoly (b) Differentiated Oligopoly
(c) Collusive Oligopoly (d) Price Rigidity (1 mark)

Answer:

(d) In many oligopolistic industries prices remain sticky or inflexible for a long time. They tend to change infrequently, even in the face of declining costs. The most popular explanation given for this price rigidity is the kinked demand curve hypothesis given by Paul A. Sweezy.

[76] For price discrimination to be successful, the elasticity of demand for the commodity in the two markets should be :

(a) Same (b) Different
(c) Constant (d) Zero (1 mark)

Answer:

(b) Conditions for price discrimination:
(i) Seller should have some control over the supply of his product.
(ii) Seller should be able to divide his market into two or more sub-markets.
(iii) Price-elasticity of the product should be different in different sub-market.
(iv) It should not be possible for buyers of low-priced market to resell the product to buyers of high-priced market.

2014 - DECEMBER

[77] 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 one buyer or seller cannot affect the market
(c) Each firm produces a homogeneous product
(d) There is easy entry into or exit from the market place. (1 mark)

Answer:

(b) The firm in a perfectly competitive market is a price taker. The designation as a price taker is based on the assumption that there are large number of buyers and sellers who compete among themselves and their number is so large that no buyer or seller is in a position to influence the demand or supply in the market.

[78] A market structure in which many firms sell products that are similar and identical is known as ________.

(a) monopolistic competition (b) monopoly
(c) perfect competition (d) oligopoly (1 mark)

Answer:

(c) Perfect competition is a market where firm sells homogenous product that are similar and identical in nature.

[79] A firm having kinked demand curve indicates that:

(i) If the firm reduces the price, competitive firms also reduce the price
(ii) If the firm increases the price, competitive firms also increases the price
(iii) If the firm reduces the price, competitive firms do not reduce the price
(iv) If the firm increases the price, competitive firms do not increase the price

(a) Only (i) above (b) Both (i) and (iv) above
(c) Both (ii) and (iv) above (d) Both (ii) and (iii) above (1 mark)

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Answer:

(b) In a firm having kinked demand curve indicates that, the firm has reduces, the price and the competitive firm also reduces the price but if the firm increases the price, competitive firms do not increase the price.

So, option B is correct answer i.e. Both (i) and (iv) above.

[80] Price discrimination will not be profitable, if the elasticity of demand is _________ in different markets

(a) uniform
(b) different
(c) less
(d) zero (1 mark)

Answer:

(a) Price discrimination is a method of pricing adopted by the monopolist in order to earn abnormal profits. It refers to the practices of charging different prices for different units of the same commodity. Thus, it will not be profitable, if the elasticity of demand is uniform in different market.

[81] In the long run, which of the following statement is true for a firm in a perfectly competitive industry?

(a) It operates at its minimum average cost
(b) The price is more than the average fixed cost
(c) The marginal cost is greatest than marginal revenue
(d) The fixed cost is lower than the total variable cost (1 mark)

Answer:

(a) In the long run, plants are used at full capacity, so that there is no wastage of resources i.e. MC = AC. The firm adjusts its plant size so as to produce that level of output at which the LAC is the minimum.

Thus, we can say that a firm in a perfectly competitive industry operates at its minimum average cost.

2015 - June

[82] The firm will attain equilibrium at a point where MC curve cuts _________ from below.

(a) AR curve
(b) MR curve
(c) AC curve
(d) AVC curve. (1 mark)

Answer:

(b) The MC curve cuts MR curve from below. In other words, MC should have a positive slope.

[83] In a monopoly market, a producer has control only over:

(a) Price of the commodity
(b) Demand of the commodity
(c) Both (a) and (b)
(d) Utility of the product. (1 mark)

Answer:

(a) The monopolist or the producers in a monopoly market may use their monopolistic power to realize maximum revenue and may also adopt price discrimination. Therefore they have control only over price of the commodity.

[84] One of the following is not correct about perfect competition:

(a) Purchase and Sale of homogeneous goods
(b) Existence of marketing costs
(c) Absence of transportation costs
(d) Perfect mobility of factors of production. (1 mark)

Answer:

(b) Perfect competition has following features:

- Large number of buyers and sellers of a commodity
- Homogeneous Product
- Perfect Knowledge
- Freedom of Entry and Exit
- No Extra Transport Cost
- Independent Decision Making
- Perfect Mobility

[85] Kinked demand curve under oligopoly is designed to show:
(a) Price and output determination
(b) Price rigidity
(c) Price leadership
(d) Collusion among rivals. (1 mark)

Answer:

(b) Kinked demand curve hypothesis has a 'kink' at the level of the prevailing price. This kink is formed to show price rigidity.

2015 - DECEMBER

[86] "I am making a loss, but with the rent I have to pay, I can't afford to shut down at this point of time." If this entrepreneur is attempting to maximize profits or minimize losses.
(a) Rational, if the firm is covering its variable cost
(b) Rational, if the firm is covering its fixed cost
(c) Irrational, since plant closing is necessary to eliminate losses
(d) Irrational, since fixed costs are eliminated if a firm shut down. (1 mark)

Answer:

(a) A point of operation where a firm is indifferent between continuing operation and shutting down temporarily. The shutdown point is the combination of output and price where a firm earns just enough revenue to cover its total variable costs.

[87] Kinked demand curve is the demand curve of
(a) Perfect Competition (b) Monopoly
(c) Monopolistic Competition (d) None of the above. (1 mark)

Answer:

(d) Kinked demand curve is the demand curve of oligopoly.

[88] Price discrimination will be profitable only if the elasticity of demand in different markets is
(a) Uniform (b) Different
(c) Less (d) Zero (1 mark)

Answer:

(b) Price discrimination will be profitable only if the elasticity of demand in different markets is different because Monopolist fixes a high price for his product for those buyers whose price Elasticity of demand for a product is less than one. This implies that when the monopolist charges a higher price from them, they do not significantly reduce their purchases in response to high price.

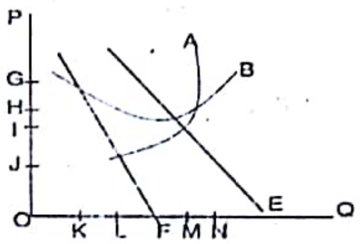
[89] Under which of the following form of market structure does a firm have no control over the price of its production?
(a) Monopoly (b) Monopolistic Competition
(c) Oligopoly (d) Perfect Competition. (1 mark)

Answer:

(d) In perfect competition, a firm has no control over the price of its product because there are large number of sellers and each seller produces such a small share of the total output so that any change in his output will not have a significant effect on the market price and there are large number of buyers so that no buyer can change its output by its individual action. The firms are said to be 'price takers'.

[90] ___________ is that situation in which a firm bases its market policy, in part on the expected behaviour of a few close rivals.
(a) Oligopoly (b) Monopolistic Competition
(c) Monopoly (d) Perfect Competition. (1 mark)

Solve the question No. 91, 92 and 93 on the base of following figure:



Answer:

(a) Oligopoly is a market structure in which there is interdependence of firms in decision making. This is because when the number of competitors are few any change in price, output or product by a firm will have a direct effect on the fortunes of the rivals, who will then retaliate by changing their own price.

[91] In the above figure, curve E is the firm's
- (a) Marginal Cost Curve
- (b) Average Cost Curve
- (c) Demand Curve
- (d) Marginal revenue Curve.

(1 mark)

Answer:

(c) Curve-E is Average Revenue curve which is also known as Demand Curve.

[92] Above figure represents a
- (a) Monopolist
- (b) Perfectly competition industry
- (c) Perfectly competitive firm
- (d) None of the above.

(1 mark)

Answer:

(a) Given curve is Monopolist curve because:
- (i) AR and MR are both negatively sloped
- (ii) MR curve lies half-way between the AR curve and the Y-axis. i.e. it cuts the Horizontal line between Y-axis and AR into two equal parts.
- (iii) AR cannot be zero, but MR can be zero or negative.

[93] In above figure, firms marginal revenue curve is curve
- (a) E
- (b) A
- (c) F
- (d) B

(1 mark)

Answer:

(c) Marginal revenue curve is curve F because it lies half-way between the AR curve and the Y-axis.

2016 - June

[94] The price elasticity of demand for a product is infinite under:
- (a) Perfect competition
- (b) Monopolistic competition
- (c) Monopoly
- (d) Oligopoly.

(1 mark)

Answer:

(a) The price elasticity of demand for a product is infinite under perfect competition as there are large number of buyers and sellers who compete among themselves and their number is so large that no buyer or seller is in a position to influence the demand or supply in the market.

[95] Comparing a Monopoly and Competitive firm the Monopolist will:
- (a) Produce less and sell at a lower price
- (b) Produce more and sell at a lower price
- (c) Produce less and sell at a higher price
- (d) Produce zero and sell at a lower price.

(1 mark)

Answer:

(c) Monopoly is an extreme form of imperfect competition with a single seller of a product which has no close substitute as compared with the perfectly competitive market. In perfect competition, average and marginal revenue are identical but this is not the case in monopoly as monopolist knows that if he wishes to increase his sales he will have to reduce the price of a product. Thus, produce less at a higher price at times.

[96] The reason for the kinked demand curve is that:
- (a) the oligopolist believe that competitors will follow output increases but not output reductions.
- (b) the oligopolist believe that competitors will follow price increases but not output reductions.
- (c) the oligopolist believe that competitors will follow price cuts but not price rises.
- (d) the oligopolist believe that competitors will follow price increases but not output increases.

(1 mark)

Answer:

(c) The reason for the Kinked Demand curve is that the oligopolist believe that competitors will follow price cuts but not price rises. This kink is formed at a prevailing price level. This is because the segment of the demand curve above the prevailing price level is highly elastic and the segment of the demand curve below the prevailing price level is inelastic.

[97] A discriminating monopolist will charge a higher price in the market in which the demand for its product is ____________.

(a) highly elastic (b) relatively elastic
(c) relatively inelastic (d) perfectly elastic. (1 mark)

Answer:

(c) A discriminating monopolist charge a higher price in a market which has a relatively in elastic demand. The market which is highly responsive to price changes is charged less. On the whole, the monopolist benefits from such discrimination.

[98] If a firm under monopoly wants to sell more, its average revenue curve will be a __________ line.

(a) horizontal (b) vertical
(c) downward sloping (d) upward sloping (1 mark)

Answer:

(c) If a firm under monopoly wants to sell more, its average revenue curve will be a downward sloping line because the seller charges a single price for all units he sells, average revenue per unit is identical with price, and thus the market demand curve is the average revenue curve for the monopolist.

2016 - DECEMBER

[99] Who sets the price of the product under perfect competition?

(a) Government (b) Consumers
(c) Sellers (d) Both buyers and sellers (1 mark)

Answer:

(d) Price of the product under perfect competition is set by both buyers and sellers.

[100] Which is the first order condition for the firm to maximise the profit.

(a) AC = MR (b) AC = AR
(c) MC = MR (d) MR = AR (1 mark)

Answer:

(c) The first order condition for the firm to maximise the profits is when marginal cost is equal to the marginal revenue.

[101] Which market has the concept of 'group' equilibrium in the long run?

(a) Oligopoly (b) Monopoly
(c) Monopolistic competition (d) Perfect competition. (1 mark)

Answer:

(c) In the long run monopolistic competition has the concept of group equilibrium. Group equilibrium represents the price and output of organizations having close substitutes.

[102] Which of the following is incorrect?

(a) Even monopolistic can earn losses.
(b) Firms in perfect competitive market is price taker.
(c) It is always beneficial for a firm in a perfectly competitive market to discriminative prices.
(d) Kinked demand curve is related to an oligopolistic market. (1 mark)

Answer:

(c) It is always beneficial for a firm in a perfectly competitive market to discriminate prices. This statement is incorrect.

[103] Average revenue curve is also known as:

(a) Profit Curve (b) Demand Curve
(c) Average Cost Curve (d) Indifference Curve (1 mark)

Answer:

(b) Average Revenue curve is also known as Demand Curve.

[104] Which is not characteristic of monopoly?
(a) The firm is price taker
(b) There is a single firm
(c) The firm produces a unique product
(d) The existence of some advertising.
Answer: (1 mark)
(a) A monopoly is not a price taker but a price maker.

[105] Price discrimination is profitable only when:
(a) Different markets are kept separate
(b) Distance between the consumer and the market is more
(c) Elasticity of demand in different markets is different
(d) The consumers are segregated on the basis of their purpose of use of the commodity. (1 mark)
Answer:
(c) Price discrimination is profitable only when elasticity of demand in different markets is different.

2017 - JUNE

[106] When the industry is dominated by one large firm which is considered as the leader of the group, the market is described as:
(a) Open oligopoly
(b) Perfect oligopoly
(c) Partial oligopoly
(d) Organised oligopoly. (1 mark)
Answer:
(c) Oligopoly is partial when the industry is dominated by one large firm which is considered or looked upon as the leader of the group. The dominating firm will be the price leader. In partial oligopoly. The market will be conspicuous by the absence of price leadership.

[107] Which amongst the following is not an objective of price discrimination?
(a) To hold the extra stocks
(b) To earn maximum profits
(c) To enjoy economies of scale
(d) To secure equity through pricing. (1 mark)
Answer:
(a) The objectives of price discrimination are here under:
1. to earn maximum profit
2. to dispose off surplus stock
3. to enjoy economies of scale
4. to capture foreign market
5. to secure equity through pricing

Thus, option (a) is the correct answer.

[108] Which of the following statement is not correct?
(a) Under monopoly there is no difference between a firm and 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. (1 mark)
Answer:
(c) Commodities offered for sale under a perfect competition will be homogenous. There are large number of buyers and sellers who compete among themselves and their number is so large that no buyer or seller is in a position to influence the demand and supply in the market being the commodity dealt in it is homogeneous, in the sense that the goods produced by different firms are identical in nature.

[109] Under perfect competition firm is described as:
(a) price taker and not price maker
(b) price maker and not price taker
(c) neither price maker nor price taker
(d) none of the above. (1 mark)

Answer:

(a) Under perfect competition firm is described as price takers and not price makers. This is because there are large number of firms in the market who are producing identical or homogenous products. As such these firms cannot influence the price in their individual capacities. They have to accept the price fixed (through interaction of total demand and total supply) by the industry as a whole.

[110] Under which of the following forms of market structure does a firm have no control over the price of its product?

(a) Monopoly (b) Monopolistic Competition

(c) Oligopoly (d) Perfect Competition. (1 mark)

Answer:

(d) Under perfect competition, a firm have no control over the price of its product. Firm have to accept the price as given and as such they are price takers rather than price makers. They cannot increase the price individually because of the fear of losing the customer to other firms.

Thus, option (d) is correct.

2018 - MAY

[111] Condition for equilibrium of firm:

(a) MR = MC

(b) AR = AC

(c) MC curve cuts MR curve from below

(d) Both (a) and (c) (1 mark)

Answer:

(d) Conditions for Equilibrium of firm are:

(i) Marginal revenue should be equal to marginal cost i.e. MR = MC

(ii) MC curve should cut MR curve from below i.e. MC should have positive slope. Hence both conditions.

[112] What is/ are feature (s) of oligopoly

(a) Kinked Demand curve

(b) Cartel

(c) Downward sloping demand curve

(d) Both (a) and (b) are correct (1 mark)

Answer:

(d) Oligopoly is type of market in which there are only few buyers and sellers (generally 2 to 10) and it was so many features also and these are as follows:

(a) Cartel

(b) Kinked Demand Curve

(c) Inter depence

(d) Group Behaviour

(e) Importance of advertising and selling costs

[113] Monopoly is undesirable due to:

(a) It has prices higher than competitive firms

(b) It produces less output than competitive firms

(c) It discriminates on prices

(d) All of the above.

Answer:

(d) Monopoly means where only one seller exist and take all the profits. It has some features from his point of view and undesirable also from public point of view these are:

(a) Price Discrimination

(b) Produced less output than competitive firms

(c) Prices higher, than competitive firm (1 mark)

[114] In long run equilibrium undue perfect competition is/are satisfied by which condition

(a) MC = MR

(b) AC = AR

(c) CMC = LAC = P

(d) All of the above.

(1 mark)

Answer:

(d) Equilibrium point is judged in long run when there is/are following conditions given
(a) Marginal Cost = Marginal Revenue or MC = MR
(b) Average Cost = Average Revenue or AC = AR
(c) Long run Marginal Cost = Long Run Average Cost = Price or LMC = LAC = P

[115] In the long run monopolist
(a) Incur losses (b) Must earn super normal profits
(c) Wants to shut down (d) Earns only normal profits. (1 mark)

Answer:

(b) Monopoly means one seller and many buyers. Monopoly is kind of market in which seller is known as monopolist and as his business gross for long time then he not only earns normal profits but also abnormal profits and which is known as super profits. So, the must earn super normal profits in long run.

[116] The demand curve of the firm and industry will be same in which form of market:
(a) Monopolistic competition (b) Perfect competition
(c) Monopoly (d) Oligopoly (1 mark)

Answer:

(c) Demand curve of firm and industry will same in monopoly market as price set by industry and firm have to choose that level of output which yields maximum profits.

[117] Which of these is the best example of oligopoly?
(a) OPEC (b) SAARC
(c) WTO (d) GATT (1 mark)

Answer:

(a) Oligopoly market is type of market in which there are only 2 to 10 sellers.
For Ex: OPEC, cold-drink seller, water supplier etc.

[118] In a perfectly competitive market, if MR is greater than MC, then a firm should:
(a) Increase its production (b) Decrease its production
(c) Decrease its sales (d) Increase its sales (1 mark)

Answer:

(a) In a perfect competition market, when firm increase its output or production then the reason is its Marginal Revenue/Average Revenue is greater than Marginal Cost/Average Cost.

[119] Equilibrium price for an industry in prefect competition is fixed through
(a) Input and output
(b) Market demand and market supply
(c) Market demand and firms supply
(d) None of the above. (1 mark)

Answer:

(b) Equilibrium is that price at which both demand and supply are equal and therefore, no buyer who wanted to buy at that price goes dissatisfied and none of the seller is dissatisfied that he could not sell his goods at that price. Equilibrium price in perfect competition is fixed through Market Supply and Market Demand.

[120] A competitive firm in the short rum insure losses. The firm continues production, if:
(a) P > AVC (b) P = AVC
(c) P < AVC (d) P ≥ AVC (1 mark)

Answer:

(d) Firm continues production if price is greater than or equal to average variable cost but price is less than average variable cost then firm will incur definitely losses which leads to closure of firm.

[121] Market form in which there is only one buyer and one seller is:
(a) Oligopoly (b) Duopoly
(c) Bilateral Monopoly (d) Monopsony (1 mark)

Answer:

(c) Monopoly is type of market in which there are only one seller and one buyer.

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[122] The structure of the Toothpaste Industry in India is best described as:
(a) Perfectly competitive
(b) Monopolistic
(c) Monopolistically competitive
(d) Oligopolistic
(1 mark)

Answer:
(b) Monopolistic market has differentiated products with close substitutes just like Toothpaste Industries.

[123] Product differentiation is the main features of which market?
(a) Oligopoly
(b) Monopolistic
(c) Discriminating Monopoly
(d) Perfect competition
(1 mark)

Answer:
(b) In monopolistic competitive market there are large number of buyers and seller each selling differentiated product.

[124] Which market is having a single seller and single Buyer?
(a) Duopoly
(b) Monopsony
(c) Bilateral Monopoly
(d) None of the above
(1 mark)

Answer:
(c) Bilateral Monopoly is a market structure in which there is only a single buyer and a single seller i.e. it is a combination of monopoly market and a monopsony market.

[125] In Long run perfect competitive market incurs
(a) Normal profit
(b) Supernormal profit
(c) Losses
(d) Constant Returns
(1 mark)

Answer:
(a) In long run, firms will 'just be earning normal profit because if in short run they earning supernormal profit new firms will be attracted and supply will rise which lead to fall in prices and *vice versa*.

[126] Which one of the following is not the feature of Oligopoly?
(a) Interdependency
(b) Selling cost
(c) Free Entry
(d) None of the above/ group behaviour
(1 mark)

Answer:
(c) Feature of oligopoly are:
1. Strategic Interdepence
2. Importance of advertising and selling cost
3. Group behaviour.

Therefore, free entry is not a feature of oligopoly market.

[127] Price leadership is the characteristic of
(a) Oligopoly
(b) Monopoly
(c) Perfect competition
(d) Discriminating Monopoly
(1 mark)

Answer:
(a) Price leadership can be by dominant firm, a low cost firm or it can be barometric price leadership.

[128] MR Curve in perfect competition is
(a) Parallel to X- axis
(b) Parallel to Y- axis
(c) Fall from left to right
(d) Rise from left to right
(1 mark)

Answer:
(a) MR curve in perfect competition is parallel to x-axis. Because a perfectly competitive firm is a price taker and faces a horizontal demand curve, its MC curve is also horizontal and coincides with its AC curve.

[129] Which of the following is not the characteristic of MR?
(a) When TR is minimum, then MR is zero
(b) MR can be negative
(c) MR slopes downward from left to right
(d) MR Curve is below AR Curve

Answer: (1 mark)

(b) Properties of MR is:
(i) When TR is maximum, then MR is zero
(ii) MR can be negative
(iii) MR slopes downward
(iv) MR curve is below AR curve

Therefore, (b) is the correct option, because MR can be negative.

[130] Which out of these are not a feature of perfect competition?
(a) Homogeneous
(b) Large number of buyer and sellers
(c) Free entry and exit
(d) Selling cost.

Answer: (1 mark)

(d) Feature of perfectly competitive market
1. Large number of buyers and sellers
2. Products are homogenous in nature
3. Firms are free to center and exit
4. Consumer have perfect knowledge.

Therefore selling cost is not included in perfectly competitive market

[131] Which of the following statement is correct?
(a) Price rigidity is an important feature of monopoly
(b) Selling cost are possible under perfect competition
(c) An industry consists of many firm
(d) Under perfect competition factor of production do not move freely as these are legal restriction (1 mark)

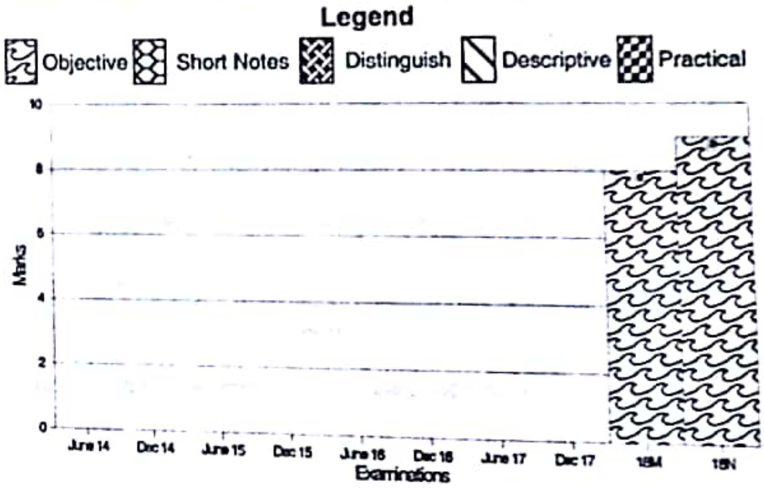
Answer:

(d) Under perfect competition factor of production do not move freely as there are legal restriction. Therefore this is correct statement.

✿

5 BUSINESS CYCLES

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



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PAST YEAR QUESTIONS AND ANSWERS

2018 - MAY

[1] Rampant unemployment is found in:
(a) Boom (b) Recovery
(c) Contraction (d) Depression (1 mark)

Answer:

(d) Because very much unemployment is seen in depression.

[2] According to which economist trade cycle is a purely monetary for phenomenon
(a) Schumpter (b) Pigou
(c) Hawtrey (d) Marshall (1 mark)

Answer:

(c) 'Trade cycle is purely Monetary phenomenon' is said by one and only Hawtrey

[3] Greatest depression suffered by economy in which year.
(a) 1924 (b) 1930
(c) 2008 (d) 2009 (1 mark)

Answer

(b) 1930 is a year in which greatest depression suffered by economy

[4] Last stage of recession is called:
(a) Depression (b) Recovery
(c) Slowdown (d) All of these. (1 mark)

Answer:

(a) Depression is the last stage of recession and not slowdown and recovery

[5] In the long run, a reduction in labour supply would cause output to _____ and the aggregate price level to _____.
(a) fall; rise (b) fall, fall
(c) rise, fall (d) rise, rise. (1 mark)

Answer:

(a) If firm in long run, reduce supply of labour then it will cause fall in output whereas rise in aggregate price.

[6] Which of the following macro economic variables would you include in an index of leading economic indicators?
(a) Employment (b) .Inflation
(c) Real interest rates (d) Presidential investment (1 mark)

Answer:

(d) The variables that change before the real output changes are called' leading indicators'. They often change prior to large economic adjustment. It will include residential investment as one of its variables.

[7] Industries that are extremely sensitive to the business cycle are the
(a) durable goods and service sectors
(b) non durable goods and service sectors
(c) capital goods and non-durable goods sectors
(d) capital goods and durable goods sectors (1 mark)

Answer:

(d) Capital goods and durable goods both are of same nature i.e. long term period. These both goods are extremely sensitive to the business cycle. Without these business can not go smooth by.

[8] An economic variable that moves in the opposite direction as aggregate economic activity down in expansions, up in contractions is called.
(a) procyclical (b) counter cyclical
(c) a cyclical (d) a leading variable (1 mark)

Answer:

(b) An economic variable that moves in the opposite direction as aggregate economic activity (down in expansion and up in contraction) is called counter cyclical

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[9] How many phases are their in business cycle?
- (a) Four
- (b) Five
- (c) One
- (d) Many

(1 mark)

Answer:

(a) Business cycle has 4 Phases; expansion, peak contraction, trough.

[10] The world economy suffered the longest, deepest and most widespread depression of the 20th century during?
- (a) 1934
- (b) 1928
- (c) 1930
- (d) 1932

(1 mark)

Answer:

(c) The world economy suffered most widespread depression of the 20th Century during 1930s. It started in US.

[11] Business cycle is contagious and ______ in character?
- (a) Local
- (b) Regional
- (c) National
- (d) International

(1 mark)

Answer:

(d) Business cycle is International in character as it effects all over the world.

[12] Which External Factor affect the business cycle?
- (a) Population growth
- (b) Variation in government spending
- (c) Money supply
- (d) Macro economic policies

(1 mark)

Answer:

(a) Population growth is the factor which affects business cycle.

[13] Which internal factor affect the Business cycle?
- (a) Fluctuations in investment
- (b) Natural factors
- (c) Technology shocks
- (d) Population growth

(1 mark)

Answer:

(a) Fluctuations in Investment is the Internal factor which affect business cycle.

[14] Whose statement out of these is false?
- (a) Hawtrey – "Trade cycle is purely Monetary phenomena"
- (b) Keynes – "Fluctuations in aggregate Demand"
- (c) Pigou – "Fluctuations in investment"
- (d) Schumpeter – "Innovations"

(1 mark)

Answer:

(c) According to Pigou, modern business activities are based on anticipation of business community and are affected by waves of optimism or pessimism.

[15] When once peak is reached, increase in demand is salted, then ______ phase begins?
- (a) Trough
- (b) Contraction
- (c) Expansion
- (d) Trend

(1 mark)

Answer:

(b) Once peak is reached, increase in demand is halted and start decreasing in certain sectors and therefore, phase of contraction begins.

[16] Fashion Retailer is business of?
- (a) Cyclical business
- (b) Sun rise business
- (c) Sluggish business
- (d) None of these

(1 mark)

Answer:

(a) Business whose fortunes are closely by related to the rates of economic growth are referred to as cyclical business.

[17] Features of business cycles include?
(a) Discuss periodically
(b) Have four different phases
(c) Originate in free Market Economy
(d) All of the above. (1 mark)

Answer:

(d) Feature of business cycle are:
1. It occurs periodically although they do not exhibit same regularity
2. They have four distinction phases.
3. It occurs in free market economy.
4. It is pervasive in nature

Therefore, **(d)** is the right option all of the above.

PRACTICE QUESTION OF MCQ

[1] The four phases of the business cycles are:
(a) Peak, recession, trough and depression
(b) Peak, recession, trough and boom
(c) Peak, depression, trough and boom
(d) Peak, depression, burst and boom

Answer:

(b) Peak, recession, trough and boom

[2] Great Depression occurred during:
(a) 1930 (b) 1947
(c) 1857 (d) 2000

Answer:

(a) 1930

[3] Internal causes of depression includes:
(a) Fluctual in investments (b) Money supply
(c) Psychological factors (d) All of these

Answer:

(d) All of these

[4] External factors for depression does not include:
(a) Population growth (b) Technology shocks
(c) Macro economic policies (d) Post was reconstruction

Answer:

(c) Macro economic policies

[5] ____________ is the measurable economic factor that changes before economy starts to follow a particular pattern or trend:
(a) Leading indicator (b) Lagging indicator
(c) Concurrent indication (d) Coincident indicators

Answer:

(a) Leading indicator

[6] The Rhythmic fluctuations in aggregate economic activity over a period of time are called:
(a) Business cycles (b) Trade cycles
(c) Both (a) and (b) (d) None of these

Answer:

(c) Both (a) and (b)

[7] According to ____________, modern business activities are based on the anticipation of business communities and are affected by waves of optimism and pessimism:
(a) Pigou (b) Hawtrey
(c) Keynes (d) Schumpeter

Answer:

(a) Pigou

[8] According to ____________ trade cycles occurs as a result of innovation which takes place in the system from time to time:
(a) Pigou (b) Hawtrey
(c) Keynes (d) Schumpeter

Answer:

(d) Schumpeter

[9] Variables that change after real output changes are:
(a) Leading indicators (b) Lagging indicators
(c) Coincident indicators (d) None of these

Answer:

(b) Lagging indicators

[10] Severe form of recession is called:
(a) Boom (b) Depression
(c) Trough (d) Recovery
Answer:
(b) Depression

[11] Industries which are extremely sensitive to business cycles includes:
(a) Non durable goods
(b) Service Sector
(c) Capital goods and durable goods
(d) None of these
Answer:
(c) Capital goods and durable cost

[12] Peaks and troughs of the business cycles are known collectively as:
(a) Turning points (b) Indicators
(c) Equilibrium points (d) Contraction
Answer:
(a) Turning points.

[13] During recession output:
(a) Falls (b) Rises
(c) Expands (d) None of these.
Answer:
(a) Falls

[14] Business cycles generally originate in:
(a) Free market economies (b) Imperfect economies
(c) Developed nations (d) Low growth economies
Answer:
(a) Free market economies

[15] At the time of Great Depression of 1930, GDP fell around:
(a) 14% (b) 15%
(c) 20% (d) 25%
Answer:
(b) 15%

[16] The highest point of business cycle is known as:
(a) Trough (b) Peak
(c) Trend (d) Boom
Answer:
(b) Peak

[17] During the slow down of economy,
(a) GDP is increasing at fast rate
(b) GDP is increasing at slow rate
(c) GDP is decreasing at fast rate
(d) All of these
Answer:
(b) GDP is increasing at slow rate

[18] The economic boom is characterised as period when:
(a) Rising employment
(b) High demand of imported goods
(c) Increase in investments
(d) All of these
Answer:
(d) All of these

[19] Which macro economic variables are excluded from leading economic indicators:
(a) Industrial production (b) Residential investment
(c) Money supply (d) Inventory investment
Answer:
(a) Industrial production

[20] When aggregate economic activity is declining, is the phase of:
(a) Expansion (b) Contraction
(c) Recovery (d) Trough
Answer:
(b) Contraction

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