

## Chapter 1 -NATURE AND SCOPE OF BUSINESS ECONOMIC

1. Economists regard decision making as important because:

- (a) The resources required to satisfy our unlimited wants and needs are finite, or scarce.
- (b) It is crucial to understand how we can best allocate our scarce resources to satisfy society's unlimited wants and needs.
- (c) Resources have alternative uses.
- (d) All the above.

2. Business Economics is -

- (a) Abstract and applies the tools of Microeconomics.
- (b) Involves practical application of economic theory in business decision making.
- (c) Incorporates tools from multiple disciplines.
- (d) (b) and (c) above.

3. In Economics, we use the term scarcity to mean -

- (a) Absolute scarcity and lack of resources in less developed countries.
- (b) Relative scarcity i.e. scarcity in relation to the wants of the society.
- (c) Scarcity during times of business failure and natural calamities.
- (d) Scarcity caused on account of excessive consumption by the rich.

4. What implication(s) does resource scarcity have for the satisfaction of wants?

- (a) Not all wants can be satisfied.
- (b) We will never be faced with the need to make choices.
- (c) We must develop ways to decrease our individual wants.
- (d) The discovery of new natural resources is necessary to increase our ability to satisfy wants.

5. Which of the following is a normative statement?

- (a) Planned economies allocate resources via government departments.
- (b) Most transitional economies have experienced problems of falling output and rising prices over the past decade.
- (c) There is a greater degree of consumer sovereignty in market economies than planned economies.
- (d) Reducing inequality should be a major priority for mixed economies.

6. In every economic system, scarcity imposes limitations on

- (a) households, business firms, governments, and the nation as a whole.
- (b) households and business firms, but not the governments.
- (c) local and state governments, but not the federal government.
- (d) households and governments, but not business firms.

7. Macroeconomics is also called——— economics.

- (a) applied
- (b) aggregate
- (c) experimental
- (d) none of the above

8. An example of 'positive' economic analysis would be:

- (a) an analysis of the relationship between the price of food and the quantity purchased.
- (b) determining how much income each person should be guaranteed.
- (c) determining the 'fair' price for food.
- (d) deciding how to distribute the output of the economy.

9. A study of how increases in the corporate income tax rate will affect the national unemployment rate is an example of -

- (a) Macro-Economics.
- (b) Descriptive Economics.
- (c) Micro-economics.
- (d) Normative economics.

10. Which of the following does not suggest a macro approach for India?

- (a) Determining the GNP of India.
- (b) Finding the causes of failure of ABC Ltd.
- (c) Identifying the causes of inflation in India.
- (d) Analyse the causes of failure of industry in providing large scale employment

11. Ram: My corn harvest this year is poor.

Krishan: Don't worry. Price increases will compensate for the fall in quantity supplied.

Vinod: Climate affects crop yields. Some years are bad, others are good.

Madhu: The Government ought to guarantee that our income will not fall.

In this conversation, the normative statement is made by -

- (a) Ram
- (b) Krishan
- (c) Vinod
- (d) Madhu

12. Consider the following and decide which, if any, economy is without scarcity:

- (a) The pre-independent Indian economy, where most people were farmers.
- (b) A mythical economy where everybody is a billionaire.
- (c) Any economy where income is distributed equally among its people.

(d) None of the above

13. Which of the following is not a subject matter of Micro-economies?

(a) The price of mangoes.

(b) The cost of producing a fire truck for the fire department of Delhi, India.

(c) The quantity of mangoes produced for the mangoes market.

(d) The national economy's annual rate of growth.

14. The branch of economic theory that deals with the problem of allocation of resources is-

(a) Micro-Economic theory.

(b) Macro-economic theory.

(c) Econometrics.

(d) None of the above.

15. Which of the following is not the subject matter of Business Economics?

(a) Should our firm be in this business?

(b) How much should be produced and at price should be kept?

(c) How will the product be placed in the market?

(d) How should we decrease unemployment in the economy?

16. Which of the following is a normative economic statement?

(a) Unemployment rate decreases with industrialization

(b) Economics is a social science that studies human behaviour.

(c) The minimum wage should be raised to ` 200/- per day

(d) India spends a huge amount of money on national defence.

17. Which of the following would be considered a topic of study in Macroeconomics?

(a) The effect of increase in wages on the profitability of cotton industry

(b) The effect on steel prices when more steel is imported

(c) The effect of an increasing inflation rate on living standards of people in India

(d) The effect of an increase in the price of coffee on the quantity of tea consumed

18. The difference between positive and normative Economics is:

(a) Positive Economics explains the performance of the economy while normative Economics finds out the reasons for poor performance.

(b) Positive Economics describes the facts of the economy while normative Economics involves evaluating whether some of these are good or bad for the welfare of the people.

(c) Normative Economics describes the facts of the economy while positive Economics involves evaluating whether some of these are good or bad for the welfare of the people.

(d) Positive Economics prescribes while normative Economics describes.

19. Which of the following is not within the scope of Business Economics?

- (a) Capital Budgeting
- (b) Risk Analysis
- (c) Business Cycles
- (d) Accounting Standards

20. Which of the following statements is incorrect?

- (a) Business economics is normative in nature.
- (b) Business Economics has a close connection with statistics.
- (c) Business Economist need not worry about macro variables.
- (d) Business Economics is also called Managerial Economics

21. Economic goods are considered scarce resources because they.

- (a) cannot be increased in quantity.
- (b) do not exist in adequate quantity to satisfy the requirements of the society.
- (c) are of primary importance in satisfying social requirements.
- (d) are limited to man made goods.

22. In a free market economy the allocation of resources is determined by

- (a) voting done by consumers.
- (b) a central planning authority.
- (c) consumer preferences.
- (d) the level of profits of firms.

23. A capitalist economy uses \_\_\_\_\_ as the principal means of allocating resources.

- (a) demand
- (b) supply
- (c) efficiency
- (d) prices

24. Which of the following is considered as a disadvantage of allocating resources using the market system?

- (a) Income will tend to be unevenly distributed.
- (b) People do not get goods of their choice.
- (c) Men of Initiative and enterprise are not rewarded.
- (d) Profits will tend to be low.

25. Which of the following statements does not apply to a market economy?

- (a) Firms decide whom to hire and what to produce.
- (b) Firms aim at maximizing profits.

- (c) Households decide which firms to work for and what to buy with their incomes.
- (d) Government policies are the primary forces that guide the decisions of firms and households.

26. In a mixed economy -

- (a) all economic decisions are taken by the central authority.
- (b) all economic decisions are taken by private entrepreneurs.
- (c) economic decisions are partly taken by the state and partly by the private entrepreneurs.
- (d) none of the above.

27. The central problem in economics is that of

- (a) comparing the success of command versus market economies.
- (b) guaranteeing that production occurs in the most efficient manner.
- (c) guaranteeing a minimum level of income for every citizen.
- (d) allocating scarce resources in such a manner that society's unlimited needs or wants are satisfied in the best possible manner.

28. Capital intensive technique would get chosen in a

- (a) labour surplus economy where the relative price of capital is lower.
- (b) capital surplus economy where the relative price of capital is lower.
- (c) developed economy where technology is better.
- (d) developing economy where technology is poor.

29. Which of the following is not one of the four central questions that the study of economics is supposed to answer?

- (a) Who produces what?
- (b) When are goods produced?
- (c) Who consumes what?
- (d) How are goods produced?

30. Larger production of \_\_\_goods would lead to higher production in future.

- (a) consumer goods
- (b) capital goods
- (c) agricultural goods
- (d) public goods

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36. Administered prices refer to:
- (a) Prices determined by forces of demand and supply
  - (b) Prices determined by sellers in the market
  - (c) Prices determined by an external authority which is usually the government
  - (d) None of the above

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

38. Unlimited ends and limited means together present the problem of \_\_\_\_\_.
- (a) Scarcity of resources
  - (b) Choice
  - (c) Distribution
  - (d) None of the above

39. Which of the following is NOT a central issue in macroeconomics?
- (a) How should the central bank of a country fight inflation?
  - (b) What is responsible for high and persistent unemployment?
  - (c) How do tax changes influence consumers' buying choices?

(d) What factors determine economic growth?

40. In a capitalist economy, profit is socially desirable because it:

- (a) reallocates wealth from small firms to large firms.
- (b) attracts resources to the most desirable types of production.
- (c) allows firms to operate at higher levels of cost.
- (d) permits firms to hire more workers and thereby reduces the unemployment rate.

41. Problem of choice is the basis of:

- (a) Economic Problem
- (b) Social Problem
- (c) Political Problem
- (d) None of these

42. A study of how an increase in the corporate income tax rate will affect the national unemployment rate is an example of:

- (a) Macroeconomics
- (b) Descriptive Economics
- (c) Microeconomics
- (d) Normative Economics

43. According to Robbins, 'means' are:

- (a) Scarce
- (b) Unlimited
- (c) Undefined
- (d) All of these

44. Normative aspect of Economics is given by :

- (a) Marshall
- (b) Robbins
- (c) Adam Smith
- (d) Samuelson

45. 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

46. Inequalities of income do not perpetuate in

- (a) socialism
- (b) mixed economy
- (c) capitalism
- (d) none

47. 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

48. In which among the following systems the right to property' exists

- (a) Mixed economy
- (b) Capitalist economy
- (c) Socialist economy
- (d) Traditional economy

49. All wants of an individual are not of:

- (a) Equal importance
- (b) Immediate importance
- (c) Fixed importance
- (d) All of the above

50. Which Economic System is described by Schumpeter as 'capitalism in the oxygen tent?

- (a) Laissez-Faire Economy
- (b) Command Economy
- (c) Mixed Economy
- (d) Agrarian Economy

51. 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

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- (c) Men of Initiative and enterprise are not rewarded.
- (d) Profits will tend to be low.

60. Macro Economics is the study of \_\_\_\_\_.

- (a) all aspects of scarcity.
- (b) the national economy and the global economy as a whole.
- (c) big businesses.
- (d) the decisions of individual businesses and people.

**Solution:-**

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

## CHAPTER 2 - THEORY OF DEMAND & SUPPLY

1. Demand for a commodity refers to:

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

2. Contraction of demand is the result of :

- (a) decrease in the number of consumers.
- (b) increase in the price of the good concerned.
- (c) increase in the prices of other goods.
- (d) decrease in the income of purchasers.

3. All but one of the following are assumed to remain the same while drawing an individual's demand curve for a commodity. Which one is it?

- (a) The preference of the individual.
- (b) His monetary income.
- (c) Price of the commodity
- (d) Price of related goods.

4. Which of the following pairs of goods is an example of substitutes?

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

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

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

6. The Law of Demand, assuming other things to remain constant, establishes the relationship between:

- (a) income of the consumer and the quantity of a good demanded by him.
- (b) price of a good and the quantity demanded.
- (c) price of a good and the demand for its substitute.
- (d) quantity demanded of a good and the relative prices of its complementary goods.

7. Identify the factor which generally keeps the price-elasticity of demand for a good low:

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

8. Identify the coefficient of price-elasticity of demand when the percentage increase in the quantity of a good demanded is smaller than the percentage fall in its price:

- (a) Equal to one.
- (b) Greater than one.
- (c) Less than one.
- (d) Zero

9. In the case of an inferior good, the income elasticity of demand is:

- (a) positive.
- (b) Zero.
- (c) Negative.
- (d) infinite.

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

- (a) Remain the same.
- (b) Increase.
- (c) Decrease.
- (d) Any of these.

11. Which of the following is an incorrect statement?

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

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

- (a) .5
- (b) .8
- (c) 1.0
- (d) 1.2

13. Suppose a department store has a sale on its silverware. If the price of a plate-setting is reduced from ` 300 to ` 200 and the quantity demanded increases from 3,000 platesettings to 5,000 plate-settings, what is the price elasticity of demand for silverware? (Use Arc Elasticity Method)

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

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

- (a) The goods are perfect complements and therefore have to be used together
- (b) The goods are perfect substitutes and can be used with ease in place of one another
- (c) There is a high degree of substitutability between the two goods
- (d) The goods are neutral and therefore cannot be considered as substitutes

15. If the local pizzeria raises the price of a medium pizza from ` 60 to ` 100 and quantity demanded falls from 700 pizzas a night to 100 pizzas a night, the price elasticity of demand for pizzas is :(Use Arc Elasticity Method)

- (a) .67
- (b) 1.5
- (c) 2.0
- (d) 3.0

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

- (a) Quantity demanded will fall by a relatively large amount.
- (b) Quantity demanded will fall by a relatively small amount.
- (c) Quantity demanded will rise in the short run, but fall in the long run.
- (d) Quantity demanded will fall in the short run, but rise in the long run.

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

- (a) Large fall in quantity demanded.
- (b) Large fall in demand.
- (c) Small fall in quantity demanded.
- (d) Small fall in demand.

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

- (a) The bookstore is considering doubling the price of notebooks.
- (b) A restaurant is considering lowering the price of its most expensive dishes by 50 percent.
- (c) An auto producer is interested in determining the response of consumers to the price of cars being lowered by ` 100.

(d) None of the above.

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

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

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

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

21. In the case of a Giffen good, the demand curve will usually be:

- (a) horizontal.
- (b) downward-sloping to the right.
- (c) vertical.
- (d) upward-sloping to the right.

22. By consumer surplus, economists mean

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

23. Which of the following is a property of an indifference curve?

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

24. When economists speak of the utility of a certain good, they are referring to

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

25. A vertical supply curve parallel to Y axis implies that the elasticity of supply is:

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

26. For a normal good with a downward sloping demand curve:

- (a) The price elasticity of demand is negative; the income elasticity of demand is negative.
- (b) The price elasticity of demand is positive; the income elasticity of demand is negative.
- (c) The price elasticity of demand is positive; the income elasticity of demand is positive.
- (d) The price elasticity of demand is negative; the income elasticity of demand is positive.

27. An increase in the supply of a good is caused by :

- (a) Improvements in its production technology
- (b) Fall in the prices of other goods which can be produced using the same inputs.
- (c) Fall in the prices of factors of production used in its production.
- (d) all of the above.

28. Elasticity of supply refers to the degree of responsiveness of supply of a good to changes in its:

- (a) Demand.
- (b) Price.
- (c) Cost of production.
- (d) State of technology

29. 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.

30. Contraction of supply is the result of:

- (a) Decrease in the number of producers.
- (b) Decrease in the price of the good concerned.
- (c) Increase in the prices of other goods.
- (d) Decrease in the outlay of sellers.

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- (b) need for the commodity and willingness to pay for it
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32. In the case of a straight line demand curve meeting the two axes, the price-elasticity of demand at the mid-point of the line would be:

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

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

- (a) Remain the same.
- (b) Increase.
- (c) Decrease.
- (d) Any of these.

34. The price of hot dogs increases by 22% and the quantity of hot dogs demanded falls by 25%. This indicates that demand for hot dogs is:

- (a) Elastic.
- (b) Inelastic.
- (c) Unitarily elastic.
- (d) Perfectly elastic.

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

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

37. Which one is not an assumption of the theory of demand based on analysis of indifference curves?

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

38. What will happen in the rice market if buyers are expecting higher rice prices in the near future?

- (a) The demand for rice will increase and the demand curve will shift to the right
- (b) The demand for rice will decrease and the demand curve will shift to the left
- (c) The demand for rice will be unaffected as it is a necessity
- (d) The demand for wheat will increase and the demand curve will shift to the right

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

40. Conspicuous goods are also known as

- (a) Prestige goods
- (b) Snob goods
- (c) Veblen goods
- (d) All of the above

41. A relative price is

- (a) price expressed in terms of money
- (b) what you get paid for babysitting your cousin
- (c) the ratio of one money price to another
- (d) equal to a money price

42. Following is not a factor affecting price elasticity of demand:

- (a) Price level
- (b) Cost of Production
- (c) Availability of substitutes
- (d) Time period

43. By way of an optimal choice, a consumer tends to:

- (a) save money
- (b) purchase large quantity
- (c) maximize satisfaction
- (d) maximize satisfaction subject to constraints like tastes and preferences.

44. A consumer's preferences are monotonic if and only if between two bundles, the consumer prefers the bundle which has \_\_\_\_\_.

- (a) more of one of the goods
- (b) less of at least one of the goods
- (c) more of at least one of the goods and less of the other good.
- (d) more of at least one of the goods and no less of the other good.

45. The producer is in equilibrium at a point where the cost line is:

- (a) above the isoquant
- (b) below the isoquant
- (c) cutting the isoquant
- (d) tangent to isoquant

46. Computers and computer software are\_\_\_\_\_.

- (a) Substitute goods
- (b) Complementary goods
- (c) Independent goods
- (d) Normal goods

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

- (a) a movement up a given IC
- (b) a movement from a higher to a lower IC
- (c) a movement down a given IC
- (d) any of the above

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

- (a) Proportionately large fall in quantity demanded
- (b) No change in quantity demanded
- (c) Proportionately small fall in quantity demanded
- (d) Infinite change in quantity demanded

49. In a Public good context, it is difficult to measure impact of real income because:

- (a) Public goods are generally free to the Public
- (b) They make up a small percentage of total GDP
- (c) It is hard to measure how people value to public good
- (d) Inflation decreases the value of the good

50. If cross-price elasticity between goods A and B is determined to be exactly zero, which of the following statements is correct?

- (a) Goods A and B are substitutes
- (b) Goods A and B are complements
- (c) Goods A and B are comparatives
- (d) Goods A and B are independent

51. Budget Line indicates:

- (a) Income Ratio
- (b) Price Ratio
- (c) Cost Ratio
- (d) None of these

52. Contraction of demand is the result of :

- (a) decrease in the number of consumers.
- (b) increase in the price of the good concerned.
- (c) increase in the prices of other goods.
- (d) decrease in the income of purchasers.

53. Which of the following pairs of goods is an example of substitutes?

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

54. The Law of Demand, assuming other things to remain constant, establishes the relationship between:

- (a) income of the consumer and the quantity of a good demanded by him.
- (b) price of a good and the quantity demanded.
- (c) price of a good and the demand for its substitute.
- (d) quantity demanded of a good and the relative prices of its complementary goods.

55. Identify the coefficient of price-elasticity of demand when the percentage increase in the quantity of a good demanded is smaller than the percentage fall in its price:

- (a) Equal to one.
- (b) Greater than one.
- (c) Less than one.
- (d) Zero

56. Suppose the price of Pepsi increases, we will expect the demand curve of Coca Cola to:

- (a) Shift towards left since these are substitutes
- (b) Shift towards right since these are substitutes
- (c) Remain at the same level
- (d) None of the above

57. A movement along the demand curve for soft drinks is best described as:

- (a) An increase in demand.
- (b) A decrease in demand.
- (c) A change in quantity demanded.
- (d) A change in demand.

58. If the quantity demanded of mutton increases by 5% when the price of chicken increases by 20%, the cross-price elasticity of demand between mutton and chicken is

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

59. Which of the following statements about price elasticity of supply is correct?

- (a) Price elasticity of supply is a measure of how much the quantity supplied of a good responds to a change in the price of that good
- (b) Price elasticity of supply is computed as the percentage change in quantity supplied divided by the percentage change in price
- (c) Price elasticity of supply in the long run would be different from that of the short run
- (d) All the above

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

- (a) Quantity demanded will fall by a relatively large amount.
- (b) Quantity demanded will fall by a relatively small amount.
- (c) Quantity demanded will rise in the short run, but fall in the long run.
- (d) Quantity demanded will fall in the short run, but rise in the long run.

**Solution :-**

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

31	d	32	b	33	b	34	a	35	b
36	b	37	c	38	a	39	a	40	d
41	c	42	B	43	D	44	D	45	D
46	B	47	C	48	A	49	C	50	D
51	B	52	b	53	b	54	b	55	c
56	b	57	c	58	b	59	D	60	b

### CHAPTER 3 - THEORY OF PRODUCTION & COST

1. Which of the following is the best definition of "production function"?

- (a) The relationship between market price and quantity supplied.
- (b) The relationship between the firm's total revenue and the cost of production.
- (c) The relationship between the quantities of inputs needed to produce a given level of output.
- (d) The relationship between the quantity of inputs and the firm's marginal cost of production.

2. The "law of diminishing returns" 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.

3. Diminishing returns occur:

- (a) when units of a variable input are added to a fixed input and total product falls.
- (b) when units of a variable input are added to a fixed input and marginal product falls.
- (c) when the size of the plant is increased in the long run.
- (d) when the quantity of the fixed input is increased and returns to the variable input falls.

Use the following information to answer questions 14-16.

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

4. What is the total output when 2 hours of labour are employed?

- (a) 80
- (b) 100
- (c) 180
- (d) 200

5. What is the marginal product of the third hour of labour?

- (a) 60
- (b) 80
- (c) 100
- (d) 240

6. What is the average product of the first three hours of labour?

- (a) 60
- (b) 80
- (c) 100
- (d) 240

7. Which cost increases continuously with the increase in production?

- (a) Average cost.
- (b) Marginal cost.
- (c) Fixed cost.
- (d) Variable cost

8. 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.

9. Total cost in the short run is classified into fixed costs and variable costs. Which one of the following is a variable cost?

- (a) Cost of raw materials.
- (b) Cost of equipment.
- (c) Interest payment on past borrowings.
- (d) Payment of rent on building.

10. In the short run, when the output of a firm increases, its average fixed cost:

- (a) increases.
- (b) decreases.
- (c) remains constant.
- (d) first declines and then rises.

11. Which of the following is true of the relationship between the marginal cost function and the average cost function?

- (a) If MC is greater than ATC, then ATC is falling.

- (b) The ATC curve intersects the MC curve at minimum MC.
- (c) The MC curve intersects the ATC curve at minimum ATC.
- (d) If MC is less than ATC, then ATC is increasing.

12. Which of the following statements is true of the relationship among the average cost functions?

- (a)  $ATC = AFC - AVC$ .
- (b)  $AVC = AFC + ATC$ .
- (c)  $AFC = ATC + AVC$ .
- (d)  $AFC = ATC - AVC$ .

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

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

14. Which of the following statements is correct concerning the relationships among the firm's cost functions?

- (a)  $TC = TFC - TVC$ .
- (b)  $TVC = TFC - TC$ .
- (c)  $TFC = TC - TVC$ .
- (d)  $TC = TVC - TFC$ .

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

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

16. Which of the following statements concerning the long-run average cost curve is false?

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

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

- (a) Diseconomies of scale.

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

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

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

19. A firm's average total cost is ₹ 300 at 5 units of output and ₹ 320 at 6 units of output.

The marginal cost of producing the 6th unit is:

- (a) ₹ 20
- (b) ₹ 120
- (c) ₹ 320
- (d) ₹ 420

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 whether it produces or not. How much of the average total cost is made up of variable costs?

- (a) ₹ 200
- (b) ₹ 50
- (c) ₹ 300
- (d) ₹ 100

21. What is a production function?

- (a) Technical relationship between physical inputs and physical output.
- (b) Relationship between fixed factors of production and variable factors of production.
- (c) Relationship between a factor of production and the utility created by it.
- (d) Relationship between quantity of output produced and time taken to produce the output.

22. Laws of production does not include .....

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

23. An iso quant shows

- (a) All the alternative combinations of two inputs that can be produced by using a given set of output fully and in the best possible way.
- (b) All the alternative combinations of two products among which a producer is indifferent because they yield the same profit.
- (c) All the alternative combinations of two inputs that yield the same total product.
- (d) Both (b) and (c).

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

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

25. The production function:

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

26. The production process described below exhibits.

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

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

27. Which of the following is a variable cost in the short run?

- (a) rent of the factory.
- (b) wages paid to the factory labour.
- (c) interest payments on borrowed financial capital.
- (d) payment on the lease for factory equipment.

28. The efficient scale of production is the quantity of output that minimizes

- (a) average fixed cost.

- (b) average total cost.
- (c) average variable cost.
- (d) marginal cost.

29. In the short run, the firm's product curves show that

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

30. A fixed input is defined as

- (a) That input whose quantity can be quickly changed in the short run, in response to the desire of the company to change its production.
- (b) That input whose quantity cannot be quickly changed in the short run, in response to the desire of the company to change its production.
- (c) That input whose quantities can be easily changed in response to the desire to increase or reduce the level of production.
- (d) That input whose demand can be easily changed in response to the desire to increase or reduce the level of production

31. Which of the following is considered production in Economics?

- (a) Tilling of soil.
- (b) Singing a song before friends.
- (c) Preventing a child from falling into a manhole on the road.
- (d) Painting a picture for pleasure.

32. The short run, as economists use the phrase, is characterized by:

- (a) at least one fixed factor of production and firms neither leaving nor entering the industry.
- (b) generally a period which is shorter than one year.
- (c) all factors of production are fixed and no variable inputs.
- (d) all inputs are variable and production is done in less than one year.

33. Which cost increases continuously with the increase in production?

- (a) Average cost.
- (b) Marginal cost.
- (c) Fixed cost.
- (d) Variable cost

34. Which of the following is an example of "explicit cost"?

- (a) The wages a proprietor could have made by working as an employee of a large firm.
- (b) The income that could have been earned in alternative uses by the resources owned by the firm.
- (c) The payment of wages by the firm.
- (d) The normal profit earned by a firm.

35. Marginal cost is defined as:

- (a) the change in total cost due to a one unit change in output.
- (b) total cost divided by output.
- (c) the change in output due to a one unit change in an input.
- (d) total product divided by the quantity of input.

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

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

37. The average product of labour is maximized when marginal product of labour:

- (a) equals the average product of labour.
- (b) equals zero.
- (c) is maximized.
- (d) none of the above.

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

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

39. A fixed input is defined as

- (a) That input whose quantity can be quickly changed in the short run, in response to the desire of the company to change its production.
- (b) That input whose quantity cannot be quickly changed in the short run, in response to the desire of the company to change its production.
- (c) That input whose quantities can be easily changed in response to the desire to increase or reduce the level of production.
- (d) That input whose demand can be easily changed in response to the desire to increase or reduce the level of production

40. Which of the following statements is false in respect of fixed cost of a firm?

- (a) As the fixed inputs for a firm cannot be changed in the short run, the TFC are constant, except when the prices of the fixed inputs change.
- (b) TFC continue to exist even when production is stopped in the short run, but they exist in the long run even when production is not stopped.
- (c) Total Fixed Costs (TFC) can be defined as the total sum of the costs of all the fixed inputs associated with production in the short run.
- (d) In the short run, a firm's fixed cost cannot be escaped even when production is stopped.

41. A firm's long-run average total cost curve is

- (a) Identical to its long-run marginal-cost curve.
- (b) Also its long-run supply curve because it explains the relationship between price and quantity supplied.
- (c) In fact the average total cost curve of the optimal plant in the short run as it tries to produce at least cost.

(d) Tangent to all the curves of short-run average total cost.

42. Economic costs of production differ from accounting costs of production because

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

43. Which of the following statements is false:

- (a) When MP rises, TVC increases at an increasing rate.
- (b) When MP rises, TVC increases at a diminishing rate.
- (c) When MP becomes constant, TVC increases at a constant rate.
- (d) When MP falls, TVC increases at a increasing rate.

44. Which of the following statements is true of the relationship among the average cost functions?

- (a)  $ATC = AFC + AVC$
- (b)  $AVC = AFC + ATC$
- (c)  $AFC = ATC + AVC$
- (d)  $AFC = ATC - AVC$

45. Under the law of variable proportion, stage I is known as the stage of increasing returns because:

- (a) Marginal product of the variable factor increases throughout this stage
- (b) Average product of the variable factor increases throughout this stage
- (c) Marginal product increases at increasing rate throughout this stage
- (d) Total increases at increasing rate throughout this stage

46. At the shut-down point:

- (a)  $P = AVC$
- (b)  $TR = TVC$
- (c) the total losses of the firm equal TFC
- (d) all the above.

47. The cost which is never zero even when production is stopped is known as:

- (a) Supplementary Cost
- (b) Prime Cost
- (c) Explicit cost
- (d) None of these

48. The IIInd Stage in Law of Returns to Scale is :

- (a) Positive Returns
- (b) Constant Return
- (c) Negative return
- (d) None of these

49. If the firm's total costs are INR 2,200,000 and total variable costs are INR 1,300,000, what are the total fixed costs?

- (a) 900,000
- (b) 1,200,000
- (c) 4,500,000
- (d) None of the above.

50. Law of Production does not include \_\_\_\_\_

- (a) least Cost Combination of factors
- (b) Law of variable proportion
- (c) Law of diminishing returns to a factor
- (d) Return to scale

51. A production function with constant returns to scale for capital alone implies that:

- (a) there are increasing returns to scale for all factors of production taken together
- (b) if all inputs are doubled then output will more than double
- (c) smaller firms are more efficient than larger firms
- (d) both (A) and (B)

52. Identify the correct statement:

- (a) The average product is at its maximum when marginal product is equal to average product.
- (b) The law of increasing returns to scale relates to the effect of changes in factor proportions.
- (c) Economies of scale arise only because of indivisibilities of factor proportions.
- (d) Internal economies of scale can accrue when industry expands beyond optimum.

53. Which of the following statements is true?

- (a) Accumulation of capital depends solely on income of individuals.
- (b) Savings can be influenced by government policies.
- (c) External economies go with size and internal economies with location.
- (d) The supply curve of labour is an upward sloping curve.

54. The marginal, average, and total product curves encountered by the firm producing in the short run exhibit all of the following relationships except:

- (a) when total product is rising, average and marginal product may be either rising or falling.
- (b) when marginal product is negative, total product and average product are falling.
- (c) when average product is at a maximum, marginal product equals average product, and total product is rising.
- (d) when marginal product is at a maximum, average product equals marginal product, and total product is rising.

55. Which of the following is the best definition of "production function"?

- (a) The relationship between market price and quantity supplied.
- (b) The relationship between the firm's total revenue and the cost of production.
- (c) The relationship between the quantities of inputs needed to produce a given level of output.
- (d) The relationship between the quantity of inputs and the firm's marginal cost of production.

56. If a firm moves from one point on a production isoquant to another, which of the following will not happen.

- (a) A change in the ratio in which the inputs are combined to produce output.
- (b) A change in the ratio of marginal products of the inputs.
- (c) A change in the marginal rate of technical substitution.
- (d) A change in the level of output.

57. Which of the following statements is correct?

- (a) When the average cost is rising, the marginal cost must also be rising.
- (b) When the average cost is rising, the marginal cost must be falling.

- (c) When the average cost is rising, the marginal cost is above the average cost.  
 (d) When the average cost is falling, the marginal cost must be rising.

58. Which of the following is an example of an "implicit cost"?

- (a) Interest that could have been earned on retained earnings used by the firm to finance expansion.  
 (b) The payment of rent by the firm for the building in which it is housed.  
 (c) The interest payment made by the firm for funds borrowed from a bank.  
 (d) The payment of wages by the firm.

Use the following data to answer questions 27-29.

Output (O)	0	1	2	3	4	5	6
Total Cost (TC)	` 240	` 330	` 410	` 480	` 540	` 610	` 690

59. The marginal cost of the sixth unit of output is:

- (a) ` 133  
 (b) ` 75  
 (c) ` 80  
 (d) ` 450

60. Which of the following statements is correct concerning the relationships among the firm's cost functions?

- (a)  $TC = TFC - TVC$ .  
 (b)  $TVC = TFC - TC$ .  
 (c)  $TFC = TC - TVC$ .  
 (d)  $TC = TVC - TFC$ .

**Solution :-**

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

## CHAPTER 4 - PRICE DETERMINATION IN DIFFERENT MARKET

1. Monopoly may arise in a product market because

- (a) A significantly important resource for the production of the commodity is owned by a single firm.  
 (b) The government has given the firm patent right to produce the commodity.  
 (c) The costs of production and economies of scale makes production by a single producer more efficient.

(d) All the above.

2. Oligopolistic industries are characterized by:

- (a) a few dominant firms and substantial barriers to entry.
- (b) a few large firms and no entry barriers.
- (c) a large number of small firms and no entry barriers.
- (d) one dominant firm and low entry barriers.

3. Price-taking firms, i.e., firms that operate in a perfectly competitive market, are said to be "small" relative to the market. Which of the following best describes this smallness?

- (a) The individual firm must have fewer than 10 employees.
- (b) The individual firm faces a downward-sloping demand curve.
- (c) The individual firm has assets of less than ` 20 lakhs.
- (d) The individual firm is unable to affect market price through its output decisions.

4. For a price-taking firm:

- (a) marginal revenue is less than price.
- (b) marginal revenue is equal to price.
- (c) marginal revenue is greater than price.
- (d) the relationship between marginal revenue and price is indeterminate.

5. Monopolistic competition differs from perfect competition primarily because

- (a) in monopolistic competition, firms can differentiate their products.
- (b) in perfect competition, firms can differentiate their products.
- (c) in monopolistic competition, entry into the industry is blocked.
- (d) in monopolistic competition, there are relatively few barriers to entry.

6. The long-run equilibrium outcomes in monopolistic competition and perfect competition are similar, because in both market structures

- (a) the efficient output level will be produced in the long run.
- (b) firms will be producing at minimum average cost.
- (c) firms will only earn a normal profit.
- (d) firms realise all economies of scale.

7. Which of the following is the distinguishing characteristic of oligopolies?

- (a) A standardized product
- (b) The goal of profit maximization
- (c) The interdependence among firms
- (d) Downward-sloping demand curves faced by firms.

8. In which form of the market structure is the degree of control over the price of its product by a firm very large?

- (a) Monopoly
- (b) Imperfect Competition
- (c) Oligopoly
- (d) Perfect competition

9. Average revenue curve is also known as:

- (a) Profit Curve
- (b) Demand Curve
- (c) Average Cost Curve
- (d) Indifference Curve

10. 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

11. A purely competitive firm's supply schedule in the short run is determined by

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

12. The characteristic not typical of oligopolistic industry is

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

13. The structure of the toothpaste industry in India is best described as

- (a) perfectly competitive.
- (b) monopolistic.
- (c) monopolistically competitive.
- (d) oligopolistic.

14. The structure of the cold drink industry in India is best described as

- (a) perfectly competitive.

- (b) monopolistic.
- (c) monopolistically competitive.
- (d) oligopolistic.

15. Which of the following statements is incorrect?

- (a) Even a monopolistic firm can have losses.
- (b) Firms in a perfectly competitive market are price takers.
- (c) It is always beneficial for a firm in a perfectly competitive market to discriminate prices.
- (d) Kinked demand curve is related to an oligopolistic market.

16. Under perfect competition, in the long run, there will be no \_ \_ .

- (a) normal profits
- (b) supernormal profits.
- (c) Production
- (d) costs.

17. When \_ \_ \_ , we know that the firms are earning just normal profits.

- (a)  $AC = AR$
- (b)  $MC = MR$
- (c)  $MC = AC$
- (d)  $AR = MR$

18. When \_ \_ , we know that the Firms under perfect competition must be producing at the minimum point of the average cost curve and so there will be productive efficiency.

- (a)  $AC = AR$
- (b)  $MC = AC$
- (c)  $MC = MR$
- (d)  $AR = MR$

19. When \_ \_ , there will be allocative efficiency meaning thereby that the cost of the last unit is exactly equal to the price consumers are willing to pay for it and so that the right goods are being sold to the right people at the right price.

- (a)  $MC = MR$
- (b)  $MC = AC$
- (c)  $MC = AR$
- (d)  $AR = MR$

20. Agricultural goods markets depict characteristics close to

- (a) perfect competition.
- (b) oligopoly.

- (c) monopoly.
- (d) monopolistic competition.

21. Total revenue =

- (a) price  $\times$  quantity
- (b) price  $\times$  income
- (c) income  $\times$  quantity
- (d) none of the above

22. Average revenue is the revenue earned

- (a) per unit of input
- (b) per unit of output
- (c) different units of input
- (d) different units of output

23. AR can be symbolically written as:

- (a)  $MR / Q$
- (b) Price  $\times$  quantity
- (c)  $TR / Q$
- (d) none of the above

24. AR is also known as:

- (a) Price
- (b) Income
- (c) Revenue
- (d) none of the above

25. Marginal revenue can be defined as the change in total revenue resulting from the:

- (a) purchase of an additional unit of a commodity
- (b) sales of an additional unit of a commodity
- (c) sale of subsequent units of a product
- (d) none of the above

26. When  $e > 1$  then MR is

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

27. When  $e = 1$  then MR is

- (a) Positive
- (b) Zero
- (c) One
- (d) negative

28. When  $e < 1$  then MR is

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

29. In Economics, the term 'market' refers to a:

- (a) place where buyer and seller bargain a product or service for a price
- (b) place where buyer does not bargain
- (c) place where seller does not bargain
- (d) none of the above

30. Under perfect competition a firm is the

- (a) price-maker and not price-taker
- (b) price-taker and not price-maker
- (c) neither price-maker nor price-taker
- (d) none of the above

31. In the table below what will be equilibrium market price?

Price (₹)	Demand (tonnes per annum)	Supply (tonnes per annum)
1	1000	400
2	900	500
3	800	600
4	700	700
5	600	800
6	500	900
7	400	1000
8	300	1100

- (a) ` 2
- (b) ` 3
- (c) ` 4
- (d) ` 5

32. Which is the first order condition for the profit of a firm to be maximum?

- (a)  $AC = MR$
- (b)  $MC = MR$
- (c)  $MR = AR$
- (d)  $AC = AR$

33. Which of the following is not a condition of perfect competition?

- (a) A large number of firms.
- (b) Perfect mobility of factors.
- (c) Informative advertising to ensure that consumers have good information.
- (d) Freedom of entry and exit into and out of the market.

34. Average revenue curve is also known as:

- (e) Profit Curve
- (f) Demand Curve
- (g) Average Cost Curve
- (h) Indifference Curve

35. A firm encounters its "shutdown point" when:

- (a) average total cost equals price at the profit-maximizing level of output.
- (b) average variable cost equals price at the profit-maximizing level of output.
- (c) average fixed cost equals price at the profit-maximizing level of output.
- (d) marginal cost equals price at the profit-maximizing level of output

36. When \_\_\_\_\_, there will be allocative efficiency meaning thereby that the cost of the last unit is exactly equal to the price consumers are willing to pay for it and so that the right goods are being sold to the right people at the right price.

- (a)  $MC = MR$
- (b)  $MC = AC$
- (c)  $MC = AR$
- (d)  $AR = MR$

37. Which of the following is not a characteristic of a monopolistically competitive market?

- (a) Free entry and exit
- (b) Abnormal profits in the long run
- (c) Many sellers
- (d) Differentiated products

38. In Economics, the term 'market' refers to a:

- (e) place where buyer and seller bargain a product or service for a price
- (f) place where buyer does not bargain
- (g) place where seller does not bargain
- (h) none of the above

39. The market for the ultimate consumers is known as

- (a) whole sale market
- (b) regulated market
- (c) unregulated market
- (d) retail market

40. Which of the following statements is correct?

- (a) Price rigidity is an important feature of monopoly.
- (b) Selling costs are possible under perfect competition.
- (c) Under perfect competition factors of production do not move freely as there are legal restrictions.
- (d) An industry consists of many firms.

41. Price Discrimination cannot persist under the following market form:

- (a) Perfect Competition
- (b) Monopoly
- (c) Monopolistic
- (d) Oligopoly

42. The kinked demand curve theory explains that even when the demand conditions \_\_\_\_ the price \_\_\_\_

- (a) Change, changes
- (b) Change, remains stable
- (c) Remain stable, changes
- (d) Remain stable, falls

43. The degree of monopoly power is measured in terms of difference between:

- (a) Marginal cost and the price
- (b) Average cost and average revenue
- (c) Marginal cost and average cost
- (d) Marginal revenue and average cost

44. Which of the following is true of an imperfect market structure?

- (a) Participants in the market have little or no control over outcome in the market.
- (b) Consumer surplus is maximized.
- (c) The maximization of producer surplus may lead to a loss of net benefit for society.
- (d) Imperfect market structures include monopolies but not cartels.

45. Agricultural goods markets depict characteristics close to:

- (a) Perfect competition
- (b) Oligopoly
- (c) Monopoly
- (d) Monopolistic competition

46. In economics, generally the classification of the markets is made on the basis of:

- (a) Time
- (b) Geographic area
- (c) Volume of business
- (d) All of these

47. Demand curve under Oligopoly is:

- (a) Less elastic
- (b) Perfectly elastic
- (c) Highly elastic
- (d) Indeterminate

48. In Oligopoly the firms may collude in order to:

- (a) Increase Competition
- (b) Prisoner dilemma for buyers
- (c) To raise the price of the good they offer
- (d) None of these

49. When output increases from 10 units to 12 units and TR increases from 300 to 330 then MR will be:

- (a) 30
- (b) 20
- (c) 15
- (d) None of these.

50. Which of the following markets comes close to satisfying the assumptions of a perfectly competitive market structure?

- (a) The stock market
- (b) The market for agricultural commodities such as wheat or corn
- (c) The market for petroleum and natural gas
- (d) All of the above come close to satisfying the assumptions of perfect competition.

51. Railways is an example of:

- (a) Perfect Competition
- (b) Monopolistic Competition
- (c) Monopoly
- (d) Oligopoly

52. Assume that when price is ₹ 20, the quantity demanded is 9 units, and when price is ₹ 19, the quantity demanded is 10 units. Based on this information, what is the marginal revenue resulting from an increase in output from 9 units to 10 units.

- (a) ₹ 20
- (b) ₹ 19
- (c) ₹ 10
- (d) ₹ 1

53. Suppose that a sole proprietorship is earning total revenues of ₹ 1,00,000 and is incurring explicit costs of ₹ 75,000. If the owner could work for another company for ₹ 30,000 a year, we would conclude that :

- (a) The firm is incurring an economic loss.
- (b) Implicit costs are ₹ 25,000.
- (c) The total economic costs are ₹ 1,00,000.
- (d) The individual is earning an economic profit of ₹ 25,000

54. Which of the following is not a characteristic of a "price-taker"?

- (a)  $TR = P \times Q$
- (b)  $AR = Price$
- (c) Negatively - sloped demand curve
- (d)  $Marginal Revenue = Price$

55. Assume that consumers' incomes and the number of sellers in the market for good A both decrease. Based upon this information, we can conclude, with certainty, that the equilibrium:

- (a) price will increase.
- (b) price will decrease.

- (c) quantity will increase.
- (d) quantity will decrease.

56. Oligopolistic industries are characterized by:
- (a) a few dominant firms and substantial barriers to entry.
  - (b) a few large firms and no entry barriers.
  - (c) a large number of small firms and no entry barriers.
  - (d) one dominant firm and low entry barriers.

57. The long-run equilibrium outcomes in monopolistic competition and perfect competition are similar, because in both market structures
- (a) the efficient output level will be produced in the long run.
  - (b) firms will be producing at minimum average cost.
  - (c) firms will only earn a normal profit.
  - (d) firms realise all economies of scale.

58. 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

59. The firm in a perfectly competitive market is a price-taker. This designation as a price-taker is based on the assumption that -
- (a) the firm has some, but not complete, control over its product price.
  - (b) there are so many buyers and sellers in the market that any individual firm cannot affect the market.
  - (c) each firm produces a homogeneous product.
  - (d) there is easy entry into or exit from the market place.

60. One characteristic not typical of oligopolistic industry is
- (a) horizontal demand curve.
  - (b) too much importance to non-price competition.
  - (c) price leadership.
  - (d) a small number of firms in the industry.

**Solution :-**

1	D	2	A	3.	D	4.	B	5.	A
6.	C	7.	C	8.	A	9.	B	10.	D
11.	D	12.	A	13.	C	14.	D	15.	C
16.	B	17.	A	18.	B	19	C	20.	A
21.	A	22.	B	23.	C	24.	A	25.	B
26.	C	27.	B	28.	A	29.	A	30.	B
31	C	32	B	33	C	34	B	35	B
36	C	37	B	38	A	39	D	40	D
41	A	42	B	43	A	44	A	45	A

46	D	47	D	48	C	49	C	50	D
51	C	52	C	53	A	54	C	55	D
56	A	57	C	58	D	59	B	60	A

## CHAPTER 5 - BUSINESS CYCLE

1. The term business cycle refers to

- (a) the ups and downs in production of commodities
- (b) the fluctuating levels of economic activity over a period of time
- (c) decline in economic activities over prolonged period of time
- (d) increasing unemployment rate and diminishing rate of savings

2. A significant decline in general economic activity extending over a period of time is

- (a) business cycle
- (b) contraction phase
- (c) Recession
- (d) recovery

3. The trough of a business cycle occurs when \_ \_ hits its lowest point.

- (a) inflation in the economy
- (b) the money supply
- (c) aggregate economic activity
- (d) the unemployment rate

4. The lowest point in the business cycle is referred to as the

- (a) Expansion.
- (b) Boom.
- (c) Peak.
- (d) Trough.

5. A leading indicator is

- (a) a variable that tends to move along with the level of economic activity
- (b) a variable that tends to move in advance of aggregate economic activity
- (c) a variable that tends to move consequent on the level of aggregate economic activity
- (d) None of the above

6. A variable that tends to move later than aggregate economic activity is called

- (a) a leading variable.
- (b) a coincident variable.
- (c) a lagging variable.
- (d) a cyclical variable.

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.

8. A decrease in government spending would cause

- (a) the aggregate demand curve to shift to the right.
- (b) the aggregate demand curve to shift to the left.
- (c) a movement down and to the right along the aggregate demand curve.
- (d) a movement up and to the left along the aggregate demand curve.

9. Which of the following does not occur during an expansion?

- (a) Consumer purchases of all types of goods tend to increase.
- (b) Employment increases as demand for labour rises.
- (c) Business profits and business confidence tend to increase
- (d) None of the above.

10. Which of the following best describes a typical business cycle?

- (a) Economic expansions are followed by economic contractions.
- (b) Inflation is followed by rising income and unemployment.
- (c) Economic expansions are followed by economic growth and development.
- (d) Stagflation is followed by inflationary economic growth.

11. During recession, the unemployment rate \_ \_ \_ \_ and output \_ \_ \_ \_.

- (a) Rises; falls
- (b) Rises; rises
- (c) Falls; rises
- (d) Falls; falls

12. The four phases of the business cycle are

- (a) expansion, peak, contraction and trough
- (b) contraction, expansion, trough and boom
- (c) expansion contraction, peak, and trough
- (d) peak, depression, bust, and boom

13. Leading economic indicators

- (a) are used to forecast probable shifts in economic policies
- (b) are generally used to forecast economic fluctuations
- (c) are indicators of stock prices existing in an economy
- (d) are indicators of probable recession and depression

14. When aggregate economic activity is declining, the economy is said to be in

- (a) Contraction.

- (b) an expansion.
- (c) a trough.
- (d) a turning point.

15. Peaks and troughs of the business cycle are known collectively as

- (a) Volatility.
- (b) Turning points.
- (c) Equilibrium points.
- (d) Real business cycle events.

16. The most probable outcome of an increase in the money supply is

- (a) interest rates to rise, investment spending to rise, and aggregate demand to rise
- (b) interest rates to rise, investment spending to fall, and aggregate demand to fall
- (c) interest rates to fall, investment spending to rise, and aggregate demand to rise
- (d) interest rates to fall, investment spending to fall, and aggregate demand to fall

17. Which of the following is not a characteristic of business cycles?

- (a) Business cycles have serious consequences on the well-being of the society.
- (b) Business cycles occur periodically, although they do not exhibit the same regularity.
- (c) Business cycles have uniform characteristics and causes.
- (d) Business cycles are contagious and unpredictable.

18. Economic recession shares all of these characteristics except.

- (a) Fall in the levels of investment, employment
- (b) Incomes of wage and interest earners gradually decline resulting in decreased demand for goods and services
- (c) Investor confidence is adversely affected and new investments may not be forthcoming
- (d) Increase in the price of inputs due to increased demand for inputs

19. The different phases of a business cycle

- (a) do not have the same length and severity
- (b) expansion phase always last more than ten years
- (c) last many years and are difficult to get over in short periods
- (d) none of the above

20. Which of the following is not an example of coincident indicator?

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

21. According to \_ \_ \_ trade cycles occur due to onset of innovations.

- (a) Hawtrey
- (b) Adam Smith
- (c) J M Keynes
- (d) Schumpeter

22. Economic indicators are -

- (a) A one stroke solution to check the phase of economy
- (b) Indicators showing the movement of economy
- (c) Some activities which predict the direction of economy
- (d) Just an illusion

23. Which economic indicator is required to predict the turning point of business cycle?

- (a) Leading indicator
- (b) Lagging indicator
- (c) Coincident
- (d) All of the above

24. Business cycle generally originates in free market economies, what is a free market economy?

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

25. Which of the following statements is correct?

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

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

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

27. Which of the following is the cause of business cycles?

- (a) Fluctuations in aggregate effective demand
- (b) Fluctuations in investments

(c) Fluctuations in government spending

(d) All of the above

28. Economists use changes in a variety of activities to measure the business cycle and to predict where the economy is headed towards which are called \_\_\_\_\_.

(a) Signals

(b) Indicators

(c) Barometer

(d) Clues

29. If the growth rate of population is higher than the rate of economic growth, there will be \_\_\_ in the economy.

(a) more savings

(b) no effect on savings

(c) lesser savings

(d) none of these

30. The cobweb theory was propounded by \_\_\_ \_ \_

(a) Hawtrey

(b) Adam Smith

(c) J M Keynes

(d) Nicholas Kaldor

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37. The cobweb theory was propounded by \_\_\_

- (a) Hawtrey
- (b) Adam Smith
- (c) J M Keynes
- (d) Nicholas Kaldor

38. The industrial sector depends on the agricultural sector because:

- (a) the agricultural sector provides food and other products for the consumption purposes of industrial sector
- (b) the agricultural sector provides raw materials for the development of agro-based industries of the economy
- (c) the agricultural sector provides market for the industrial products
- (d) all of the above

39. Which of the following is a lagging economic indicator?

- (a) Consumer confidence Index
- (b) Stock market performance
- (c) Unemployment rate
- (d) New housing starts

40. Which of the following is not a variable in the index of leading indicators?

- (a) Prime rate
- (b) New building permits
- (c) Delayed deliveries
- (d) None of these

41. Peak is the \_\_\_\_\_ stage of expansion.

- (a) Later
- (b) Earlier
- (c) Either (A) or (B)
- (d) None of the above

42. Greatest depression suffered by economy in which year.

- (a) 1924

- (b) 1930
- (c) 2008
- (d) 2009

43. How many phases are there in business cycle?

- (a) Four
- (b) Five
- (c) One
- (d) Many

44. 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"

45. Business Cycle occurs

- (a) Periodically
- (b) In different phases
- (c) Both (a) and (b)
- (d) None of the above

46. Which is not the characteristic feature of expansion phase in business cycle ?

- (a) Increase in national output
- (b) Unemployment
- (c) Rise in price and costs
- (d) Boost in business confidence

47. In which stage maximum production occurs.

- (a) Peak
- (b) Expansion
- (c) Boom or Expansion
- (d) Trough or boom

48. Which of the following is true?

- (a) Depression is severe form trough
- (b) Depreciation causes fall in interest rate.
- (c) Both (a) and (b)
- (d) None

49. Internal causes of depression include:

- (a) Fluctuation in investments
- (b) Money supply
- (c) Psychological factors
- (d) All of these

50. Variables that change after real output changes are:

- (a) Leading indicators
- (b) Lagging indicators

- (c) Coincident indicators
- (d) None of these

51. The highest point of business cycle is known as:

- (a) Trough
- (b) Peak
- (c) Trend
- (d) Boom

52. A significant decline in general economic activity extending over a period of time is

- (a) business cycle
- (b) contraction phase
- (c) Recession
- (d) recovery

53. The lowest point in the business cycle is referred to as the

- (a) Expansion.
- (b) Boom.
- (c) Peak.
- (d) Trough.

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(b) Indicators showing the movement of economy

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(d) Just an illusion

**Solution :-**

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

## **CHAPTER 6 - DETERMINATION OF NATIONAL INCOME**

1. The concept of 'resident unit' involved in the definition of GDP denotes

(a) A business enterprise which belongs to a citizen of India with production units solely situated in India

(b) The unit having predominant economic interest in the economic territory of the country for one year or more irrespective of the nationality or legal status

(c) A citizen household which had been living in India during the accounting year and one whose economic interests are solely in India

(d) Households and business enterprises composed of citizens of India alone living in India during the accounting year

2. Read the following statements and answer the following question.

I. Intermediate consumption consists of the value of the goods and services consumed as inputs by a process of production,

II. Intermediate consumption excludes fixed assets whose consumption is recorded as consumption of fixed capital.

(a) Only I is true