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# WORKSHEET

## Chapter 1 - Introduction to Micro Economics

### Business Economics

1. The meaning of the word 'Economic' is most closely connected with the word -
- (a) Unlimited
  - (b) Scarce
  - (c) Extravagant
  - (d) Restricted
3. "Ends" refer to -
- (a) Human Wants
  - (b) Resources
  - (c) Both (a) and (b)
  - (d) Neither (a) nor(b)
5. "Resources" means -
- (a) Unproductive Resources
  - (b) Productive Resources
  - (c) Money only
  - (d) All of the above
7. Which of the following is an economic activity?
- (a) Listening to music on the radio
  - (b) Teaching one's own son at home
  - (c) Medical Facilities rendered by a Charitable Dispensary
  - (d) A Housewife doing household duties
9. Which of the following is an economic activity?
- (a) Sale of Goods to Consumers
  - (b) Teaching one's own nephew at home
  - (c) A Housewife doing household duties
  - (d) Watching Television











### SCARCITY

11. The Law of Scarcity -
- (a) Doesn't apply to rich, developed countries
  - (b) Applies only to the less developed countries
  - (c) Implies that consumers' wants will be satisfied in a socialistic system
  - (d) Implies that consumers wants will never be completely satisfied

13. What implications 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
15. What is the "Fundamental Premise" of Economics?
- (a) Natural Resources will always be scarce.
  - (b) Individuals are capable of establishing goals and acting in a manner consistent with achievement of those goals
  - (c) Individuals choose the alternative for which they believe the net gains to be the greatest
  - (d) No matter what the circumstances, individual choice always involves a trade-off
17. A system of economy in which all means of production are owned and controlled by private individuals for the purpose of profit is called\_\_\_\_\_
- (a) Socialistic economy
  - (b) Capitalistic economy
  - (c) Mixed economy
  - (d) None of the above
19. In Economics, Scarcity is an -
- (a) Absolute Concept
  - (b) Relative Concept
  - (c) Irrelevant Concept
  - (d) Not a Concept at all.



### Business Economics








21. The process of selecting the appropriate alternative, that will provide the most efficient means of attaining specified objectives, from two or more alternative courses of action available is called
- (a) Problem solving
  - (b) Decision making
  - (c) Economic analysis
  - (d) Managerial Expertise




23. Business Decision making includes -
- Whether the Firm has to make the component or buy the components?
  - Whether the Firm has to shut down or continue in the business?
  - What mix of debt and equity should the Firm use?
  - All of the above
- 
25. Integration of Economic theory with business practice is called -
- Applied Economics
  - Managerial Economics
  - Business Economics
  - All of the above
- 
27. Micro Economics is -
- Unrealistic
  - Abstract
  - Theoretical
  - All of the above
- 
29. Business economics is a science because
- Integrates the tools of decision sciences
  - It establishes a cause and effect relationship
  - Follows scientific methods and empirically tests the validity of the results.
  - All of the above
- 
31. Positive Science explains -
- "What was"
  - "What is"
  - "What ought to be"
  - "What will"
- 
33. Normative Science explains -
- "What was"
  - "What is"
  - "What ought to be"
  - "What will"
- 
35. Micro Economics deals with -
- Employment
  - External Value of Money
  - Savings and Investment
  - Consumer Behaviour
- 
37. The study of the nature of consumer preferences and the effect of changes in the determinants of demand known as -
- Demand Analysis
  - Demand Forecasting
  - Production Analysis
  - Market Analysis
- 
39. The technique of predicting future demand for goods & services on the basis of the past behaviour of factors is -
- Demand Analysis
  - Demand optimization
  - Demand Forecasting
  - All of the above
- 
41. Inventory includes -
- Finished Goods
  - Work in process
  - Raw material
  - All of the above
- 

## Central Economics Problems




### CENTRAL PROBLEMS













1. Which of the following is a cause of economic problem?
- Unlimited Wants
  - Scarcity of Resources
  - Alternative Uses
  - All of the above
- 
3. Which of the following is not a central problem of economy?
- How to Produce
  - When to Produce
  - What to Produce
  - All of these
- 













5. The Central Problems arise in case of -  
 (a) Mixed Economies   
 (b) Capitalist Economies  
 (c) Socialist Economies  
 (d) All of the above
7. The Central Problems of an economy are -  
 (a) How to produce?  
 (b) What to produce?   
 (c) For whom to produce?  
 (d) All of the above
9. The problem of "What to produce" covers the issue relating to -  
 (a) what goods are to be produced  
 (b) what quantities of goods are to be produced  
 (c) Both(a)and (b)   
 (d) Neither (a)nor (b)
11. An economy which uses all its resources on production of ..... Goods only, cannot provide for future growth prospects.  
 (a) Capital Goods only   
 (b) Consumer Goods only  
 (c) Both (a) and (b)  
 (d) Neither (a)nor (b)
13. In deciding "How to produce", the economy should decide on -  
 (a) Consumer goods and capital goods   
 (b) Types of goods to be produced  
 (c) Quantity of goods to be produced  
 (d) Methods of production
15. In deciding "How to produce", the choice of appropriate production method depends on -  
 (a) Availability of different factors of production  
 (b) Prices of different factors of production  
 (c) Both (a) and (b)   
 (d) Neither (a) nor (b)
17. Labour Intensive Technique are Preferred in  
 (a) Labour Surplus Economy   
 (b) Capital Surplus Economy  
 (c) Developed Economy  
 (d) Developing Economy

19. Use of Labour or Capital intensive techniques of production relates to the problem of -  
 (a) What to Produce   
 (b) How to Produce  
 (c) For whom to Produce  
 (d) How to provide for growth
21. The issue of "for whom to produce" deals with  
 (a) How to distribute and share the national product  
 (b) Shares of different people in the total output of goods & services.   
 (c) Both (a) and (b)  
 (d) Neither (a) nor (b)
23. An economy can spend all its present resources on current consumption only.  
 (a) True   
 (b) False  
 (c) Partially True  
 (d) Cannot be commented at all.

### CAPITALIST, SOCIALIST, MIXED ECONOMY

25. A Capitalist Economy is characterized by-  
 (a) Private Ownership of Resources.   
 (b) Freedom of Enterprise.  
 (c) Consumer Sovereignty  
 (d) All of the above
27. A system of economy in which all means of production are owned and controlled by private individuals for the purpose profit is of called\_\_\_\_  
 (a) Socialistic economy   
 (b) Capitalistic economy  
 (c) Mixed economy  
 (d) None of the above
29. Which of the following is not feature of capitalistic economy?  
 (a) Right to private property  
 (b) Restriction on consumer's right to choose  
 (c) Profit motive   
 (d) Freedom of enterprise

31. Free market economy driving force is \_\_\_\_\_
- Profit motive
  - Welfare of the people
  - Rising incomes and level of living
  - All of the above
- 
33. Which type of economy gives rise to the most efficient allocation of resources and capital in the standard Micro-Economics framework?
- Free Market Economy
  - Regulated Market Economy
  - Controlled Market Economy
  - Command Market Economy
- 
35. In Capitalist Economies, the answer the fundamental questions - what, how, and for whom to produce, are obtained by -
- Market Forces of Demand and Supply
  - Government Regulations
  - Cost Benefit Analysis
  - Both (b) and (c)
- 
37. In a Free Market Economy the allocation of resources is determined by
- Votes taken by consumers
  - A Central Planning Authority
  - Consumer Preference
  - Both (a) and (b)
- 
39. In an economy, people have the freedom to buy or not to buy the goods offered in the market place, and this freedom to choose what they buy dictates what producers will ultimately produce. This condition refers to-
- Economic Power of Choice
  - Consumer Sovereignty
  - Positive Economy
  - Producer Sovereignty
- 
41. Freedom of choice is an advantage of:
- Capitalist Economy
  - Communist Economy
  - Socialist Economy
  - Mixed Economy
- 
43. The concept of "Competition" in a Capitalist Economy refers to -
- Competition among Sellers to sell their goods
  - Competition among Buyers to obtain goods to satisfy their wants.
  - Both (a) and (b)
  - Neither (a) nor (b)
- 
45. Which of the following statements regarding Market Economy is not true?
- Price plays a major role in Market Economy
  - The Government controls production and distribution of goods
  - Consumers choose the goods they want
  - Efficiency is achieved through Profit Motive
- 
47. In which among the following systems the "Right to property" exists-
- Mixed
  - Capitalist
  - Socialist
  - Traditional
- 
49. Where does "Price mechanism" exists
- Capitalist economy
  - Socialist economy
  - Both type of economies
  - None of the above
- 
51. Socialist Economy is characterized by -
- Selective production of goods
  - Relative Equality of Incomes
  - Secondary Role of Price Mechanism
  - All of the above
- 
53. Which of the following applies to a Socialist Economy?
- Private Ownership of all resources and factors of production
  - Total absence of Government Regulation
  - Balancing between Social Objectives and Economic Objectives of the society
  - Market Mechanism to solve all Central Problems of the Economy
- 

55. Compared to other economic systems, National Income is more often evenly distributed in -
- Market Economy
  - Command Economy
  - Mixed Economy
  - All of the above
- 
57. In a Socialist Economy, the concept of consumer Sovereignty is -
- Restricted
  - Unrestricted
  - Recognised
  - none of the above
- 
59. Socialist economy is also called as \_\_\_\_\_ economy
- Mixed
  - Planned
  - Capitalist
  - None of the above
- 
61. Identify the correct statement:
- In Socialist Economy, a relative inequality in income is an important feature
  - In Socialist Economy, the right to work is guaranteed but the choice of occupation gets restricted
  - In Capitalist Economy, people are not free to spend their income as they like
  - In today's world, USA is a purely Socialist Country.
- 
63. In Mixed Economies, the answer the fundamental questions - what, how, and for whom to produce, are obtained by -
- Government Regulations
  - Market Forces of Demand and Supply
  - Cost Benefit Analysis
  - All of the above
- 
65. The term mixed economy denotes
- Co-existence of consumer and producer's goods industries in the economy
  - Co-existence of private & public sectors in the economy
  - Co-existence of urban & rural sectors in the economy
  - Co-existence of large & small industries sectors in the economy
- 
67. In a Mixed Economy, industries are found in-
- Private Sector
  - Public Sector
  - Joint Sector
  - All of the above
- 
69. In a Mixed Economy, Industries in Public Sector have \_\_\_\_\_ as their objective and driving force.
- Community welfare only
  - Profit motive only
  - Both (a) and (b)
  - Neither (a) nor (b)
- 
71. Mixed Economy is characterized by -
- High levels of inequalities of incomes
  - Complete private ownership of all factors of production
  - Irrelevance of Price Mechanism
  - None of the above
- 
73. Prices of essential goods are decided by the Government, and prices of normal goods are decided by the market forces of demand and supply. This concept is called -
- Pricing Mechanism
  - Market Mechanism
  - Dual System of Pricing
  - Unregulated Pricing
- 
75. In a Mixed Economy, the Government may provide subsidies and other incentives, to make the Private Sector establish and develop industries in backward regions.
- This is primarily done to ensure -
- Productive Efficiency
  - Balanced Regional Development
  - Profit Motive
  - All the above
- 
77. Indian Economy is an example of-
- Socialist Economy
  - Capitalist Economy
  - Mixed Economy
  - All of the above
- 

79. In India, areas like Atomic Energy, Defence, etc. are in the hands of -

- (a) Public Sector
- (b) Private Sector
- (c) Joint Sector
- (d) None of the above



81. Demerits of Capitalistic Economy includes-

- (a) Pre dominance of bureaucracy
- (b) No incentive for hard work
- (c) Economic inequality
- (d) Low cost of production



83. Socialistic Economy

- (i) Ensures minimum standard of living to all people
- (ii) Restricts freedom of individuals
- (iii) Does not give importance to personal efficiency and productivity
- (iv) Emphasis on equal distribution of wealth

- (a) Only (i)
- (b) (i), (ii) and (iv)
- (c) (i), (ii), (iii) and (iv)
- (d) (ii) and (iv)



## Answer Keys







### INTRODUCTION TO MICRO ECONOMICS








1	3	5	7	9	11	13	15	17	19	21	23	25	27	29	31	33	35	37	39
b	a	b	c	a	d	a	c	b	b	b	d	d	d	d	b	c	d	a	c
41																			
d																			

### CENTRAL ECONOMIC PROBLEMS

1	3	5	7	9	11	13	15	17	19	21	23	25	27	29	31	33	35	37	39
d	b	d	d	c	b	d	c	a	b	c	b	d	b	a	a	a	a	c	b
41	43	45	47	49	51	53	55	57	59	61	63	65	67	69	71	73	75	77	79
a	c	b	b	a	d	c	b	a	b	b	c	b	d	c	d	c	b	c	c
81	83																		
c	c																		

### UTILITY

1. When Economists speak of the Utility of a certain product, they are referring to - 
  - (a) Usefulness of the product in consumption
  - (b) Demand for the product
  - (c) Satisfaction gained from consuming the product
  - (d) Rate at which consumers are willing to exchange one good for another
  
3. Which of the following statements regarding Utility is not true?
  - (a) Utility is the psychological satisfaction that a Consumer derives by using a particular product
  - (b) Utility helps to understand how consumers make choices
  - (c) Utility is always measureable 
  - (d) Utility is a purely subjective issue.
  
5. Utility -
  - (a) Differs from time to time
  - (b) Differs from person to person
  - (c) Differs from product to product 
  - (d) All of the above
  
7. Utility is ethically neutral. This statement is -
  - (a) True
  - (b) False 
  - (c) Partially True
  - (d) Nothing can be said about Utility
  
9. All wants of an individuals are not of:
  - (a) Equal importance
  - (b) Immediate importance 
  - (c) Fixed importance
  - (d) All of the above
  
11. Which of the following Utility approaches suggest that Utility can be measured and quantified?
  - (a) Cardinal
  - (b) Ordinal 
  - (c) Both (a) and (b)
  - (d) Neither approach makes such

13. Which of the following Utility measurement approaches is based on the Marshallian school of thought?
  - (a) Cardinal Utility Approach 
  - (b) Ordinal Utility Approach
  - (c) Independent Variables Approach
  - (d) Both (a) and (b)
  
15. Who is the main exponent of Marginal Utility Analysis?
  - (a) Keynes
  - (b) Hicks 
  - (c) Paul Samuelson
  - (d) Marshall
  
17. According to Marginal Utility analysis, Utility can be measured in - .
  - (a) Ranks 
  - (b) Cardinal Numbers
  - (c) Nominal Values
  - (d) All of the above
  
19. Cardinal Utility Approach is also called as -
  - (a) Indifference Curve Analysis 
  - (b) Hicks and Allen Approach
  - (c) Marginal Utility Analysis
  - (d) All of the above
  
21. If we make the assumption that Utility can be expressed in numbers, we are adopting -
  - (a) Cardinal Approach 
  - (b) Ordinal Approach
  - (c) Both (a) and (b)
  - (d) Neither (a) nor (b)
  
23. Which of the theories is applicable under Cardinal Approach to Utility?
  - (a) Law of Equi-Marginal Utility 
  - (b) Law of Diminishing Marginal Utility
  - (c) Both (a) and (b) and consumer surplus theory
  - (d) Neither (a) nor (b)
  
25. Cardinal Approach to Utility analyses -
  - (a) One Commodity at a time 
  - (b) Two Commodities at a time
  - (c) Many Commodities at a time
  - (d) None of the above

27. Which of the following is an assumption under Cardinal Approach to Utility Analysis?

- (a) Measurability of Utility in monetary terms
- (b) Change in Marginal Utility of Money
- (c) Utility arises even at zero consumption
- (d) All of the above



29. The Cardinal Approach to Utility Analysis assumes that Utility is measurable and quantifiable means -

- (a) Utility can be expressed in numbers
- (b) Utility can only be ranked across products
- (c) Utility Schedule is derived by the Consumer
- (d) None of the above



31. \_\_\_\_\_ is the sum total of the Utility derived from additional units of a commodity

- (a) Ordinal Utility
- (b) Average Utility
- (c) Total Utility
- (d) Marginal Utility



33. Marginal Utility can be stated by -

- (a)  $TU_n - TU_{n-1}$
- (b) Additional Utility derived from additional unit of commodity
- (c)  $\text{Change in Total Utility} \div \text{Change in Quantity}$
- (d) All of the above



35. Marginal Utility -

- (a) Will always be positive
- (b) Can be positive or negative but not zero
- (c) Will always be negative
- (d) Can be positive or negative or zero



37. Total Utility is maximum when -

- (a) Marginal Utility is zero
- (b) Marginal Utility is at its highest point
- (c) Marginal Utility is equal to Average Utility
- (d) None of the above



39. Marginal Utility will always show -

- (a) Increasing trend
- (b) Decreasing trend
- (c) Both (a) and (b)
- (d) Neither (a) nor (b)



41. The Total Utility derived by Ram by consuming 10 cups of Coffee is 99, whereas the total Utility on consumption of 11th Cup is 95. What is the Marginal Utility for 11th cup of Coffee?

- (a) -4
- (b) 6
- (c) 10
- (d) -3.5



43. Total Utility derived by Ram by eating 10 Cakes is 250. Marginal Utility of the 11th Cake is -60. What will be the Total Utility for 11 Cakes?

- (a) - 60
- (b) 150
- (c) 190
- (d) 310



45. What is the Marginal Utility when consumption increases from 4 units to 5 units?

- (a) 3000
- (b) 1200
- (c) 2000
- (d) 1500



47. What is the Marginal Utility when consumption increases from 8 units to 9 units?

- (a) 3000
- (b) 400
- (c) 200
- (d) 1500



49. Find the value of "A" in the above Table.

- (a) 800
- (b) 100
- (c) 1800
- (d) Cannot be determined



51. Find the value of "C" in the above Table.

- (a) 2400
- (b) 4800
- (c) 1400
- (d) 0



53. Find the value of "E" in the above Table.

- (a) 700
- (b) 500
- (c) 1000
- (d) Cannot be determined



55. Find the value of "G" in the above Table.

- (a) - 650
- (b) 8400
- (c) 600
- (d) Cannot be determined



57. Find the value of "I" in the above Table.

- (a) 9000
- (b) 900
- (c) 90
- (d) Cannot be determined



59. Find the value of "K" in the above Table.

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



#### LAW OF DIMINISHING MARGINAL UTILITY

61. The Law of Diminishing Marginal Utility states that the more a consumer consumes a product, he derives ..... from additional consumption.

- (a) Infinite Utility
- (b) Equal Utility
- (c) Lesser Utility
- (d) Higher Utility



63. The 2nd glass of Lemon Juice gives lesser satisfaction to a thirsty person. This is a case of

- (a) Law of Demand
- (b) Law of Supply
- (c) Law of Diminishing Utility
- (d) Law of Diminishing Returns



65. After reaching a saturation point, consumption of additional units of the commodity cause -

- (a) Total Utility to fall and Marginal utility to rises
- (b) Total Utility & 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.

67. Which of the following is not an assumption of Law of Diminishing Marginal Utility?

- (a) Units consumed should be identical in all respects
- (b) There is no time gap between consumption
- (c) Units consumed should be of a standard
- (d) None of the above



69. Which of the following is an assumption of Law of the Law of Diminishing Marginal Utility?

- (a) Perfect Competition
- (b) Cardinal Approach to Utility
- (c) Constant Demand
- (d) Constant Marginal Utility of Money



71. As per the Law of Diminishing Marginal Utility, Continuous Consumption means there should be \_\_\_\_\_ between the consumption of one unit and another unit.

- (a) Equal time gap or interval
- (b) No time gap or interval
- (c) Long time gap or interval
- (d) None of the above



73. The Law of Diminishing Marginal Utility will not hold good if the Income of the Consumer

- (a) Decreases
- (b) Increases
- (c) Remains constant
- (d) Both (a) and (b)



75. If customers' taste or liking for an item increases with additional consumption, then the Law of Diminishing Marginal Utility will still hold good. This statement is -

- (a) True
- (b) False
- (c) Partially True
- (d) Can't Say



77. As per the assumptions to the Law of Diminishing Marginal Utility, in case of money, gold, etc. a greater quantity may -

- (a) Increase the lust and utility thereof
- (b) Decrease the lust and utility thereof
- (c) Not affect utility at all
- (d) Both (a) and (b)



79. Utility obtained from tea may be affected if no sugar is available. This statement is -

- (a) True
- (b) Partially True
- (c) False
- (d) None



### LAW OF EQUI - MARGINAL UTILITY

81. Which of the following laws say "If a person has a product which can be put to several uses lie will distribute it among these uses in such a way that it has the same Marginal Utility?"

- (a) Law of Equi-Marginal Utility
- (b) Law of Diminishing Marginal Returns
- (c) Law of Diminishing Marginal Utility
- (d) Law of Utility



83. The Consumer will attain satisfaction, and will be in equilibrium when MU of money spent on various goods that he buys, are equal.

- (a) Maximum
- (b) Minimum
- (c) Infinite
- (d) No



85. The Consumer will attain maximum satisfaction, and will be in equilibrium when

..... that he buys, are equal.

- (a) MU of different goods
- (b) MU of money as such
- (c) MU of money spent on various goods
- (d) Both (a) and (b)



87. The Law of Equi-Marginal Utility applies because -

- (a) The Consumer will try to maximize his satisfaction
- (b) There may be substitutes available in the market for every product
- (c) Consumer will substitute one item for the other such that his  $MU > Price$ .
- (d) All of the above



### ORDINAL APPROACH - BASICS

89. If we make the assumption that Utility cannot be expressed in numbers, we are adopting -

- (a) Cardinal Approach
- (b) Ordinal Approach
- (c) Both (a) and (b)
- (d) Neither (a) nor (b)



91. Which of the following statements regarding Ordinal Utility is true?

- (a) Utility can be measured, but cannot be ranked in order of preferences
- (b) Utility can neither be measured nor be ranked in order of preferences
- (c) Utility can be measured and also be ranked in order of preferences
- (d) Utility cannot be measured, but can be ranked in order of preferences



93. Ordinal Utility Approach is also known as -

- (a) Indifference Curve Approach
- (b) Hicks and Allen Approach
- (c) Both (a) and (b)
- (d) Neither (a) nor (b)



95. Which approach suggests that Human Satisfaction is a psychological phenomenon, and cannot be measured quantitatively in monetary terms?

- (a) Cardinal Approach
- (b) Ordinal Approach
- (c) Both (a) and (b)
- (d) Neither (a) nor (b)



97. Which of the approaches dispenses with the Money Measurement Concept for Utility?

- (a) Cardinal Approach
- (b) Ordinal Approach
- (c) Both (a) and (b)
- (d) Neither (a) nor (b)



### CONSUMER EQUILIBRIUM & SURPLUS

99. The economic analysis expects the Consumer to behave in a ..... manner.

- (a) Rational
- (b) Indifferent
- (c) Irrational
- (d) Emotional



101. Rational decision-making requires that -

- (a) One's choices be arrived at logically and without errors.
- (b) One's choices be consistent with one's goals
- (c) One's makes choices that do not involve trade-offs
- (d) One's choices never vary



103. The Consumer will be willing to purchase an item, so long as the Marginal Utility (additional satisfaction) derived is equal to the Price of the commodity. This principle is called -

- (a) Consumer Equilibrium
- (b) Consumer Surplus
- (c) Consumer Advantage
- (d) Consumer Exploitation



105. If the Price paid is more than the additional satisfaction derived from that item, the Consumer will -

- (a) Continue buying the item
- (b) Stop buying the item
- (c) Will start selling the item
- (d) Nothing can be said



107. Consumer Surplus means -

- (a) The area inside the Budget Line.
- (b) The area between the Average Revenue and Marginal Revenue curves.
- (c) The difference between the maximum amount a person is willing to pay for a good and its market price.
- (d) None of the above.



109. In economics, what a Consumer is ready to pay minus what he actually pays, is termed as -

- (a) Consumer's Equilibrium
- (b) Consumer's Surplus
- (c) Consumer's Expenditure
- (d) Any of the above



111. "The excess of Price which he would be willing to pay rather than go without the thing over that which he actually does pay in the economic measure of his surplus satisfaction" is given by

- (a) Alfred Marshall
- (b) Lionel Robbins
- (c) J.R. Hicks
- (d) Edge Worth.



113. The difference between the price a consumer is willing to pay and the price he actually pays is called

- (a) Excess Price
- (b) Excess Demand
- (c) Consumer Surplus
- (d) Exploitation



115. From which of the following concept of consumer's surplus has been derived-

- (a) Law of diminishing marginal utility
- (b) Law of demand
- (c) Law of supply
- (d) Indifference curve analysis



117. The concept of Consumer Surplus arises due to the reason that -

- (a) MU is initially higher than Price
- (b) MU is initially lower than Price
- (c) MU is always equal to Zero
- (d) MU is always equal to Price



119. If MU, is the Marginal Utility of product X and  $P_x$  is the price of Product X, a Rational Consumer will consume the Product X until)

- (a)  $MU_x > P_x$
- (b)  $MU_x < P_x$
- (c)  $MU_x = P_x$
- (d)  $MU_x = P_x$



121. In the concept of Consumer's Equilibrium and Consumer's Surplus, for the quantity purchased at the equilibrium level -

- (a) Consumers' Surplus is positive
- (b) Consumers' Surplus is zero
- (c) Consumers' Surplus is negative
- (d) Both (b) and (c)



123. For the quantity purchased at the Consumer's Equilibrium level, is -

- (a) Marginal Utility = Price
- (b) Consumers' Surplus is Zero
- (c) Both (a) and (b)
- (d) Neither (a) nor (b)



125. A Consumer consumed three units of a product. Marginal Utilities derived from the three units are ₹ 400, ₹ 350 and ₹ 300, respectively. If the price of the product is ₹ 300 per unit, the Consumer Surplus is -

- (a) 0
- (b) 250
- (c) 100
- (d) 150



127. A Consumer consumed 3 units of a product. Marginal Utilities derived from the first two units are ₹ 500 and ₹ 400. If the price of the product is ₹ 300 per unit and the Consumer is in equilibrium at 3 units, the Consumer Surplus will be -

- (a) 300
- (b) 400
- (c) 500
- (d) cannot be determined



129. Which of the following goods give the maximum amount of Consumer Surplus?

- (a) Colour Television
- (b) Ice cream
- (c) Car
- (d) Water



131. \_\_\_\_\_ Consumer Surplus indicates higher level of efficiency in the economy.

- (a) Higher
- (b) Lower
- (c) Balanced
- (d) Negative

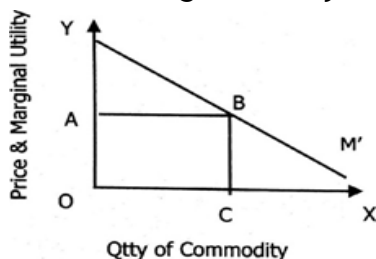


133. While analyzing Marshall's measure of Consumer's Surplus, we assume -

- (a) Monopsony
- (b) Perfect Competition
- (c) Monopoly
- (d) Imperfect Competition



Use the following diagram to answer the next 2 questions. MM is the Marginal Utility Curve.



135. In the above diagram, the Consumer attains Equilibrium level by consuming..... units.

- (a) OA
- (b) OC
- (c) MM
- (d) None of the above



137. In the above diagram, the total price paid by the Consumer is given by -

- (a) Area under OMBC
- (b) Area under OABC
- (c) Area under AMB
- (d) Cannot be determined



139. Suppose that the price of a new bicycle is ₹ 3,000. Nathan values a new bicycle at ₹ 5,000. What is the value of Total Consumer Surplus if he buys a new bi-cycle? ;

- (a) ₹ 5,000
- (b) ₹ 3,000
- (c) ₹ 2,000
- (d) Nil



141. Suppose there are three identical vases available to be purchased. Buyer 1 is willing to pay ₹ 30 for one, Buyer 2 is willing to pay ₹ 25 for one, and Buyer 3 is willing to pay ₹ 20 for one. If the price is Rs 25, how many vases will be sold and what is the value of j Consumer Surplus in this market? ;

- (a) Three vases will be sold and Consumer Surplus is ₹ 80.
- (b) One vase will be sold and Consumer Surplus is ₹ 5.
- (c) One vase will be sold and Consumer Surplus is ₹ 30
- (d) Two vases will be sold and Consumer Surplus is ₹ 5



143. Consumer's Surplus left with the consumer under Price Discrimination is - .

- (a) Maximum
- (b) Minimum
- (c) Zero
- (d) Not predictable



145. A Monopolist will try to Consumer's Surplus to his advantage by adopting -

- (a) Price Rigidity
- (b) Price Exploitation
- (c) Price Discrimination
- (d) Price Equilibrium



147. If the value of  $MU_x/P_x$  is more than  $MU_y/P_y$ , then the Consumer -

- (a) Will increase the Consumption of Product X reduce Product Y
- (b) Will reduce the consumption of Product X and increase Product Y
- (c) Will consume more of Product X and Y
- (d) Will consume less of Product X and Y



149. Which among the following is the drawback of Consumer Surplus ?

- (a) It is highly hypothetical and imaginary
- (b) It ignores interdependence between goods
- (c) It cannot be measured in terms of money because Marginal Utility of money changes
- (d) All of the above



151. The Consumer's Surplus derived from a product is \_\_\_\_\_ by the availability of substitutes.

- (a) Not affected
- (b) Affected
- (c) None
- (d) Substitutes are not available at all



153. The concept of Consumer's Surplus is based on the assumption that Marginal Utility of Money is

- (a) Zero
- (b) Negative
- (c) Constant
- (d) None of the above



155. If we make the assumption that Utility cannot be expressed in monetary terms, the concept of Consumer's Surplus -

- (a) Will still apply
- (b) Will not apply
- (c) Only Producers' Surplus will arise
- (d) Any of the above



### INDIFFERENCE CURVE APPROACH

1. Indifference Curve Approach to Utility Analysis was given by -

- (a) Hicks and Allen
- (b) Lionel Robbins
- (c) Adam Smith
- (d) Alfred Marshall



3. Indifference Curve Approach is also known as -

- (a) Ordinal Utility Analysis
- (b) Marshallian Approach
- (c) Cardinal Utility Analysis
- (d) All of the above



5. Ordinal Utility Approach is also known as -

- (a) Indifference Curve Analysis
- (b) Hicks and Allen Approach
- (c) Both (a) and (b)
- (d) Neither (a) nor (b)



7. \_\_\_\_\_ shows various combinations of two products that give same amount of satisfaction.

- (a) Is cost Curve
- (b) Indifference Curve
- (c) Marginal Utility Curve
- (d) Isoquant



9. All points on the same Indifference Curve represents

- (a) Same satisfaction
- (b) Similar satisfaction
- (c) Equal satisfaction
- (d) All of the above



11. Indifference Curve slopes -

- (a) Downward to the right
- (b) Upward to the right
- (c) Downward to the left
- (d) Upward to the left



13. Indifference Curve is downward sloping -












- (a) Always
- (b) Sometimes
- (c) Never
- (d) None of these



15. The reasons for downward sloping curve-

- (a) Diminishing MRS
- (b) Constant MRS
- (c) Increasing MRS
- (d) None



17. An Indifference Curve slopes down towards right, since more of one commodity and less of another result in-
- Same satisfaction
  - Decreasing expenditure
  - Greater satisfaction
  - Maximum satisfaction
- 
19. Which of the following statements regarding Indifference Curve is not true?
- An Indifference Curve always has a positive slope
  - Higher level of Indifference Curve shows higher level of Utility
  - Two Indifference Curves intersect each other at equilibrium
  - Indifference Curve slopes downward to the right
- 
21. Which of the following is a property of an Indifference Curve?
- It is convex to the origin
  - The Marginal Rate of Substitution is constant as one moves along an Indifference Curve
  - Marginal Utility is constant as one move along an Indifference Curve
  - Total Utility is greatest where the 45 degree line cuts the Indifference Curve
- 
23. Which of the following statements is incorrect?
- The total effect of a change in the price of a good on its quantity demanded is called the Price Effect.
  - Convexity of a Curve implies that the slope of the curve diminishes as one moves from left to right
  - The Elasticity of Substitution between two goods to a Consumer is zero
  - An Indifference Curve must be downward-sloping to the right
- 
25. Indifference Curve approach assumes -
- Transitivity
  - Consistency
  - Rationality
  - All of the above
- 
27. Indifference Curve Approach assumes -
- Prices of Commodities remain the same throughout the analysis
  - All Commodities are homogenous and divisible
  - Consumer has full knowledge of all relevant information
  - All of the above.
- 
29. If two goods were perfect substitutes of each other, it means that the Indifference Curve relating to the two goods -
- Will be curvilinear.
  - Will be linear.
  - Will be divided into two segments which meet at a right angle.
  - Will be convex to the origin.
- 
31. In the case of two perfect substitutes, the indifference curve will be :
- Straight Line
  - L-shaped
  - U-shaped
  - C-shaped
- 
33. \_\_\_\_\_ depicts complete picture of consumer's tastes and preferences.
- Marginal Revenue Curve
  - Budget Line
  - Indifference Map
  - Average Cost Curve
- 
35. Under Indifference Map, even though higher levels of satisfaction are identified, it cannot be quantified as such. This statement is -
- True
  - False
  - Partially True
  - Nothing can be said
- 
37. A higher Indifference Curve shows -
- A higher level of satisfaction
  - A higher level of production
  - A higher level of income
  - All of the above
- 

39. A lower Indifference Curve shows -  
 (a) A lower level of satisfaction  
 (b) A lower level of production  
 (c) A lower level of income  
 (d) None of the above
41. Combinations lying on a higher Indifference Curve contain more of -  
 (a) One commodity only  
 (b) Both commodities  
 (c) Either (a) or (b)  
 (d) Neither (a) nor (b)
43. An Indifference Map can also be drawn such that two Indifference Curves cut each other. This statement is -  
 (a) True  
 (b) False  
 (c) Partially True  
 (d) Nothing can be said
45. \_\_\_\_\_ indicates how much of one commodity is substituted for how much of another commodity.  
 (a) Marginal Income  
 (b) Marginal Utility  
 (c) Marginal Rate of Substitution  
 (d) Marginal Returns
47. MRS is indicated by -  
 (a) Slope of an IC at a particular point  
 (b) Angle between IC and X Axis  
 (c) Angle between IC and Y Axis  
 (d) Nothing can be said
49. Generally, MRS shows -  
 (a) Increasing trend  
 (b) Decreasing trend  
 (c) Constant trend  
 (d) No trend at all
51. If marginal rate of substitution is increasing then shape of indifference curve is  
 (a) Concave  
 (b) L-shape  
 (c) Convex  
 (d) None of these
53. Why does the Indifference Curve Analysis approach operate?  
 (a) MRS decrease as we go down the Curve  
 (b) Consumer Surplus decreases  
 (c) MRS remains constant  
 (d) MRS increases
55. A \_\_\_\_\_ shows all those combinations of two goods which the consumer can buy spending his given money income on the two goods at their given prices.  
 (a) Indifference Curve  
 (b) Budget Line  
 (c) Demand Curve  
 (d) Diminishing Utility Curve
57. Price Line is also called -  
 (a) Budget Line  
 (b) Budget Constraint Line  
 (c) Both (a) and (b)  
 (d) Neither (a) nor (b)
59. If a combination is below the Price Line, it indicates that there is -  
 (a) Under Utilization of Resources  
 (b) Optimum utilization of Resources  
 (c) Over Utilization of Resources  
 (d) None of the above
61. Every Point below the Price Line represents -  
 (a) Over-spending by the Consumer  
 (b) Under-spending by the Consumer  
 (c) Full-spending by the Consumer  
 (d) None of the above
63. Budget Line shows all the combinations of \_\_\_\_\_ products.  
 (a) Two  
 (b) Many  
 (c) Three  
 (d) None of the above
65. If Consumers' Income and Spending decreases, the Price Line or Budget Line -  
 (a) Shifts outward away from the origin  
 (b) Remains at the same level  
 (c) Shifts inward nearer to the origin  
 (d) Any of the above

67. To Consumer's objective of maximising his satisfaction and reaching the highest possible Indifference Curve is restricted by -

- (a) Marginal Rate of Substitution
- (b) Total Utility Curve
- (c) Marginal Utility Curve
- (d) Price Line



69. A Consumer is at equilibrium when -

- (a) Slope of the Price Line is equal to Indifference Curve
- (b) He saves 30% of his Income
- (c) Borrows an amount equal to his income from the Bank
- (d) None of the above



71. At the equilibrium point on Indifference Curve which of the following equation is satisfied?

- (a)  $MRS_{xy} = \frac{MU_x}{MU_y} \frac{P_x}{P_y}$
- (b)  $\frac{MU_x}{P_x} = \frac{MU_y}{P_y}$
- (c) Both (a) and (b)
- (d) Neither (a) nor (b)



73.  $MU_x$  of X is 40 and  $MU_y$  of Y is 30. If the price of Y is ₹ 9 what will be the price of X at equilibrium?

- (a) ₹ 9
- (b) ₹ 30
- (c) ₹ 15
- (d) ₹ 12



75. The Marginal Utilities of Product A and Product B are 300 and 450 at equilibrium respectively. If the price of the product B is ?

₹ 60, what is the price of Product A at equilibrium level?

- (a) ₹ 45
- (b) ₹ 90
- (c) ₹ 40
- (d) ₹ 50



77. Which of the following is not an assumption in Consumer Equilibrium analysis under Indifference Curve Approach?

- (a) There is a given Indifference Map with different levels of satisfaction
- (b) Income of the Consumer is fixed
- (c) Prices of Commodities are constant
- (d) Only one Commodity is considered for the purposes of analysis



## Answer Keys

### UTILITY ANALYSIS & CONSUMER EQUILIBRIUM

1	3	5	7	9	11	13	15	17	19	21	23	25	27	29	31	33	35	37	39
c	c	d	a	d	a	a	d	b	c	a	c	a	a	a	c	d	d	a	b
41	43	45	47	49	51	53	55	57	59	61	63	65	67	69	71	73	75	77	79
a	c	c	b	c	c	c	c	a	b	c	c	c	d	d	b	d	b	a	a
81	83	85	87	89	91	93	95	97	99	101	103	105	107	109	111	113	115	117	119
a	a	c	d	b	d	c	b	b	a	b	a	b	c	b	a	c	a	a	d
121	123	125	127	129	131	133	135	137	139	141	143	145	147	149	151	153	155		
b	c	d	a	d	c	b	b	b	c	d	c	c	a	d	b	c	b		

### ORDINAL APPROACH

1	3	5	7	9	11	13	15	17	19	21	23	25	27	29	31	33	35	37	39
a	a	c	b	d	a	a	a	a	a	a	c	d	d	b	a	c	a	a	a
41	43	45	47	49	51	53	55	57	59	61	63	65	67	69	71	73	75	77	
c	b	c	a	b	a	a	b	c	a	c	a	c	d	a	c	d	c	d	

### DEMAND BASICS













1. \_\_\_\_\_ is the want satisfying power of the product.
  - (a) Supply
  - (b) Utility
  - (c) Demand
  - (d) None of these
3. Demand refers to the quantity of goods or services, that \_\_\_\_\_ are willing and able to purchase / buy in a given market, at various prices, in a given period of time.
  - (a) Government
  - (b) Producers
  - (c) Consumers
  - (d) Investors
5. On which of the following the Effective Demand for a thing depends?
  - (a) Desire
  - (b) Means to purchase (Ability to Buy)
  - (c) Willingness to use those means
  - (d) All of these
7. Which of the following is an important aspect in Demand?
  - (a) Availability of the product in the market
  - (b) Ability to buy the product
  - (c) Willingness to spend
  - (d) All of the above
9. Purchasing Power refers to -
  - (a) Availability of money with the Consumer to purchase the Commodity
  - (b) Availability of goods in the market
  - (c) Availability of substitute goods
  - (d) Availability of money with the Producer to produce the Commodity
11. Purchasing power of money fall when
  - (a) Price level increases
  - (b) Income level increases
  - (c) Money supply falls
  - (d) Price level decreases

13. In the context of Effective Demand, Willingness to spend means -
  - (a) Readiness to use available money for purchasing a Commodity
  - (b) Availability of Money with Consumers
  - (c) Both (a) and (b)
  - (d) Neither (a) nor (b)
15. Demand arises in respect of-
  - (a) Socially desirable goods, e.g. food, clothing
  - (b) Harmful goods, e.g. liquor, cigarettes, etc.
  - (c) Both (a) and (b)
  - (d) Neither (a) nor (b)
17. Demand arises in respect of -
  - (a) Agricultural Commodities only
  - (b) Industrial Goods only
  - (c) Both (a) and (b)
  - (d) Neither (a) nor (b)
19. Demand for Final Consumption arises in -
  - (a) Household Sector only
  - (b) Government Sector only
  - (c) Both Household and Government Sectors
  - (d) None of the above
21. Demand for Resources and Factors of Production is -
  - (a) Direct Demand
  - (b) Derived Demand
  - (c) Irrelevant in Economics
  - (d) Not a Demand at all

### INDIVIDUAL AND MARKET DEMAND

23. Individual Demand is also called -
  - (a) Market Demand
  - (b) Industrial Demand
  - (c) Household Demand
  - (d) None of the above
25. Individual Demand shows the quantities of demand for a commodity at various prices by -
  - (a) A particular consumer
  - (b) The entire market
  - (c) Both (a) and (b)

- (d) Neither (a) nor (b)
27. Market Demand is called -
- Household Demand
  - Producer Demand
  - Industry Demand
  - Individual Demand
29. Market Demand is the sum total of-
- All quantities that Producers can produce
  - All quantities actually sold in the market
  - All quantities demanded by individual households and consumers
  - None of the above
31. If A = Household Demand and B = Market Demand, then -
- $A > B$
  - $A < B$
  - $A = B = 0$
  - None of the above
33. The total demand for the product of an individual Firm at various prices is known as -
- Household Demand
  - Industrial Demand
  - Market Demand
  - Firm Demand
35. If Individual Demand = Market Demand = Firm's Demand, it means that -
- There is only one Producer
  - There is only one Consumer
  - Both (a) and (b)
  - Neither (a) nor (b)
- DETERMINANTS OF DEMAND**
37. Which of the following influence most the price level in the very short-run period?
- Demand
  - Production
  - Supply
  - Cost
39. All of the following are determinants of demand except
- Tastes and Preferences
  - Quantity supplied
  - Income
  - Price of related goods
41. When a Consumer prefers a commodity due to prestige attached to it, it is known as -
- Substitution Effect
  - Demonstration Effect
  - Income Effect
  - None of the above
43. Demonstration Effect is generally found in respect of
- Necessary Goods
  - Luxury and Quasi-Luxury Goods
  - Both (a) and (b)
  - Neither (a) nor (b)
45. In which of the following will the Demonstration Effect be high?
- Water
  - Rice
  - Cell phone
  - Plant and Machinery
47. Complementary Goods are goods which are consumed -
- Only at high income levels of Consumer
  - Together or simultaneously
  - Only when the goods are distributed as free compliment to the Consumer
  - In place of one another
49. Which of these is not a Complementary Good for Pen?
- Notebooks
  - Refills
  - Paper
  - Wheat
51. If two goods are Complements, it means that a rise in the price of one commodity will lead to -
- No shift in the demand for the other commodity
  - Upward Shift in demand for the other commodity
  - Downward Shift in demand for the other commodity
  - Rise in the price of the other commodity

53. In case of Complementary Goods, decrease in price of a product will - 
- Decrease the demand for the other product
  - Increase the price of the other product
  - Increase the demand for the other product
  - Not affect the demand for the other product
55. If X and Y are Complementary Goods, if there is an increase in Price of X, then - 
- Demand of X and Y will increase
  - Demand of X will decrease and Demand of Y will increase
  - Demand of X will increase and Demand of Y will decrease
  - Demand of X and Y will decrease.
57. \_\_\_\_\_ are goods which are consumed in place of one another. 
- Complementary Goods
  - Normal Goods
  - Inferior Goods
  - Substitute Goods
59. Which of the following pairs of goods is an example of Substitutes? 
- Shirt and Trousers
  - Tea and Coffee
  - Tea and Sugar
  - Pen and Ink
61. Which of the following pairs of goods in an example of substitutes? 
- Tea and Ball Pen
  - Tea and Coffee
  - Tea and Sugar
  - Tea and Shirt
63. In case of Complementary Goods, decrease in price of a product will - 
- Decrease the demand for the other product
  - Increase the demand for the other product
  - Increase the price of the other product
  - None of the above
65. When the Price of a Substitute of X Commodity falls, the Demand for X- 
- Rises
  - Falls
  - Remains Unchanged
  - None of the above
67. If the Price of Pepsi decreases relative to the Price of Coke and 7-Up, the demand for - 
- Coke and 7-Up will increase
  - 7-Up will decrease
  - Coke will decrease
  - Coke and 7-Up will decrease
69. If X and Y are Substitute Goods, if there is an increase in Price of X, then - 
- Demand of X will decrease and Demand of Y will increase.
  - Demand of X will increase and Demand of Y will decrease.
  - Demand of X and Y will increase.
  - Demand of X and Y will decrease.
71. In which phase of the business cycle to Producers try to sell out their inventories? 
- Recession
  - Prosperity
  - Boom
  - Recovery
73. What effect does an increase in the price of a product have on the Purchasing Power of the Consumer? 
- Increases
  - Decreases
  - Decreases initially, but increases over a period of time
  - No effect
75. The Demand for a commodity depends only upon the money income of the household. This statement is- 
- True;
  - False
  - Partially True
  - Nothing can be said

77. Giffen Goods are -  
 (a) Normal Goods  
 (b) Inferior Goods  
 (c) Luxury Goods  
 (d) All of the above
79. The Giffen Effect in respect of Inferior Goods was observed in the case of -  
 (a) Rice and Wheat  
 (b) Wheat and Meat  
 (c) Bread and Meat  
 (d) Bread and Rice
81. If Income Levels rise, and the demand for goods rises by less than proportionate extent, such goods will be -  
 (a) Inferior Goods  
 (b) Necessary Goods  
 (c) Luxury Goods  
 (d) None of the above
83. As Income Levels increase beyond a certain extent, the propensity to consume -  
 (a) Falls  
 (b) Rise  
 (c) Remains constant  
 (d) Becomes zero
85. In case of unequal distribution of income in the country, the propensity to consume will be ....., and demand for Consumer Goods will be .....
87. If the Consumers expect a decrease in prices of the product in the future, its current demand will be -  
 (a) Nil  
 (b) lower  
 (c) higher  
 (d) Nothing can be said
89. Demand for Air Conditioners, Water Coolers, Refrigerators show an rise during-  
 (a) Winter  
 (b) Summer  
 (c) Spring  
 (d) All Seasons

## Theory Of Demand











### DEMAND CURVE

1. Demand Schedule shows the relation between -  
 (a) Price and Quantity supplied  
 (b) Price and Quantity demanded  
 (c) Income and Quantity demanded  
 (d) Income and Quantity supplied
3. \_\_\_\_\_ indicates the changes in Consumers' purchasing habits, depending on the price variation of a particular product.  
 (a) Total Utility Curve  
 (b) Demand Schedule  
 (c) Purchasing Power Parity  
 (d) Production Possibility Curve
5. A Demand Curve deals with -  
 (a) One product at a time  
 (b) Two products at a time  
 (c) Many products at a time  
 (d) None of the above
7. Generally, the Demand Curve slopes -  
 (a) Downward from left to right  
 (b) Downward from right to left  
 (c) Upward from right to right  
 (d) Upward from left to left
9. Demand Curve in most cases has a -  
 (a) Infinity Slope  
 (b) Negative Slope  
 (c) Positive Slope  
 (d) Zero Slope








11. All but one of the following are assumed to remain the same while drawing an individual's Demand Curve for a product. Which one is it?
- (a) Preference of the individual  
 (b) Price of related goods  
 (c) Price  
 (d) His monetary income
13. If any quantity at the same price, then, the Demand Curve for that product will be -
- (a) Horizontal  
 (b) Positively Sloped  
 (c) Negatively Sloped  
 (d) Vertical
15. Average Revenue Curve is also called
- (a) Profit Curve  
 (b) Demand Curve  
 (c) Average Cost Curve  
 (d) Indifference Curve
17. The Total Area under the Demand Curve of a product measures -
- (a) Consumer's Surplus  
 (b) Total Utility  
 (c) Marginal Utility  
 (d) Producers' Surplus
19. In a Demand Curve, the Horizontal Axis will be -
- (a) Quantity Demanded  
 (b) Price of the Product  
 (c) Income Levels of Consumer  
 (d) None of the above
21. Which of these is not depicted in a typical Demand Curve?
- (a) Quantity Demanded  
 (b) Price of the Product  
 (c) Income Levels of Consumer  
 (d) All of the above




### LAW OF DEMAND

23. Which of the following can be regarded as law of Demand?
- (a) Ceteris Paribus, if Price of a product rises, its quantity demanded will fall  
 (b) Higher the Income, greater is the expenditure  
 (c) Taxes have no relation with the benefits which a person derives from the State  
 (d) None of the above
25. The Law of Demand refers to -
- (a) Price-Supply relationship  
 (b) Price- Cost relationship  
 (c) Price-Demand relationship  
 (d) Price-Income relationship.
27. The Law of Demand is a -
- (a) Positive Statement  
 (b) Normative Statement  
 (c) Both (a) and (b)  
 (d) Neither (a) nor (b)
29. The term "Ceteris Paribus" in the Law of Demand denotes -
- (a) All factors remaining constant  
 (b) All factors except one remaining constant  
 (c) All factors being variable  
 (d) All of the above
31. The condition "other things being equal" in the Law of Demand denotes -
- (a) Tastes and Preferences remaining constant  
 (b) Price of related goods remaining constant  
 (c) Income Levels remaining constant  
 (d) All of the above
33. As per the Law of Demand, if the Price of a commodity, its Demand
- (a) Decreases, Increases  
 (b) Increases, Increases  
 (c) Increases, Decreases  
 (d) Both (a) & (c)





35. The total effect of a price change of a commodity is
- Substitution Effect + Demonstration Effect
  - Substitution Effect + Income Effect 
  - Substitution Effect + Price Effect
  - Substitution Effect minus Income Effect
37. \_\_\_\_\_ refers to the effect of a change in the price of a product on the Consumer's purchasing power.
- Consumer Surplus 
  - Income Effect
  - Substitution Effect
  - Law of Equi-Marginal Utility
39. If there is a decrease in the prices of a product, the Consumer's Real Income -
- Increases 
  - Remains constant
  - Decreases
  - None of the above
41. Which of the following statements best describes the Income Effect? 
- It is the change in quantity demanded as a result of the changes in the income, keeping other things constant
  - It is the change in quantity demanded of substitute goods, as a result of change in the price of a product, keeping the income constant
  - It is the change in quantity demanded of a product, as a result of change in the real income because of change the price of the product
  - It is the change in the price of a good because of a rise or fall in the real income of the consumer
43. When the price of a Reynolds pen falls, ceteris paribus, Buyers substitute Reynolds Pen for other pens that are now relatively more expensive. This is called -
- Price Effect 
  - Substitution Effect
  - Income Effect
  - Veblen Effect
45. \_\_\_\_\_ refers to the Consumer's Reaction to a change in the relative prices of two products, keeping the Total Utility constant.
- Consumer Surplus 
  - Income Effect
  - Substitution Effect
  - Law of Diminishing Marginal Utility
47. Which of the following statement best describes the Substitution Effect? 
- the price of a product rises, Consumers stop consuming the product.
  - When the price of a product rises, Consumers tend to substitute it with a relatively expensive product
  - When the price of a product rises, Consumers tend to substitute it with a relatively inexpensive product
  - When the price of a product falls, consumers tend to substitute in with a more expensive product
49. The segregation between Income Effect and Substitution Effect is adequately explained by -
- Cardinal Approach
  - Ordinal Approach 
  - Both (a) and (b)
  - Neither (a) nor (b)
51. The Law of Demand is explained by -
- Law of Diminishing Marginal Utility 
  - Law of Indifference Curves
  - Both (a) and (b)
  - Neither (a) nor (b)
53. Since Consumers continue buying till Price equals Marginal Utility, if the price of a product is lower, the Consumer will attain equilibrium -
- At zero quantity level
  - At a higher quantity level 
  - At a lower quantity level
  - Both (a) and (b)

### EXCEPTIONS TO THE LAW

55. Conspicuous Goods are also called -
- Basic Goods
  - Prestige Goods
  - Giffen Goods
  - Necessary Goods
- 
57. Conspicuous Goods -
- Are an exception the Law of Demand
  - Follow the Law of Demand
  - Either (a) or (b)
  - Neither (a) nor (b)
- 
59. When Consumers feel that if the commodity expensive, that it has got more utility, we are referring to -
- Inferior Goods
  - Normal Goods
  - Conspicuous Goods
  - Giffen Goods
- 
61. Which of the following is not an exception to the Law of Demand?
- Conspicuous Goods
  - Normal Goods
  - Conspicuous Necessities
  - Giffen Goods
- 
63. In the case of a Giffen Good, the Demand Curve be
- Upward-sloping to the right
  - Downward-sloping to the right
  - Backward falling to the left
  - Horizontal
- 
65. In case of Giffen Goods, Demand Curve will slope-
- Upward
  - Downward
  - Horizontal
  - Vertical
- 
67. Giffen Goods are goods which
- Are considered inferior by Consumers
  - Occupy a substantial place in the Consumers budget
  - Both (a) and (b)
  - Neither (a) nor (b)
- 

69. When people buy more of a product when its price goes up, the product will be -
- Conspicuous Goods
  - Normal Goods
  - Inferior Goods
  - Luxury Goods
- 
71. Under which of the following situations the Law of Demand will not operate?
- Absolute Necessities
  - Conspicuous Goods
  - Giffen Goods
  - All of the above
- 
73. Under which of the following situations the Law of Demand will not operate?
- Increase in Consumers' Income Levels
  - Change in Tastes and Preferences
  - Both (a) and (b)
  - Neither (a) nor (b)
- 

### EXPANSION / CONTRACTION OF DEMAND

75. In case of Expansion and Contraction of Demand, the Demand Curve -
- Shifts to the right
  - Shifts to the left
  - Remains the same
  - All of the above
- 
77. Rise in quantity demanded of a product as a result of reduction in price is known as -
- Change in Demand
  - Contraction of Demand
  - Expansion of Demand
  - Alteration of Demand
- 
79. Expansion of Demand is the result of -
- Increase in number of Consumers
  - Decrease in Price of the product concerned
  - Decrease in Prices of other goods
  - Increase in Incomes of Purchasers
- 
81. In case of Expansion of Demand, there is a -
- Outward shift of the Demand Curve
  - Inward shift of the Demand Curve
  - Upward movement on the same Curve
  - Downward movement on the same Curve
- 

83. In case of Expansion of Demand, the quantity demanded -
- Increases
  - Becomes zero
  - Becomes constant
  - Decreases



85. Expansion of Demand is associated with
- Rise in Price, Fall in quantity demanded
  - Fall in Price, Fall in quantity demanded
  - Fall in Price, Rise in quantity demanded
  - Rise in Price, Rise in quantity demanded



87. Expansion and Contraction of demand for a product occurs as a result of changes in -
- Price of the Commodity
  - Factors other than Price
  - Both (a) and (b)
  - Neither (a) nor (b)



### INCREASE OR DECREASE IN DEMAND

89. Change in Demand as a result of the factors other than Price is called -
- Change in Demand
  - Shift in Demand
  - Increases and Decrease in demand
  - All of these



91. Decrease in Demand leads to -
- Inward shift of the Demand Curve
  - Downward movement on the same Curve
  - Outward shift of the Demand Curve
  - Upward movement on the same Curve



93. In which of the following cases, does a shift in demand take place?
- Fall in demand for cigarettes, as a result of increased taxes
  - Rise in the demand for two wheelers due to decrease in the sales tax
  - Decline in electric power consumption due to rise in the power charges
  - Decline in the sales of Diwali crackers due to sudden rains and floods



95. Shift in demand does not take place due to -
- Change in the price of the product
  - Change in consumer habits
  - Change in population
  - Change in the tastes and preferences



97. A Decrease in Demand would result from -
- Increase in Market Price
  - Decrease in Income
  - Increase in the Price of Substitutes
  - Decrease in the Price of Complements



99. Suppose consumer tastes shift toward the consumption of apples. Which of the following statements is an accurate description of the impact of this event on the market for apples?

- There is an increase in the demand for apples and a decrease in supply of apples
- There is an increase in the demand and supply of apples
- There is an increase in quantity demanded of apples and in supply of apples
- There is an increase in the demand for apples and an increase in the quantity supplied



101. Rise in the price of Substitute Goods leads to -
- Increase in Demand
  - Decrease in Demand
  - Expansion of Demand
  - Contraction of Demand



103. Other things being equal, a fall in the price of complementary good will cause the \_\_\_\_\_ of the other to rise.

- Price
- Utility
- Demand
- Supply



105. An Increase in the price of Complementary Goods leads to -

- Contraction of Demand
- Decrease in Demand
- Increase in Demand
- Expansion of Demand



107. Decrease in Income Levels of Buyers leads to -

- (a) Expansion of Demand
- (b) Decrease in Demand
- (c) Increase in Demand
- (d) Contraction of Demand



109. Increase in Demand is caused by -

- (a) Increase in population
- (b) Re-distribution of income to Consumers who favour this commodity
- (c) Change in Buyer Preferences and Tastes in favour of this commodity
- (d) All the above



111. Decrease in Demand is caused by-

- (a) Decrease in population
- (b) Re-distribution of income away from Consumers who favour this commodity
- (c) Change in Buyer Preferences and Tastes against this commodity
- (d) All the above



### Elasticity Of Demand

#### ELASTICITY BASICS

1. The concept of Elasticity of Demand was developed by-

- (a) Alfred Marshall
- (b) Paul Samuelson
- (c) Edwin Cannon
- (d) Fredric Bonham



3. Elasticity of Demand means -

- (a) The responsiveness of the quantity demanded of a commodity, to changes in one of the variables on which demand depends.
- (b) The percentage change in quantity demanded, divided by the percentage change in one of the factors on which demand depends.
- (c) Both (a) and (b)
- (d) Neither (a) nor (b)



5. Elasticity of Demand is measured in case of -

- (a) Changes in Prices of related commodities
- (b) Changes in Incomes of the Consumers
- (c) Changes in Price of the Commodity
- (d) All of the above



7. Which of the following statements is true with regard to the elasticity of demand?

- (a) The elasticity of demand remains same, both in short run and in long run
- (b) Demand is more elastic in the short run than in long run



(c) Demand is more inelastic in the long run than in short run

(d) Demand is more elastic in the long run than in short run

9. Price Elasticity of Demand is defined as the responsiveness of -

- (a) Price to a change in quantity demanded
- (b) Quantity demanded to a Change in Price
- (c) Quantity demanded to a change in income
- (d) Price to a Change in Income



11. Price Elasticity of Demand is given by -

- (a)  $\Delta q / \Delta p \times q / p$
- (b)  $\Delta p / \Delta q \times p / q$
- (c)  $\Delta p / \Delta q \times q / p$
- (d)  $\Delta q / \Delta p \times p / q$



13. Demand for which of the following products is/are relatively inelastic?

- (a) Electricity
- (b) Water
- (c) Movie Tickets
- (d) Both (a) and (b)



15. Amongst the following which item has highest Price Elasticity?

- (a) Rice
- (b) Petrol
- (c) Indian Oil's Petrol
- (d) Salt



17. Goods which have more close or perfect substitutes are

- (a) Zero Elastic
- (b) Unit Elastic
- (c) More Elastic
- (d) Less Elastic



19. Goods having higher proportion of the Consumers' spending are -

- (a) Less Elastic
- (b) Unit Elastic
- (c) More Elastic
- (d) Zero Elastic



21. Luxury Goods are considered \_\_\_\_\_ than Necessity Goods.

- (a) Less Elastic
- (b) Unit Elastic
- (c) More Elastic
- (d) Zero Elastic



23. Salt is \_\_\_\_\_ to price changes than Motor Car.

- (a) Less Elastic
- (b) Unit Elastic
- (c) More Elastic
- (d) Zero Elastic



25. Goods which can be put to multiple uses are -

- (a) Less Elastic
- (b) Unit Elastic
- (c) More Elastic
- (d) Zero Elastic



27. Demand for electricity is elastic because -

- (a) It is very expensive.
- (b) It has a number of close substitutes.
- (c) It has alternative uses.
- (d) None of the above.



29. Goods in respect of which the Consumers do not have time to adjust their consumption pattern are -

- (a) Less Elastic
- (b) Zero Elastic
- (c) More Elastic
- (d) Unit Elastic



31. Goods which are required for immediate or urgent consumption are -

- (a) Less Elastic
- (b) Unit Elastic
- (c) More Elastic
- (d) Zero Elastic



33. Goods which are subject to Consumer Habits, e.g. Cigarette, Liquor, etc. are -

- (a) Less Elastic
- (b) More Elastic
- (c) Unit Elastic
- (d) Zero Elastic



### PERFECTLY INELASTIC

35. If the demand for the good is perfectly inelastic, the Demand Curve will be -

- (a) Horizontal Line
- (b) Vertical Line
- (c) Rectangular Hyperbola
- (d) Downward Sloping to the right



37. Vertical Demand Curve will show that the price elasticity of demand is -

- (a) Perfectly inelastic
- (b) Perfectly elastic
- (c) Inelastic
- (d) Unitary



39. For goods with perfectly inelastic demand

- (a)  $\Delta p = 0$
- (b)  $\Delta p = \Delta q$
- (c)  $\Delta p = \Delta q$
- (d)  $\Delta q = 0$



41. If the demand for the good is perfectly inelastic, and E is the measure of Elasticity, which of the following is true?

- (a)  $E = 0$
- (b)  $E = 1$
- (c)  $0 < E < 1$
- (d)  $E > 1$



## LESS ELASTIC

43. Identify the factor which generally keeps the Price- Elasticity of Demand for a product low.
- High proportion of the Consumer's Income spent on it
  - Its Low Price
  - Variety of Uses for that product
  - Close Substitutes for that product
45. Price Elasticity of Demand for addictive products like cigarettes and alcohol would be -
- One
  - Less than 1
  - Greater than 1
  - Infinity
47. For goods with less elastic demand -
- $\Delta q > \Delta p$
  - $\Delta q = \Delta p$
  - $\Delta q < \Delta p$
  - $\Delta q = 1$
49. If the demand for the good is less elastic, the Demand Curve would be -
- Horizontal Line
  - Vertical Line
  - Downward Sloping to the right, flatter
  - Downward Sloping to the right, steeper
51. When the price of a commodity increases from Rs. 8 to Rs. 9 then the demand decreases by 10%. The price Elasticity of demand is \_\_\_\_\_
- 0.8
  - 1
  - 0.9
  - 1.1

## UNIT ELASTIC

53. If the price of 'X' rises by 10% and the quantity demanded falls by 10%, 'X' has -
- Zero Elastic Demand
  - Unit Elastic Demand
  - Inelastic Demand
  - Elastic Demand

55. If the demand for the good is unit elastic, and E is the measure of Elasticity, which of the following is true?
- $E > 1$
  - $0 < E < 1$
  - $E = 1$
  - $E = 0$
57. If the demand for the good is unit elastic, the Demand Curve would be -
- 45 degree Straight Line, sloping downward to the right
  - Rectangular Hyperbola
  - Either (a) or (b)
  - Neither (a) nor (b)
59. If the demand for the good is unit elastic, the Demand Curve will be -
- 45 degree Straight Line, sloping downward to the right
  - Rectangular Hyperbola
  - Equilateral Hyperbola
  - All of the above
61. In case of Straight Line demand curve meeting two axes, the Price Elasticity of demand at a point where the curve meets x-axis would be
- 1
  - $\infty$
  - 0
  - $>1$

## MORE ELASTIC

63. When quantity demanded changes by larger percentage than Price, Elasticity is termed as -
- Perfectly inelastic
  - Perfectly elastic
  - Elastic
  - Inelastic
65. For goods with more elastic demand -
- $\Delta q > \Delta p$
  - $\Delta q = \Delta p$
  - $\Delta q < \Delta p$
  - $\Delta q = 1$

67. If the demand for the good is more elastic, the Demand Curve will be -
- (a) Horizontal Line
- (b) Downward Sloping to the right, steeper
- (c) Downward Sloping to the right, flatter
- (d) Vertical Line



### PERFECTLY ELASTIC

69. What would be the value of Elasticity of Demand, if the demand for the good is perfectly elastic?
- (a) 1
- (b) 0
- (c) Infinity
- (d) Less than 0
71. Horizontal Demand Curve will show that the price elasticity of demand is -
- (a) Perfectly inelastic
- (b) Inelastic
- (c) Perfectly elastic
- (d) Unitary



73. If the demand for the good is perfectly elastic, and  $E$  is the measure of Elasticity, which of the following is true?
- (a)  $E = 0$
- (b)  $0 < E < 1$
- (c)  $E > 1$
- (d)  $E = \text{Infinity}$



75. Horizontal Demand curve, Parallel to X-axis indicates, that the elasticity of Demand is \_\_\_\_\_
- (a)  $>1$
- (b) Infinite
- (c) Zero
- (d)  $<1$



### DETERMINANTS OF PRICE ELASTICITY

77. Demand for a good will tend to be more elastic if it exhibits which of the following features?
- (a) It is a necessity (as opposed to a luxury)
- (b) The good has many substitutes available
- (c) It represents a small part of the consumer's income
- (d) There is little time for the Consumer to adjust to the price change



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



81. Which is correct about price elasticity of demand?
- (a) It is several degrees and natures
- (b) It is unaffected due to change in price of other goods
- (c) It is immeasurable concept
- (d) It is due to direction of change in price



### PROPORTIONATE METHOD

83. If Price of Coffee decreases from 5 to 4.50, and as a result the Consumer's Demand for Coffee increase from 60 grams to 75 grams, the absolute Price Elasticity of Demand of Coffee is -
- (a) 3.0
- (b) 2.0
- (c) 1.5
- (d) 2.5
85. If the Demand for Cricket Balls increases from 50 to 55 because of fall in price from 25 to 24, what is the Price Elasticity of Demand for Cricket Balls?
- (a) (2)
- (b) (2.5)
- (c) (5)
- (d) (1.0)
87. Price of Mangoes increases by 22% and the quantity of mangoes demanded falls by 25%. This indicates that demand for mangoes is -
- (a) Elastic
- (b) Unitarily elastic
- (c) Perfectly elastic
- (d) Inelastic



89. 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 plate settings to 5,000 plate- settings, what is the Price Elasticity of Demand for that item?

- (a) 0.8
- (b) 2.0
- (c) 1.25
- (d) 1.5



91. If a shop raises the price of a product from 60 to 100 and quantity demanded falls from 400 units to 300 units, the Price Elasticity of Demand is -

- (a) 0.667
- (b) 0.500
- (c) 1.000
- (d) 0.375



93. What is the new quantity demanded when Price Elasticity is 1 and price changes from 15 to 10 and the original quantity demanded was 10 units?

- (a) 15 units
- (b) 20 units
- (c) 8 units
- (d) 12 units



95. The original price of commodity is 500 and quantity demanded is 20 kgs. If price rises to 750 and quantity demanded reduce to 15 kgs, price elasticity of demand is

- (a) 0.25
- (b) 0.50
- (c) 2.00
- (d) 1.50



97. The price of a commodity decreases form 10 to 8 and the quantity demanded of it increases from 25 to 30 units. Then the coe cient of price elasticity will be \_\_\_\_\_

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



**POINT ELASTICITY**

99. Point Elasticity of Demand is calculated as

- (a) Upper Segment ÷ Lower Segment
- (b) Lower Segment ÷ Upper Segment
- (c) Either (a) or (b)
- (d) Neither (a) nor (b)



101. Which of the following statements regarding Elasticity of Demand is true?

- (a) Elasticity of demand decreases as one goes down a Straight Line Demand Curve
- (b) Elasticity of Demand increases as one goes down a Straight Line Demand Curve
- (c) Elasticity of Demand is constant throughout the Straight Line Demand Curve
- (d) None of the above



103. If a point on a Demand Curve of any Product lies on Y Axis, then Price Elasticity of Demand of that commodity at that point will be -

- (a) Infinite
- (b) More than zero
- (c) Zero
- (d) Less than zero



105. If R point bisects the Demand Curve in two equal parts, then elasticity at R equals -

- (a) Two
- (b) Five
- (c) Zero
- (d) One



107. What is the elasticity between midpoint & upper extreme point of a straight line continuous demand curve?

- (a) Infinite
- (b) Zero
- (c) >1
- (d) <1



**ARC ELASTICITY**

109. What is the Price Elasticity of Demand when, price changes from 10 to 12 and as a result, demand falls from 6 units to 4 units?

- (a) 0.833
- (b) 1.6
- (c) 2.2
- (d) 1.833



111. What is the Original Price of a Product when Price Elasticity is 0.71 and Demand changes from 20 units to 15 units and the new price is 10? (Use Arc Method for computation)

- (a) ₹ 15
- (b) ₹ 8
- (c) ₹ 18
- (d) ₹ 20



#### TOTAL OUTLAY / REVENUE METHOD

113. Under Total Outlay Method, if Price and Consumer's Total Expenditure on the product move in opposite directions, then, Price Elasticity of Demand is -

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



115. If the demand for a product is elastic, an decrease in its price will cause the Total Expenditure of the Consumers to -

- (a) Remain the same
- (b) Increase
- (c) Decrease
- (d) None of these



117. Under Total Outlay Method, if Price and Consumer's Total Expenditure on the product move in the same direction, then, Price Elasticity of Demand is -

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



119. If the demand for a product is inelastic, an decrease in its price will cause the Total Expenditure of the Consumers to -

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



121. Given the following four possibilities, which one results in an increase in Total Consumer Expenditure?

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



123. When Increase in prices is exactly balanced by a proportionate reduction in the purchase quantity, then Elasticity under Total Outlay Method is -

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



125. Which of the following statements regarding Elasticity of Demand is true?

- (a) If the demand for the product is inelastic, an increase in price will have a positive effect on the total revenue of the Firm
- (b) If the demand for the product is elastic, an increase in price will have a positive effect on the total revenue of the Firm
- (c) If the demand for the product is inelastic, an increase in price will have a negative effect on the total revenue of the Firm
- (d) If the demand for the product is inelastic, a decrease in price will have a positive effect on the total revenue of the Firm



127. If a good has price elasticity greater than one then -

- (a) Demand is unit elastic and a change in price does not affect sellers' revenue.
- (b) Demand is elastic and a change in price causes Sellers' Revenue to change in the opposite direction.
- (c) Demand is inelastic and a change in price causes Sellers' Revenue to change in the same direction.
- (d) None of these



129. If the Railways are making losses on passenger trac, they should lower their fares. The suggested remedy would only work if the demand for Rail Travel had a price elasticity of -

- (a) Greater than one
- (b) Greater than zero but less than one.
- (c) One
- (d) Zero



131. Price Elasticity of demand for a product is zero. If the Firm increases the price of the product by 10%, Total Revenue of the Firm will -
- Not change
  - Increase to infinity
  - Fall to zero
  - Decrease by 10%



### INCOME ELASTICITY

133. Income Elasticity of Demand is given by -
- $\Delta i / \Delta q \times q / i$
  - $\Delta i / \Delta q \times i / q$
  - $\Delta q / \Delta i \times q / i$
  - $\Delta q / \Delta i \times i / q$
135. If Income-Elasticity is greater than zero, then the product is -
- Superior
  - Normal
  - Inferior
  - Both (a) & (b)
137. For what type of goods does demand fall with rise in income levels of households?
- Inferior Goods
  - Substitutes
  - Luxuries
  - Necessities
139. Generally when income of a consumer increases he goes for superior goods, leading to fall in demand for inferior goods. It means income elasticity of demand is \_\_\_\_\_
- Less than one
  - Negative
  - Zero
  - Unitary
141. Goods having negative Income Elasticity are known as -
- Normal
  - Inferior
  - Superior
  - Necessities



143. In Demand-Supply Analysis, if the income of the Consumer increases, the Demand Curve for an inferior good -
- Shifts upward to the right
  - Shifts downward to the left
  - Shifts upward to the left
  - Shifts downward to the right
145. If quantity demanded does not change as Income changes, then Income Elasticity of Demand is -
- Below 1
  - Between -1 and 0
  - Zero
  - Above 1
147. If an increase in Consumer Incomes leads to a increase in the demand for Product X, then Product X is -
- A Normal Good
  - A Substitute Good
  - An Inferior Good
  - All of the above
149. If Income Elasticity  $> 1$ , it means that proportion of Income spent on goods, as income of the Consumers increases.
- Increases
  - Decreases
  - Remains constant
  - None of the above
151. Services like Air Travel and Movies have an income elasticity of -
- More than 1
  - Between 0 and 1
  - Less than 1
  - 0
153. If a good is a Luxury, its Income Elasticity of demand is
- Zero
  - Negative but greater than -1
  - Positive and greater than 1
  - Positive and less than 1



155. The Income of a Household rises by 20%, the demand for Computer rises by 25%, this means Computer (in Economics) is a/an

- (a) Inferior Good
- (b) Luxury Good
- (c) Necessity
- (d) None of the above



157. If the Income Elasticity is greater than one, the commodity is -

- (a) Necessity
- (b) Luxury
- (c) Inferior goods
- (d) None of these



159. If Consumers always spend 15% of their income on food, then the Income Elasticity of Demand for Food is

- (a) 1.15
- (b) 1.50
- (c) 1.00
- (d) 0.15



161. Which of the following is not an income- elastic product/service?

- (a) Air Travel
- (b) Meals in a costly restaurant
- (c) Life-saving Drugs
- (d) Entertainment in an Amusement Park



163. Goods having Income Elasticity  $< 1$  are considered as-

- (a) Normal Goods
- (b) Necessities
- (c) Luxury Goods
- (d) Inferior Goods



165. If income increases by 10% and demand increases by 5%, then income elasticity of demand is:

- (a) +0.5
- (b) -0.05
- (c) + 0.05
- (d) -0.5



167. If the quantity of CD demanded increases from 260 to 290 in response to an increase in income from 9,000 to 9,800, the Income Elasticity of Demand is approximately -

- (a) 3.4
- (b) 0.01.
- (c) 1.3
- (d) 2.3.



169. If an Increase In Consumer Incomes leads to a decrease in the demand for Product Z, then Product Z is -

- (a) A Normal Good
- (b) A Substitute Good
- (c) An Inferior Good
- (d) None of the above



171. Income of a household increases by 10%, and the demand for TV rises by 20%. This means that TV is an example of -

- (a) Inferior Goods
- (b) Luxurious Goods
- (c) Normal Goods
- (d) Economic Goods



### CROSS ELASTICITY

173. In order to assess the effect of a change in price of one product on the demand for other products, which type of elasticity is often used?

- (a) Cross Elasticity
- (b) Price Elasticity
- (c) Income Elasticity
- (d) Supply Elasticity



175. In measuring Cross Elasticity, \_\_\_\_\_ is / are considered.

- (a) No products
- (b) Two products
- (c) Many products
- (d) Only one product



177. If Goods A and B are complementary, their Cross Elasticity is -

- (a) Infinity
- (b) Greater than zero but less than infinity
- (c) Zero
- (d) Negative



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

- (a) Negative
- (b) Positive
- (c) Horizontal
- (d) All of the above



181. Goods having negative Cross Elasticity are -

- (a) Mostly complementary goods
- (b) Always substitute goods
- (c) Always complementary goods
- (d) Mostly substitute goods



183. Goods having zero Cross Elasticity are -

- (a) Complementary goods
- (b) Unrelated goods
- (c) Substitute goods
- (d) None of the above



185. If the coefficient of Cross Elasticity of Demand of A for B is 3, it means that A and B are -

- (a) Inferior Goods
- (b) Substitute Goods
- (c) Normal Goods
- (d) Complementary Goods



187. If two products are good substitutes, the value of Cross Elasticity will be -

- (a) Negative
- (b) Positive
- (c) Zero
- (d) No Cross Elasticity exists between two substitute products



189. Goods having positive Cross Elasticity are -

- (a) Mostly complementary goods
- (b) Always complementar goods
- (c) Mostly substitute goods
- (d) Always substitute goods



191. If Cross Elasticity of Demand is Infinity, it means that the goods are -

- (a) Perfect Complementary Goods
- (b) Perfect Substitute Goods
- (c) Inferior Goods
- (d) Normal Goods



193. If Cross Elasticity of Demand between A and B is Zero, it means that between A and B -

- (a) There can be no substitution at all
- (b) A can be perfectly substituted for B, and vice-versa.
- (c) A and B are Inferior Goods
- (d) Nothing can be said



195. The Cross Elasticity of monthly demand for ink pen, when the price of gel pen increases by 25% and demand for ink pen increases by 50% is equal to -

- (a) + 2.00
- (b) 2.9
- (c) -2.00
- (d) + 2.09



197. If the quantity demanded of Product Z increases from 8 to 12 units in response to an increase in the price of Product Z from Rs.23 to Rs. 27, the Cross Elasticity of Demand for Z with respect to Price of Z is approximately -

- (a) 2.5 and Z and X are Complements
- (b) 0.35 and Z and X are Substitutes
- (c) 0.35 and Z and X are Complements
- (d) 2.5 and Z and X are Substitutes



#### ALL ELASTICITY COMPUTATION

Use the following data for the next 4 questions.

A Grocery Shop used to sell fresh milk at 20 per litre, at which price 400 litres of milk were sold per month. After some time, the price was raised to 30 per litre. Following are the consequences:

- Only 200 litres of milk was sold every month.
- The number of boxes of cereal customers bought went down from 200 to 140.
- The number of packets of powdered milk customers bought went up from 90 to 220 per month.

199. The Price Elasticity of Demand when fresh milk's price increases from ₹ 20 per litre to ₹ 30 per litre is equal to

- (a) 2.5
- (b) 1.0
- (c) 1.66
- (d) 2.66



201. The Cross Elasticity of Demand for Cereals when the price of Fresh Milk increases from 20 to 30 is equal to

- (a) -0.6
- (b) +0.6
- (c) -0.19
- (d) +0.38



203. The Cross Elasticity of Demand for Powdered Milk, when the price of Fresh Milk increases from 20 to 30 per litre is equal to -

- (a) -1.05
- (b) +1.05
- (c) -2.89
- (d) +2.89



205. If Income of the Consumers increases by 50% and the quantity of Fresh Milk demanded increases by 30%. What is Income Elasticity of Demand for Fresh Milk?

- (a) 1.25
- (b) 0.6
- (c) 0.5
- (d) 1.5



**Use the following data for the next 4 questions. A Shopkeeper sells Gel Pen at 10 per pen. At**

this price he can sell 120 units per month. After some time, he raises the price to 15 per pen. Following the price rise -

- Only 50 pens were sold every month.
- The number of refills bought went down from 200 to 150.
- The number of ink pen customers bought went up from 90 to 150 per month.

207. Price Elasticity of demand when Gel Pen's price increases from 10 to 15 per pen is -

- (a) 2.5
- (b) 2.16
- (c) 1.16
- (d) 1.00



209. The Cross Elasticity of Demand for Refills when the price of Gel Pen increases from ₹10 to ₹15 is-

- (a) -0.50
- (b) 0.25
- (c) 0.38
- (d) -0.19



211. Cross Elasticity of Demand for Ink Pen when the price of Gel Pen increases from 10 to 15 is equal to -

- (a) +1.33
- (b) -1.05
- (c) +2.09
- (d) -2.09



213. If Income of the residents of locality increases by 50% and the quantity of Gel Pens demanded increases by 20%. What is income elasticity of demand for Gel Pen?

- (a) 0.4
- (b) 1.50
- (c) 0.60
- (d) 1.25



**Use the following data for the next 6 questions.**

**X, Y and Z are three commodities where X and Y are complementary whereas X and Z are substitutes.**

A Shopkeeper sells Commodity X at 20 per piece. At this price, he is able to sell 100 pieces of X per month. After some time, he decreases the price of X to 10 per piece. Consequently -

- He is able to sell 150 pieces of X per month.
- Demand for Y increases from 25 to 50 units.
- Demand for Z decreases from 75 to 50 units.

215. Price Elasticity of Demand (using Arc Method) when Price of X decreases from 20 per piece to 10 per piece will be -

- (a) 0.6
- (b) 0.5
- (c) 1.5
- (d) 1.6



217. Cross Elasticity of Demand for Commodity Y when the Price of X decreases from 20 per piece to 10 per piece will be -

- (a) +1
- (b) -1.5
- (c) +1.5
- (d) -1



219. If Income of the Consumers increases by 50% and the demand for X increases by 20% what will be the Income Elasticity of Demand for X?

- (a) 0.04
- (b) 0.4
- (c) 4.00
- (d) -4.00



221. Advertisement Elasticity is also known as -

- (a) Marketing Elasticity
- (b) Promotional Elasticity
- (c) Commercial Elasticity
- (d) All of the above



223. Advertisement Elasticity is the percentage change in

- (a) Supply that occurs for every 1% change in Advertising Expenditure.
- (b) Demand that occurs for every 1% change in Advertising Expenditure.
- (c) Advertisement expense that occurs for every 1% change in Demand.
- (d) All of the above



225. Which of the following statements is true?

- (a) Higher the value of Advertising Elasticity, greater will be the responsiveness of demand to change in advertisement.
- (b) Lower the value of Advertising Elasticity, greater will be the responsiveness of demand to change in advertisement.
- (c) Higher the value of Advertising Elasticity, lesser will be the responsiveness of demand to change in advertisement.
- (d) None of the above



## Answer Keys

### DEMAND ANALYSIS

1	3	5	7	9	11	13	15	17	19	21	23	25	27	29	31	33	35	37	39
b	c	d	d	a	a	b	c	c	c	b	c	a	c	c	b	d	c	a	b
41	43	45	47	49	51	53	55	57	59	61	63	65	67	69	71	73	75	77	79
b	b	c	b	d	c	c	d	d	b	b	a	b	d	a	a	b	b	b	c
81	83	85	87	89															
b	a	d	b	b															







### THEORY OF DEMAND




1	3	5	7	9	11	13	15	17	19	21	23	25	27	29	31	33	35	37	39
b	b	a	a	b	c	a	b	b	a	c	a	c	a	b	d	d	b	b	a
41	43	45	47	49	51	53	55	57	59	61	63	65	67	69	71	73	75	77	79
c	b	c	c	b	c	b	b	a	c	b	c	a	c	c	d	c	c	c	b
81	83	85	87	89	91	93	95	97	99	101	103	105	107	109	111				
d	a	c	a	d	a	d	a	b	d	a	c	b	b	d	d				

### ELASTICITY OF DEMAND




1	3	5	7	9	11	13	15	17	19	21	23	25	27	29	31	33	35	37	39
a	c	d	d	b	d	d	c	c	c	c	a	c	c	a	a	a	b	b	d
41	43	45	47	49	51	53	55	57	59	61	63	65	67	69	71	73	75	77	79
a	b	b	c	d	a	b	c	c	d	c	c	a	c	c	a	d	b	b	c
81	83	85	87	89	91	93	95	97	99	101	103	105	107	109	111	113	115	117	119
a	d	b	a	b	d	a	b	b	b	a	a	d	c	c	a	b	b	c	c
121	123	125	127	129	131	133	135	137	139	141	143	145	147	149	151	153	155	157	159
d	a	a	b	b	a	d	d	a	a	b	b	c	a	a	a	c	b	b	c
161	163	165	167	169	171	173	175	177	179	181	183	185	187	189	191	193	195	197	199
c	b	a	c	c	b	a	b	d	a	a	b	b	b	d	b	a	a	d	b
201	203	205	207	209	211	213	215	217	219	221	223	225							
a	d	b	c	a	a	a	a	d	b	b	b	a							

### SUPPLY BASICS

1. Supply refers to -
  - (a) Those goods which Firms offers for sale
  - (b) Amount of goods, Firms sells in the market
  - (c) Amount of goods all people want 
  - (d) None of the above
  
3. Supply of a Commodity is a -
  - (a) Stock Concept
  - (b) Flow Concept 
  - (c) Both Stock and Row Concept.
  - (d) All of these
  
5. Supply refers to \_\_\_\_\_
  - (a) Stock of goods available for sale 
  - (b) Actual production of the goods
  - (c) Quantity supplied at a various price during a period of time
  - (d) Stock of goods
  
7. Supply Quantity is the same as Sales Quantity. This statement is -
  - (a) True 
  - (b) False
  - (c) Partially True
  - (d) None of the above
  
9. To constitute Supply, the Producing Firms must have
  - (a) Ability, i.e. productive capacity
  - (b) Willingness, i.e. ready to supply 
  - (c) Both (a) and (b)
  - (d) Neither (a) nor (b)
  
11. Period in which supply cannot be increased is called
  - (a) Market Period 
  - (b) Short Run
  - (c) Long Run
  - (d) Both (a) and (b)

13. \_\_\_\_\_ refers to the quantity which is actually brought in the market.
  - (a) Demand 
  - (b) Supply
  - (c) Stock
  - (d) Sales
  
15. Stock is potential supply.
  - (a) True 
  - (b) False
  - (c) Partially True
  - (d) None of the above
  
17. The meaning of time element in economics is
  - (a) Calendar time 
  - (b) Clock time
  - (c) Operational time which supply adjusts with the market demand
  - (d) None of these

### DETERMINANTS OF SUPPLY

19. Which of the following factors is not a determinant of Supply?
  - (a) Government's industrial and foreign policies
  - (b) Market Structure 
  - (c) State of Technology
  - (d) Income Levels of Consumers
  
21. Producing Firms are guided by -
  - (a) Service Motive
  - (b) Profit Motive 
  - (c) Both (a) and (b)
  - (d) Neither (a) nor (b)
  
23. Prices of Related Commodities are not a determinant of supply of a particular commodity. This statement is -
  - (a) True 
  - (b) False
  - (c) Partially True
  - (d) None of the above

25. Generally, Supply of a Product X will be \_\_\_\_\_ if the prices of goods other than X decrease.

- (a) Equal
- (b) Lower
- (c) Greater
- (d) Zero



27. If there is an increase in the Prices of Factors of Production, Cost of Production of that product will -

- (a) Increase
- (b) Decrease
- (c) Remain Constant
- (d) Become Zero



29. Other things being equal, if the Cost of Production of a commodity is higher, quantities thereof will be supplied to the market.

- (a) Equal
- (b) Lower
- (c) Greater
- (d) Zero



31. Inventions and Innovations lead to -

- (a) Lower Cost of Production in existing products
- (b) Production of more or better goods
- (c) Both (a) and (b)
- (d) Neither (a) nor (b)



33. Inventions and Innovations lead to -

- (a) Reduction in the supply quantity of products that are displaced
- (b) Increase in supply quantity of new products
- (c) Both (a) and (b)
- (d) Neither (a) nor (b)



35. Other things being equal, the supply quantity of a product is \_\_\_\_\_ related to price of related goods.

- (a) Directly
- (b) Inversely
- (c) Proportionally
- (d) None of these



37. Generally, if there is an increase in Commodity Taxes (Excise Duty, Customs Duty, VAT, etc.) leading to increase in their cost of production, the supply quantity will -

- (a) Remain Constant
- (b) Decrease
- (c) Increase
- (d) Become Zero



39. In case of failure of rains, floods, fires, etc. the supply of agricultural commodities will -

- (a) Increase
- (b) Decrease
- (c) Remain Constant
- (d) Become Zero



### LAW OF SUPPLY AND SUPPLY CURVE

41. Which of the following is the determinant in the Law of Supply?

- (a) Technology
- (b) Price of related goods
- (c) Price of the product
- (d) All of these



43. As per Law of Supply, other things being equal, if the Price of a Commodity increases, its Supply Quantity will

- (a) Increase
- (b) Become Zero
- (c) Decrease
- (d) Remain Constant



45. The assumption "Ceteris Paribus" in the Law of Supply stands for -

- (a) Technology remaining constant
- (b) Demand remaining constant
- (c) Price remaining constant
- (d) All factors other than Price remaining constant



47. \_\_\_\_\_ shows the quantity of products a producer or seller wishes to sell at a given price level.

- (a) Average Product Curve
- (b) Supply Curve
- (c) Marginal Product Curve
- (d) Total Product Curve



49. Generally, the Supply Curve -

- (a) Positively sloped
- (b) Negatively sloped
- (c) Zero-sloped
- (d) Nothing can be said



51. The Supply Curve -

- (a) Is always a straight line
- (b) Is always a curve
- (c) Sometimes a straight line, sometimes a curve
- (d) None of the above



53. What would be the shape of the Supply Curve of the toys, if a Seller offers to sell any number of toys as ₹ 100?

- (a) Upward sloping
- (b) Downward sloping
- (c) Horizontal
- (d) Vertical



#### INCREASE / DECREASE IN QUANTITY SUPPLIED

55. While recognizing Increase or Decrease in the quantity supplied, we assume \_\_\_\_\_ remain constant.

- (a) Price
- (b) All Factors other than Price
- (c) Both (a) and (b)
- (d) Neither (a) nor (b)



57. Change in Quantity Supplied causes -

- (a) a movement on the same Supply Curve
- (b) shift of the Supply Curve
- (c) Both (a) and (b)
- (d) Neither (a) nor (b)



59. In case of Increase / Decrease in quantity supplied, the position of the Supply Curve remains the same. This statement is -

- (a) True
- (b) False
- (c) Partially True
- (d) None of the above



61. Increase in quantity supplied, due to changes in price, may also known as -

- (a) Contraction of Supply
- (b) Decrease in Supply
- (c) Increase in Supply
- (d) Expansion of Supply



63. Contraction of Supply is the result of -

- (a) Increase in the prices of other goods
- (b) Decrease in the price of the product concerned
- (c) Decrease in the number of Producers
- (d) Decrease in the Outlay of Sellers



#### INCREASE / DECREASE IN SUPPLY

65. While recognizing Increase or Decrease in the Supply, we assume \_\_\_\_\_ remain constant.

- (a) Price
- (b) All Factors other than Price
- (c) Both (a) and (b)
- (d) Neither (a) nor (b)



67. Change in Supply means -

- (a) A movement on the same Supply Curve
- (b) Shift of the Supply Curve
- (c) Both (a) and (b)
- (d) Neither (a) nor (b)



69. When higher quantities are supplied, due to changes in factors other than price, it is called

- (a) Decrease in Supply
- (b) Expansion of Supply
- (c) Contraction of Supply
- (d) Increase in Supply



71. Which of the following factors will not result in the shifting of Supply Curve for Software Packages?

- (a) Increase in the wages of computer professionals
- (b) Government tariffs on software exports and imports
- (c) Fall in the prices of software packages
- (d) All of the above result in the shifting of the curve



73. An Increase in the Supply of a product is caused by

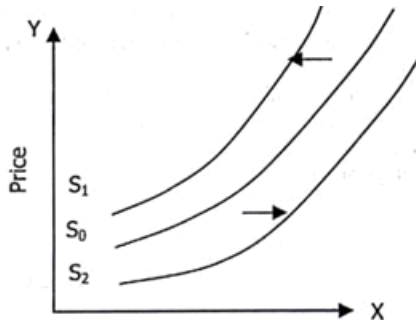
- (a) Reduction in the price of Related Commodities
- (b) Reduction in Cost of Production of this Commodity
- (c) Subsidies by Government for producing this commodity.
- (d) All of these



75. A Decrease in the Supply of a product is caused by -
- (a) Technology or fashion change, making the commodity outdated
  - (b) Increase in the price of Related Commodities
  - (c) Increase in Cost of Production of this Commodity
  - (d) All of these



Use the following diagram to answer the next 5 questions



77. Movement from S0 to S1 is caused by -
- (a) Changes in Price of the product
  - (b) Changes in Factors other than price
  - (c) Both (a) and (b)
  - (d) Neither (a) nor (b)



79. Movement from S0 to S1 is caused by -
- (a) Changes in Price of the product
  - (b) Changes in Factors other than price
  - (c) Both (a) and (b)
  - (d) Neither (a) nor (b)
81. Increase in the price of Related Commodities will cause a movement from -
- (a) Movement from S0 to S1
  - (b) Movement on S0 itself
  - (c) Movement from S0 to S2
  - (d) No change at all
83. Increase in Cost of Production of this Commodity will cause a movement from -
- (a) Movement from S0 to S1
  - (b) Movement from S0 to S2
  - (c) Movement on S0 itself
  - (d) None of these
85. Technology or fashion change, making the commodity outdated, will lead to -
- (a) Movement from S0 to S1
  - (b) Movement from S0 to S2
  - (c) Movement on S0 itself
  - (d) No change at all



## Elasticity and Equilibrium Price

### ELASTICITY OF SUPPLY













1. 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
3. In which of the following type of product, is the Elasticity of Supply lowest?
- (a) Necessities
  - (b) Luxury Goods
  - (c) Perishable Goods
  - (d) Perfect Substitutes



5. Elasticity of Supply is given by the formula -
- (a)  $\Delta p / \Delta q \times \Delta q / p$
  - (b)  $\Delta p / \Delta q \times p / q$
  - (c)  $\Delta q / \Delta p \times q / p$
  - (d)  $\Delta q / \Delta p \times p / q$
7. Which of the following method is not used for measuring elasticity of supply?
- (a) Arc Method
  - (b) Percentage Method
  - (c) Total outlay Method
  - (d) Point Method



9. If Price is ₹ 15, quantity supplied is 150 units. If Price is ₹ 25, quantity supplied is 300 units. Compute Price Elasticity of Supply using Arc Method.
- (a) -1.09  
(b) +1.09  
(c) -0.98  
(d) +0.98
11. If as a result of a change in price, the quantity supplied of a product remains unchanged, we conclude that -
- (a) Elasticity of Supply is perfectly inelastic  
(b) Elasticity of Supply is relatively greater elastic  
(c) Elasticity of Supply is inelastic  
(d) Elasticity of Supply is relatively less elastic
13. Elasticity of Supply is greater than one when
- (a) Proportionate change in price is greater than proportionate change in supply  
(b) Proportionate change in supply is greater than proportionate change in price  
(c) Proportionate change in supply is equal to proportionate change in price.  
(d) None of these
15. When Supply is perfectly elastic, Elasticity of Supply is equal to -
- (a) -1  
(b) 0  
(c) +1  
(d) Infinity
17. If the Elasticity of Supply is Infinity, then Supply Curve will be -
- (a) Horizontal  
(b) Vertical  
(c) Downward Sloping  
(d) Upward sloping to the right
19. If the Elasticity of Supply is Infinity, then Supply Curve will be -
- (a) Horizontal  
(b) Downward Sloping  
(c) 45 degrees Straight Line  
(d) Vertical
21. If  $\Delta q$  = Change in Quantity Supplied,  $\Delta p$  = Change in Price, when Supply is perfectly elastic, it means -
- (a)  $\Delta q = \text{Zero}$   
(b)  $\Delta q > \Delta p$   
(c)  $\Delta q < \Delta p$   
(d)  $\Delta p = \text{Zero}$
23. If  $\Delta q$  = Change in Quantity Supplied,  $\Delta p$  = Change in Price, when Supply is relatively elastic, it means
- (a)  $\Delta q = \text{Zero}$   
(b)  $\Delta q > \Delta p$   
(c)  $\Delta q < \Delta p$   
(d)  $\Delta p = \text{Zero}$
25. Price is fallen by 20% brings above 10% fall in quantity supplied then elasticity of supply is\_\_\_\_\_
- (a) 2.0  
(b) 0.5  
(c) 1.0  
(d) 1.5
- EQUILIBRIUM PRICE WITH DEMAND & SUPPLY**
27. Which of these refer to "Market Forces"?
- (a) Price and Output  
(b) Demand and Supply  
(c) Cost and Revenue  
(d) None of the above
29. Equilibrium price is where\_\_\_\_\_
- (a) Market supply and market demand are equal  
(b) Firm supply and market demand are equal  
(c) Firm demand and market supply are equal  
(d) All of these
31. Generally, the Demand Curve -
- (a) Does not have a slope at all  
(b) Is negatively sloped  
(c) Is positively sloped  
(d) Has both positive and negative slopes
33. Generally, the Supply Curve -
- (a) Is negatively sloped.  
(b) Is positively sloped.  
(c) Does not have a slope at all  
(d) Has both positive and negative slopes

35. P Q.D. Q.S. 1 500 200 2 450 250 3 400 300 4 350 350 5 300 400 6 250 450 7 200 550 8 150 600 What is equilibrium price
- (a) 1  
(b) 2  
(c) 3  
(d) 4
- 
37. Other things being equal, as Demand increases, Quantity at the Equilibrium Price level -
- (a) increases  
(b) decreases  
(c) does not change at all  
(d) cannot be commented upon.
- 
39. Other things being equal, as Demand decreases, Equilibrium Price -
- (a) decreases  
(b) increases  
(c) does not change at all  
(d) None of the above
- 
41. Other things being equal, as Demand decreases -
- (a) Equilibrium Price increases and Quantity decreases  
(b) Equilibrium Price and Quantity both decrease  
(c) Equilibrium Price and Quantity both increase  
(d) Equilibrium Price decreases and Quantity increases
- 
43. Other things being equal, as Supply increases, Equilibrium Price -
- (a) Decreases  
(b) Increases  
(c) Does not change at all  
(d) Cannot be commented upon.
- 
45. Other things being equal, as Supply increases -
- (a) Equilibrium Price increases and Quantity decreases  
(b) Equilibrium Price and Quantity both decrease  
(c) Equilibrium Price and Quantity both increase  
(d) Equilibrium Price decreases and Quantity increases
- 
47. Other things being equal, as Supply decreases, Quantity at the Equilibrium Price level -
- (a) Decreases  
(b) Increases  
(c) Does not change at all  
(d) Nothing to Say
- 
49. If increase in demand is greater than the increase in supply, then the Equilibrium Price -
- (a) Decreases  
(b) Increases  
(c) Does not change at all  
(d) Cannot be commented upon.
- 
51. If increase in demand is greater than the increase in supply, then -
- (a) Equilibrium Price and Quantity both increase  
(b) Equilibrium Price decreases and Quantity increases  
(c) Equilibrium Price increases and Quantity decreases  
(d) Equilibrium Price and Quantity both decrease
- 
53. If decrease in demand is greater than decrease in supply, then the Quantity at the Equilibrium Price level -
- (a) Increases  
(b) Decreases  
(c) Does not change at all  
(d) Cannot be commented upon.
- 
55. If increase in demand is equal to the increase in supply, then the Equilibrium Price -
- (a) Increases  
(b) Decreases  
(c) Does not change at all  
(d) Cannot be commented upon.
- 
57. If increase in demand is equal to the increase in supply, then -
- (a) Equilibrium Price and Quantity both increase.  
(b) Equilibrium Price and Quantity both decrease.  
(c) Equilibrium Price remains the same but Quantity increases.  
(d) Equilibrium Price remains the same but Quantity increases.
- 

59. If decrease in demand is equal to the decrease in supply, then the Quantity at the Equilibrium Price level -

- (a) increases
- (b) decreases
- (c) does not change at all
- (d) cannot be commented upon.



61. If increase in demand is less than the increase in supply, then the Equilibrium Price -

- (a) Decreases
- (b) Increases
- (c) Does not change at all
- (d) Cannot be commented upon.



63. If increase in demand is less than the increase in supply, then -

- (a) Equilibrium Price increases and Quantity decreases
- (b) Equilibrium Price and Quantity both decrease.
- (c) Equilibrium Price and Quantity both increase
- (d) Equilibrium Price decreases and Quantity increases.



65. If decrease in demand is less than the decrease in supply, then the Quantity at the Equilibrium Price level -

- (a) Increases
- (b) Decreases
- (c) Does not change at all.
- (d) Cannot be commented upon.



67. Which of the following situation does not lead to an rise in Equilibrium Price?

- (a) An increase in demand, without a change in supply.
- (b) A decrease in supply accompanied by an increase in demand.
- (c) A decrease in supply without a change in demand.
- (d) An increase in supply accompanied by a decrease in demand.



69. If the Supply of a commodity is perfectly elastic, a decrease in Demand will result in -

- (a) Decrease in both Price and Quantity at equilibrium
- (b) Decrease in Equilibrium Price, Equilibrium Quantity remaining constant

(c) Decrease in Equilibrium Quantity, Equilibrium Price remaining constant

(d) Increase in both Price and Quantity at equilibrium



71. If the Supply of a commodity is perfectly inelastic, a decrease in Demand will result in -

- (a) Decrease in both Price and Quantity at equilibrium
- (b) Decrease in Equilibrium Quantity, Equilibrium Price remaining constant
- (c) Increase in both Price and Quantity at equilibrium
- (d) Decrease in Equilibrium Price, Equilibrium Quantity remaining constant



73. If the Demand of a commodity is perfectly elastic, a decrease in Supply will result in -

- (a) Decrease in both Price and Quantity at equilibrium
- (b) Decrease in Equilibrium Price, Equilibrium Quantity remaining constant
- (c) Decrease in Equilibrium Quantity, Equilibrium Price remaining constant
- (d) Increase in both Price and Quantity at equilibrium

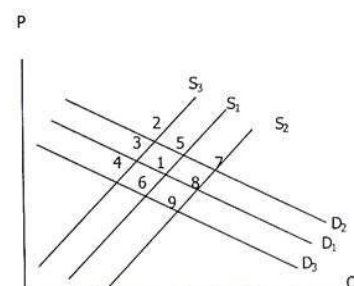


75. If the Demand of a commodity is perfectly inelastic, a decrease in Supply will result in -

- (a) Decrease in both Price and Quantity at equilibrium
- (b) Increase in both Price and Quantity at equilibrium
- (c) Decrease in Equilibrium Quantity, Equilibrium Price remaining constant
- (d) Decrease in Equilibrium Price, Equilibrium Quantity remaining constant



The Below 7 Questions are based on the demand and supply diagrams below.  $S_1$  and  $D_1$  are the original demand and supply curves.  $D_2$   $D_3$ ,  $S_2$  and  $S_3$  are possible new demand and supply curves. Starting from initial equilibrium point (1) what point on the graph is most likely to result from each change?



77. Assume X is a normal good. Holding everything else constant, assume that income rises and the price of a factor of production also increases. What point in Figure 1 is most likely to be the new equilibrium price and quantity?

- (a) Point 5
- (b) Point 3
- (c) Point 9
- (d) Point 2



79. Heavy rains in Maharashtra during 2005 and 2006 caused havoc with the rice crop. What point in Figure 1 is most likely to be the new equilibrium price and quantity?

- (a) Point 8
- (b) Point 3
- (c) Point 6
- (d) Point 7



81. What combinations of changes would most likely decrease the equilibrium quantity?

- (a) When supply increases and demand decreases.
- (b) When demand increases and supply decreases
- (c) When supply increases and demand increases.
- (d) When demand decreases and supply decreases.



83. The market of computers is not in equilibrium, then which of the following statements is definitely true?

- (a) The prices of computer will rise
- (b) The prices of computer will fall
- (c) The prices of computers will change, but not enough information is given to determine the direction of the change.
- (d) None of the above.



## Answer Keys

### SUPPLY ANALYSIS & EQUILIBRIUM

1	3	5	7	9	11	13	15	17	19	21	23	25	27	29	31	33	35	37	39
a	b	c	b	c	a	b	a	c	d	b	b	c	a	b	c	c	b	b	b
41	43	45	47	49	51	53	55	57	59	61	63	65	67	69	71	73	75	77	79
c	a	d	b	a	c	c	b	a	a	a	b	a	b	d	c	d	d	b	b
81	83	85																	
a	b	a																	

### ELASTICITY AND EQUILIBRIUM PRICE

1	3	5	7	9	11	13	15	17	19	21	23	25	27	29	31	33	35	37	39
b	c	d	c	b	a	b	d	a	c	d	c	b	b	a	b	b	d	a	a
41	43	45	47	49	51	53	55	57	59	61	63	65	67	69	71	73	75	77	79
b	a	d	a	b	a	b	c	c	b	a	d	b	d	c	d	c	d	d	b
81	83																		
d	c																		

### PRODUCTION BASICS (CODE - PA)

1. In Economics, \_\_\_\_\_ refers to any economic activity, which is directed towards satisfaction of human wants.

- (a) Production
- (b) Economics
- (c) Distribution
- (d) Consumption



3. Which of the following statement is True?

Production refers to-

- (a) Creation or addition of utility
- (b) Conversion of raw material into finished goods
- (c) An activity of making something immaterial
- (d) All of these



5. Production may be defined as an act of-

- (a) Creating utility.
- (b) Earning profit.
- (c) Destroying utility.
- (d) Providing services.



7. Production does not include of which of the following activities?

- (a) Changing the form of natural resources
- (b) Changing the place of the resources
- (c) Both of the above
- (d) None of the above



9. Production = Satisfaction of Utility.

This statement is

- (a) True
- (b) False
- (c) Partially True
- (d) None of the above



11. Production refers to -

- (a) Tangible goods and products
- (b) Intangible services
- (c) Both (a) and (b)
- (d) Neither (a) nor (b)



13. Which of the following statements regarding Service Industry is Correct?

- (a) Service Industry uses less Capital Equipment
- (b) Service Industry uses more Capital
- (c) Service Industry uses no Capital Equipment
- (d) Service Industry uses less Variable Factors



15. Production includes -

- (a) Mining
- (b) Manufacturing
- (c) Service providing
- (d) All of above



17. Which of the following statements is true?

- (a) Services of a Doctor are considered Production
- (b) Services of a Housewife are consider Production
- (c) Man can create matter
- (d) When a man creates a table, he creates matter



19. Hawking of Fruits and Vegetables by a Street Vendor is an example of Production Activity. This statement is -

- (a) True
- (b) False
- (c) Partially True
- (d) None of the above



21. Which of these is a Production Activity?







- (a) Sale of Apples and Mangoes
- (b) Sale of Crackers during Festival Season
- (c) Distributing Water Packets in a temple festival
- (d) All of the above






23. Production Activity involves creation of Utility. Such Utility can be created as -




- (a) Place Utility
- (b) Time Utility
- (c) Form Utility
- (d) All of the above



25. In Production Activity, one of the ways of creating Utility is -
- Form Utility
  - Marginal Utility
  - Total Utility
  - All of the above
- 
27. \_\_\_\_\_ Utility means physically changing the form of natural resources.
- Form Utility
  - Place Utility
  - Time Utility
  - Personal Utility
- 
29. \_\_\_\_\_ Utility is created by making goods and services available at times when they are not normally available.
- Form Utility
  - Place Utility
  - Time Utility
  - Personal Utility
- 
31. Making Furniture from raw Wood is an example of creation of -
- Form Utility
  - Personal Utility
  - Time Utility
  - Place Utility
- 
33. Raw Material converted into Finished Product in the manufacturing process, refers to creation of-
- Form Utility
  - Personal Utility
  - Place Utility
  - Time Utility
- 
35. If Oranges from Nagpur are made available for Sale in a Department Store in Indore, it refers to creation of-
- Form Utility
  - Place Utility
  - Time Utility
  - Personal Utility
- 

37. Moving or distributing goods from places of production (Origin Centres) to Markets (destination centres) refers to creation of -
- Form Utility
  - Place Utility
  - Time Utility
  - Personal Utility
- 
39. Place Utility involves Changing the place of the resources, from the place where they are of ..... use, to another place where they are of \_\_\_\_\_ use.
- Lesser, greater
  - General, specific
  - Specific, general
  - Greater, lesser
- 
41. Work of Professionals like Doctors, CA, CS, etc. can be considered under -
- Form Utility
  - Place Utility
  - Time Utility
  - Personal Utility
- 

#### FACTORS OF PRODUCTION

43. Productive Resources required to produce goods and / or services are called -
- Resources of Production
  - Concepts of Production
  - Factors of Production
  - Ideas of Production
- 
45. Land is a Factor of Production.
- Natural
  - Man Made
  - Both (a) and (b)
  - Neither (a) nor (b)
- 
47. Which of the following is a factor(s) of production?
- Entrepreneurship
  - Capital
  - Labour
  - All of these
- 

49. The Incentive/Reward in respect of Land is called-
- Rent
  - Wages
  - Interest
  - Profit



51. The Incentive / Reward in respect of Capital is called
- Rent
  - Wages
  - Interest
  - Profit



### LAND

53. Land refers to -
- All free gifts of nature.
  - All man-made resources
  - Both (a) and (b)
  - Neither (a) nor (b)



55. Gold Mines is an example of ....., as a Factor of Production.
- Land
  - Entrepreneurial Skills
  - Labour
  - Capital



57. Which of these is an example of Land as a Factor of Production?
- Agricultural Lands
  - Forests
  - Diamond Mines
  - All of the above



59. Anything available above the earth's surface is called "Land". This statement is -
- Partially True
  - False
  - True
  - None of the above



61. As a Factor of Production, Land is -
- Permanent
  - Original and indestructible
  - Free gift of nature
  - All of above are correct.



63. As a Factor of Production, "Land" is a ..... means of Production.
- Original
  - Produced
  - Derived
  - Monetary



65. As a Factor of Production, the Supply of Land is perfectly inelastic from the view point of -
- The entire economy
  - An Individual Firm
  - Both (a) and (b)
  - Neither (a) nor (b)



67. As a Factor of Production, the Supply of Land is\_\_\_\_\_ from the viewpoint of the entire economy.
- Perfectly elastic
  - Relatively elastic
  - Relatively inelastic
  - Perfectly inelastic



69. As a Factor of Production, Land is permanent. It means that Land -
- Remains before and after cultivation
  - Cannot be destroyed or lost
  - Cannot be used for production at all
  - None of the above



71. If Land is used as a productive purposes, its fertility is reduced. Such fertility -
- Can be restored
  - Cannot be restored at all
  - Is lost forever
  - Both (b) and (c)



73. As a Factor of Production, Land lacks mobility in the sense.
- Geographical
  - Utility
  - Both (a) and (b)
  - Neither (a) nor (b)



75. No two pieces of land are exactly alike in all respects. This statement is -
- True
  - Partially True
  - False
  - None of the above



77. Which of the following is not a characteristic of Land?

- (a) Its supply for the economy is limited
- (b) It is immobile
- (c) Its usefulness depends on human efforts
- (d) It is produced by our forefathers



### LABOUR

79. \_\_\_\_\_ refers to mental or physical exertion directed to produce goods or services, and with a view to gain some economic reward.

- (a) Land
- (b) Enterprise
- (c) Capital
- (d) Labour



81. For economic significance, Labour must be done with -

- (a) The motive of some economic reward
- (b) The motive of pleasure and satisfaction
- (c) Both (a) and (b)
- (d) Neither (a) nor (b)



83. Which of these constitute "Labour"?

- (a) Singing in the company of friends for the sake of pleasure.
- (b) Singing against payment of a fee.
- (c) Singing while walking on the road
- (d) None of the above



85. As a Factor of Production, "Labour" is a ..... means of Production.

- (a) Original
- (b) Derived
- (c) Monetary
- (d) Produced



87. "Labour", as a Factor of Production include -

- (a) Economic Considerations only
- (b) Human and Psychological Considerations
- (c) Both (a) and (b)
- (d) Neither (a) nor (b)



89. "Labour", as a Factor of Production involves human efforts, with a view to gain -

- (a) Pleasure only
- (b) Mental satisfaction
- (c) An economic reward
- (d) Use of time



91. Which is not a characteristic of labour?

- (a) Labour is not separable from labourer
- (b) Labour is perishable
- (c) Labour is not a mobile factor
- (d) Labour is an active factor



93. As a Factor of Production, a day's "Labour" lost cannot be -

- (a) Recovered at all
- (b) Measured at all
- (c) Completely recovered
- (d) None of the above



95. As a Factor of Production, "Labour" is perishable. The consequence of this is -

- (a) The Labourer has to accept the wage offered to him.
- (b) There is no Reserve Price for Labour.
- (c) The Labour has weak bargaining power.
- (d) All of the above



97. The purpose of Labour Laws is primarily to -

- (a) Increase bargaining power of Labour
- (b) Maintain Labour Welfare
- (c) Guarantee work for each individual
- (d) None of the above



99. If a Worker terminates his employment with Company Z, he -

- (a) Can get employed in another Company
- (b) Cannot get employed in any Company at all
- (c) Becomes the Owner of Company Z
- (d) Will not get any Wages at all



101. Labour Power depends upon -

- (a) Physical strength
- (b) Education and skills
- (c) Motivation to work
- (d) All of the above



103. Generally, Supply of Labour and Wage Rates are ..... related.

- (a) Directly
- (b) Inversely
- (c) Equally
- (d) Related at all.



105. Generally, Supply of Labour and Wage Rates are directly related. However, at very high wage rates, there is a paradox of reduction in labour. This paradox is attributed to -

- (a) Preference to restrict Supply
- (b) Preference to have more of rest and leisure
- (c) Preference to earn more money
- (d) None of the above



107. Supply of Labour and Wage Rates are directly related. This statement is -

- (a) False
- (b) True
- (c) Partially True
- (d) None of the above



109. Supply of Labour and Wage Rates may become inversely related at -

- (a) Very high wage rates
- (b) Very low wage rates
- (c) Both (a) and (b)
- (d) Neither (a) nor (b)



### CAPITAL

111. \_\_\_\_\_ is that part of wealth of an individual or community, which is used for further production of wealth, or which produce an income.

- (a) Land
- (b) Enterprise
- (c) Capital
- (d) Labour



113. All Capital is Wealth, but all Wealth is not Capital, This statement is -

- (a) True
- (b) Partially True
- (c) False
- (d) None of the above



115. If a Resource is lying idle, it will constitute -

- (a) Wealth
- (b) Capital
- (c) Both (a) and (b)
- (d) Neither (a) nor (b)



117. Which of these constitutes "Capital"?

- (a) Land
- (b) Water
- (c) Air
- (d) Plant and Machinery



119. As a Factor of Production, "Tools and Accessories" constitute -

- (a) Enterprise
- (b) Land
- (c) Capital
- (d) Labour



121. Income arising out of "Capital" is a ..... concept

- (a) Stock
- (b) Flow
- (c) Both (a) and (b)
- (d) Neither (a) nor (b)



123. "Capital" is considered as a "produced means of production". This statement is -

- (a) True
- (b) Partially True
- (c) False
- (d) None of the above



125. As a Factor of Production, "Capital" is -

- (a) A free gift of nature
- (b) Produced by man alone
- (c) Produced by man working with nature
- (d) Not relevant at all.



127. As a Factor of Production, Capital has relative mobility in the ..... sense.

- (a) Geographical
- (b) Utility
- (c) Both (a) and (b)
- (d) Neither (a) nor (b)



129. As a Factor of Production, "Capital" is -

- (a) Perishable
- (b) Permanent
- (c) Both (a) and (b)
- (d) Neither (a) nor (b)



### CAPITAL FORMATION

131. Capital Formation refers to-

- (a) A sustained increase in the stock of real capital in a country.
- (b) Production of more capital goods, which are used for further production of goods.
- (c) Investment
- (d) All of the above



133. Capital Formation is required for -

- (a) Ensuring growth of the economy
- (b) Expansion of output of consumer goods in the future
- (c) Increasing the efficiency of production efforts
- (d) All the above



135. When whole of the current capacity is used to produce only Consumer Goods -

- (a) Production of Consumer Goods in the future will be affected
- (b) Economy cannot grow in future
- (c) Production Possibility Curve (PPC) cannot shift outside
- (d) All of the above



137. Lesser production of \_\_\_\_\_ would lead to lesser production in future

- (a) Consumer Goods
- (b) Public Goods
- (c) Capital Goods
- (d) Agriculture Goods



139. Capital Formation can be possible by -

- (a) Using whole of the current capacity to produce only Consumer Goods
- (b) Reducing present consumption to a certain extent
- (c) Both (a) and (b)
- (d) Neither (a) nor (b)



141. Capital Formation means -

- (a) Creation of Savings
- (b) Mobilisation of Savings
- (c) Investment of Savings into Real Capital
- (d) All of the above



143. Under Capital Formation, which of the following create maximum "Savings" in an economy?

- (a) Individuals or Households
- (b) Business Enterprises
- (c) Government
- (d) None of the above



145. Ability to Save depends upon -

- (a) Average level of income
- (b) Distribution of national income.
- (c) Both (a) and (b)
- (d) Neither (a) nor (b)



147. If there is an increase in income levels, the ..... reduces.

- (a) Propensity to consume
- (b) Propensity to save
- (c) Both (a) and (b)
- (d) Neither (a) nor (b)



149. If there is an increase in income levels, the ..... increases.

- (a) Propensity to consume
- (b) Propensity to save
- (c) Both (a) and (b)
- (d) Neither (a) nor (b)



151. Higher the level of income, Higher is the level of Savings. This statement is true in respect of

- (a) Individual Households only
- (b) Overall Economy
- (c) Both (a) and (b)
- (d) Neither (a) nor (b)



153. Willingness to Save depends upon -

- (a) An individual's concern about his future
- (b) Social setup in which the individual lives.
- (c) Both (a) and (b)
- (d) Neither (a) nor (b)



155. If Willingness to Save is less, the level of ..... will be higher.

- (a) Government regulated Savings
- (b) Compulsory Savings
- (c) Forced Savings
- (d) All of the above



157. \_\_\_\_\_ save by way of Retained Earnings, i.e. Undistributed Profits.

- (a) Individuals or Households
- (b) Business Enterprises
- (c) Government
- (d) None of the above



159. Which of these play a role in mobilisation of savings in an economy?

- (a) Banks
- (b) Capital Market
- (c) Financial Institutions
- (d) All of the above



161. Inducement to Invest is influenced by -

- (a) Prospective Rate of Profit
- (b) Rate of Interest
- (c) Both (a) and (b)
- (d) Neither (a) nor (b)



163. Scheme of Subsidies for setting up industries in backward regions leads to -

- (a) Balanced Regional Development
- (b) Socially-Beneficial Capital Formation
- (c) Both (a) and (b)
- (d) Neither (a) nor (b)



### ENTREPRENEUR

165. The most important function of an entrepreneur is to\_\_\_\_\_.

- (a) Innovate
- (b) Earn Profit
- (c) Finance
- (d) Bear the sense of responsibility



167. Entrepreneurship is a wider term than organization and management of a business. This statement is -

- (a) True
- (b) False
- (c) Partially True



(d) None of the above

169. Entrepreneurship gets its reward (i.e. Profit), only after all other factors of production have been rewarded. This statement is -

- (a) True
- (b) Partially True
- (c) False
- (d) None of the above



171. Entrepreneur holds the final responsibility of the business. This statement is -

- (a) True
- (b) Partially True
- (c) False
- (d) None of the above



173. Innovation theory of entrepreneur is propounded by-

- (a) Prof knight .
- (b) Schumpeter
- (c) Max weber
- (d) Peter Ducker



175. Which of the following constitute Innovation?

- (a) Opening-up new or improved markets
- (b) Utilisation of new or improved source of Raw Material
- (c) Introduction of a new or improved product
- (d) All of the above



177. Profit Making is\_\_\_\_\_ objective -

- (a) Organic
- (b) Social
- (c) Economic
- (d) None of the above



179. Economic Profit is also called -

- (a) Pure Profits
- (b) Super Normal Profits
- (c) Abnormal Profits
- (d) All of the above



181. To enable Employees enjoy a good standard of living and maintain work-life balance, is a

- (a) National Objective
- (b) Human Objective
- (c) Social Objective
- (d) Economic Objective



183. To ensure that the Enterprise's output does not cause any type of pollution-air, water or noise, is a
- Social Objective
  - National Objective
  - Economic Objective
  - Human Objective



### Production Function

#### Production Function

1. \_\_\_\_\_ is the functional relationship between physical inputs (i.e. factors of production), and physical outputs (i.e. quantity of goods / services produced).
- Demand-Supply Function
  - Input-Output Function
  - Production Function
  - Cost Function
3. \_\_\_\_\_ shows the output produced with a given amount of inputs.
- Isoquants
  - Production Function
  - Cost Function
  - Demand Function
5. Production Function explains the relationship between -
- Maximum Output which can be produced from given units of different inputs
  - Maximum Output which can be produced at various points of time
  - Price and Cost
  - Various Stages of Production
7. In a Production Function, Input means -
- Goods and Services produced
  - Factors of Production required
  - Both (a) and (b)
  - Neither (a) nor (b)
9. Production Function states the relationship between inputs and output, keeping technology
- Increasing trend
  - Decreasing trend
  - Zero
  - Constant



11. Production Function specifies the ..... quantities of various inputs that are required to yield a given quantity of output.
- Minimum
  - Average
  - Maximum
  - Zero
13. Linder Cobb- Douglas production function contribution of capital and labour respectively-
- 3/4th, 1/4th
  - 1/4th, 3/4th
  - 1/2th, 1/2th
  - All of the above
15. Which of the following is the best definition of the "Production Function"?
- The relationship between the quantity of inputs and the firm's marginal cost of production
  - The relationship between the firm's total revenue and the cost of production
  - The relationship between the quantities of inputs needed to produce a given level of output
  - The relationship between market price and quantity supplied
17. In general, Production Functions measure -
- Economies of Scale
  - Productivity of factors of production
  - Relation between the factors of production
  - Relations between change in physical inputs and physical output.
19. Which of the following is/are an outcome of a technological change?
- A downward shift in the production function
  - Same output with fewer inputs or more output with same inputs
  - Invention of a product or production process
  - Both (b) and (c) above



## Short Run vs. Long Run

21. The time period covered in Economics Study is / are -  
 (a) short-run  
 (b) long-run  
 (c) Both (a) and (b)  
 (d) Neither (a) nor (b)
23. In the short-run, factor of production is / are variable.  
 (a) All  
 (b) None  
 (c) One  
 (d) None of the above
25. There is only one Fixed Factor of Production in the short-run planning horizon. This statement is -  
 (a) True  
 (b) Partially True  
 (c) False  
 (d) None of the above
27. In the short-run, ..... factors of production changes.  
 (a) Proportion between  
 (b) Quantity of  
 (c) Both (a) and (b)  
 (d) Neither (a) nor (b)
29. In the short-run, the proportion between factors of production changes because -  
 (a) One of the Factor is kept constant  
 (b) There is no explanation for such behaviour  
 (c) It is not the long-run  
 (d) Every Factors is kept constant
31. Law of Variable Proportions is applicable to -  
 (a) Medium-run  
 (b) Short-run  
 (c) Long-run  
 (d) None of the above
33. In describing a given production technology, the short run is best described as lasting -  
 (a) As long as all inputs are fixed  
 (b) Up to six months from now  
 (c) Up to five years from now  
 (d) As long as at least one input is fixed
35. \_\_\_\_\_ is the period of time in which all the factors of production are variable.  
 (a) Short-run  
 (b) Long-run  
 (c) Medium-run  
 (d) None of the above
37. All Factors of Production become variable in -  
 (a) Medium-run  
 (b) Short-run  
 (c) Long-run  
 (d) None of the above
39. The difference between Fixed and Variable Factors of Production arises only in -  
 (a) Medium-run  
 (b) Short-run  
 (c) Long-run  
 (d) All of the above
41. In the long-run, the quantity of factors of production  
 (a) Remains constant  
 (b) Changes  
 (c) Is zero  
 (d) Is infinity
43. Law of \_\_\_\_\_ is applicable in the long-run.  
 (a) Variable Proportions  
 (b) Returns to Scale  
 (c) Both (a) and (b)  
 (d) Neither (a) nor (b)
45. Which of the following statements regarding short run and long run is true?  
 (a) Firms plan for the long run but operate in the short run  
 (b) Firms operate and plan as well in the short run  
 (c) Firms operate and plan as well in the long run  
 (d) Firms plan in the short run but operate in the long run
47. \_\_\_\_\_ is the improvement in the production techniques for existing production. .  
 (a) Process Innovation  
 (b) Production Function  
 (c) Production Innovation  
 (d) Plant Innovation

49. Which of the following statements regarding Product and Process Innovation is true?
- (a) It is difficult to quantify product innovation, as compared to process innovation
  - (b) It is difficult to quantify process innovation, as compared to product innovation
  - (c) Neither of the innovation types can be quantified
  - (d) Quantifying both the innovation types is equally easy / difficult



**Total, Average and Marginal Product**

51. \_\_\_\_\_ is the total output resulting from the efforts of all the factors of production, combined together at any time.
- (a) Total Product
  - (b) Average Product
  - (c) Marginal Product
  - (d) None of the above



53. \_\_\_\_\_ = Total Product ÷ Quantity of the Variable Factor.
- (a) Total Product
  - (b) Average Product
  - (c) Marginal Product
  - (d) None of the above



55. \_\_\_\_\_ is the addition made to Total Product, by an additional unit of input of the Variable Factor.
- (a) Average Product
  - (b) Total Product
  - (c) Marginal Product
  - (d) None of the above



57. The Marginal Product of an input is .....
- (a) Extra product produced by one extra unit of input while other inputs are held constant
  - (b) Extra product produced by reducing one unit of input while other inputs are held constant
  - (c) Reduction in total product due to one extra unit of input while other inputs are held constant
  - (d) Reduction in total product by reducing one unit of input while other inputs are changing.



59. If the inputs of all but one factor are held constant, then \_\_\_\_\_ will vary with the quantity used of the Variable Factor.
- (a) Total Product
  - (b) Marginal Product
  - (c) Average Product
  - (d) All of the above



61. When 50 hours of Labour are spent, total output quantity is 2,000 units. When 55 hours of Labour are spent, total output quantity is 2,250 units. Here, Marginal Product will be -
- (a) 2,250
  - (b) 2,000
  - (c) 250
  - (d) 50



Use the following information to answer next 2 questions

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

63. What is the Total Output when 2 hours of Labour are employed?
- (a) 80
  - (b) 300
  - (c) 180
  - (d) 200



65. What is the Average Product of the first three hours of Labour?
- (a) 60
  - (b) 80
  - (c) 85
  - (d) 240



Let TP = Total Product, AP = Average Product and MP = Marginal Product. Use the following table and answer the next 6 Questions

Quantity of Variable Factor	TP (in units)	AP (in units)	MP (in units)
1	1,000	A	B
2	C	D	600
3	E	700	F
4	2,100	G	H
5	I	400	J

67. Find the value of "B" in the above Table.

- (a) 1,000
- (b) 2,000
- (c) 0
- (d) 3,000



69. Find the value of "D" in the above Table.

- (a) 1,000
- (b) 800
- (c) 600
- (d) 400



71. Find the value of "F" in the above Table.

- (a) 500
- (b) 600
- (c) 700
- (d) 800



73. Find the value of "H" in the above Table.

- (a) Nil
- (b) 1,000
- (c) 2,000
- (d) Cannot be calculated



75. Find the value of "J" in the above Table.

- (a) Nil
- (b) -100
- (c) + 100
- (d) 110



77. If Total Product = 1,00,000 units when 20,000 hours of Labour are used, then Average Product=

- (a) 1,00,000
- (b) 20,000
- (c) 5
- (d) 1,20,000



Read the Table below & answer the following 4 questions

Labour Input	Marginal Product	Total Product	Average Product
0	0	0	0
1			25
2		90	
3		120	
4		140	
5			28
6			20

79. If Labour Input = 2, Marginal Product is-

- (a) 25
- (b) 90
- (c) 65
- (d) 115



81. If Labour Input = 6, the marginal product of labour is:

- (a) 120
- (b) -20
- (c) 15
- (d) -10



83. The firm's output is at a short run maximum at a Labour Input of:

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



85. At what level of Labour Input are MP and AP equal?

- (a) 1
- (b) 2
- (c) 3
- (d) 4



87. If Total Product (TP) increases, Marginal Product (MP) will be -

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



89. If Total Product (TP) increases at a decreasing rate Marginal Product (MP) will be -















- (a) Increasing
- (b) Decreasing
- (c) Zero
- (d) Infinity



91. What is the maximum point of TP?












- (a) When AP becomes zero
- (b) When MP becomes zero
- (c) At the intersecting point of AP & MP
- (d) None of these
















93. Marginal Product (MP) Curve - 
- Is parallel to X Axis
  - Is parallel to Y Axis
  - First decreases, reaches a minimum, and then increases
  - First increases, reaches a maximum, and then decreases
95. Marginal Product (MP) - 
- Will have positive values only
  - Will have negative values only
  - Can be positive or zero or even negative.
  - Can be positive or zero, but not negative.
97. Average Product (AP) - 
- Can be positive or zero or even negative.
  - Will have negative values only
  - Will have positive values only
  - Can be positive or zero, but not negative.
99. If Average Product (AP) Curve is depicted on a graph with Quantity on X axis - 
- AP will not go below the X axis.
  - AP may go below the X axis.
  - AP cannot be depicted on the graph at all.
  - All of the above
101. The point where MP is maximum is called - 
- Point of Shut-down
  - Point of Indifference
  - Point of Inflexion
  - Point of Increase
103. At the Point of Inflexion, the Marginal Product is - 
- Increasing
  - Negative
  - Maximum
  - Decreasing
105. At the Point of Inflexion, TP will generally - 
- Show increasing trend
  - Show decreasing trend
  - Equal to zero
  - Be negative
107. When Average Product (AP) rises as a result of an increase in the quantity of variable input - 
- $MP < AP$
  - $MP = AP$
  - $MP > AP$
  - There is no relationship between MP and AP
109. When Average Product (AP) decreases as a result of an increase in the quantity of variable input- 
- $MP < AP$
  - $MP = AP$
  - $MP > AP$
  - There is no relationship between MP and AP
111. If the Marginal Product of Labour is below the Average Product of Labour, it must be true that 
- The Marginal Product of Labour is negative
  - The Marginal Product of Labour is zero
  - The Average Product of Labour is falling
  - The Average Product of Labour is negative
113. The Average Product of Labour is maximized when Marginal Product of Labour - 
- Equals the Average Product of Labour
  - Equals zero
  - Is maximized
  - None of the above
115. When Marginal Product (MP) = Average Product (AP), it means that AP is - 
- At its maximum
  - At its minimum
  - Zero
  - Infinity
117. When is Average Product at its maximum? 
- When AP intersects MP
  - When AP intersects TP
  - At the Point of Inflexion
  - None of the above
119. Marginal Product (MP) rises steeply, and also declines slightly earlier than Average Product (AP) Curve. This statement is - 
- True
  - False
  - Partially True
  - None of the above

## Law of variable proportions

### Law of variable proportions

1. The Law of \_\_\_\_\_ analyses the production function with one factor as variable, keeping quantities of other factors fixed.
  - (a) Fixed Proportions
  - (b) Multiple Proportions
  - (c) Variable Proportions
  - (d) Returns to Scale
  
3. The Law of \_\_\_\_\_ deals with input-output relationship, when the output is increased by varying the quantity of one input.
  - (a) Variable Proportions
  - (b) Returns to Scale
  - (c) Demand
  - (d) Supply
  
5. The Law of Variable Proportions operates in -
  - (a) Medium-run
  - (b) Short -run
  - (c) Long-run
  - (d) None of the above
  
7. The Law of Variable Proportions is also called -
  - (a) Law of Diminishing Marginal Physical Productivity
  - (b) Law of Diminishing Returns
  - (c) Law of Proportionality
  - (d) All of the above
  
9. Which of the following is an assumption in the Law of Variable Proportions?
  - (a) The state of technology is constant and unchanged
  - (b) Only physical quantities of inputs and outputs are considered
  - (c) Only one factor input is considered variable, while all other factors are fixed
  - (d) All of the above
  
11. Assumption which are applicable under Law of Variable Proportion are-
  - (a) State of technology is constant
  - (b) Quantities of some inputs is kept fixed
  - (c) Economic profitability in monetary terms is not considered
  - (d) All of these
  
13. Which of the following is not an assumption in the Law of Variable Proportions?
  - (a) There are no perfect substitutes for the Fixed Factor
  - (b) Only one factor input is considered variable, while all other factors are fixed.
  - (c) State of Technology is improved as more output is produced
  - (d) Only physical quantities of inputs and outputs are considered
  
15. The Law of Variable Proportions analyses the economic profitability of the Firm in monetary terms also. This statement is -
  - (a) True
  - (b) False
  - (c) Partially True
  - (d) None of the above
  
17. In agriculture, the land area is taken as constant, while number of workers can be increased. If we apply the Law of Variable Proportions in this situation, it means that the Fixed Factor of Production is -
  - (a) Number of workers
  - (b) Land
  - (c) Units of Output produced
  - (d) All the above
  
19. In the production of wheat, all of the following are variable factors that are used by the farmer except
  - (a) The seed and fertilizer used when the crop is planted
  - (b) The field that has been cleared of trees and in which the crop is planted
  - (c) The tractor used by the farmer in planting and cultivating not only wheat but also corn and barley
  - (d) The number of hours that the farmer spends in cultivating the wheat fields
  
21. As per Law of Variable Proportions, as the quantity of one input which is combined with other fixed inputs is increased, the ..... of the Variable Input must eventually decline,
  - (a) Total Productivity
  - (b) Average Productivity
  - (c) Marginal Productivity
  - (d) All the above

23. The Law of Variable Proportions come into being when-
- There are only two variable factors.
  - There is a fixed factor and a variable factor.
  - All factors are variable.
  - Variable factors yield less.
25. When a Factory is working at 70% capacity, increasing of variable inputs, leads to-
- Decreasing of output up to full capacity and later increasing of the output
  - Decreasing of output according to the Law of Diminishing Returns
  - Increasing of output up to full capacity and later decreasing of the Marginal Product according to the Law of Diminishing Returns
  - Increasing of output
27. Which of the following is not a stage in Law of Variable Proportions?
- Diminishing Returns
  - Constant Returns
  - Increasing Returns
  - Negative Returns
29. In the stage of Increasing Returns, Total Product (TP)-
- Remains constant
  - Increases
  - Decreases
  - Becomes negative
31. In the stage of Increasing Returns, Marginal Product (MP)-
- Remains constant
  - Increases
  - Decreases
  - First increases, reaches a maximum and then decreases
33. Which of the following is true?
- MP does not decrease during the First Stage
  - TP remains positive during the First Stage
  - AP starts declining after the Point of Inflexion
  - All of these
35. Why does the Law of Increasing Returns operate?
- Full Use of Fixed Indivisible Factors
  - Efficiency of Variable Factors
  - Need to reach the right combination
  - All of the above
37. Which of the following is the reason of the working of law of increasing returns?
- Fuller utilization of fixed factor
  - Indivisibility of factor
  - Greater specialization of factor
  - All of the above
39. The Law of Diminishing Returns -
- States that beyond some level of a variable input, the Average Product of that variable input begins to increase steadily.
  - Assumes that there is technological improvement over time.
  - Informs a Firm whether or not to use a factor input
  - States that beyond some level of a variable input, the Marginal Product of that Variable input begins to decrease steadily
41. In the stage of Diminishing Returns, Total Product (TP)-
- Remains constant
  - Increases
  - Becomes negative
  - Decreases
43. In the stage of Diminishing Returns, Marginal Product (MP) -
- First increases, reaches a maximum and then decreases
  - Decreases
  - Increases
  - Remains constant
45. In the stage of Diminishing Returns -
- MP and AP remain positive
  - MP and AP become negative
  - MP is positive but AP becomes negative
  - MP becomes negative but AP remains positive

47. Which of the following is a reason for the operation of the Law of Diminishing Returns? 
- Ine ciency of Fixed Indivisible Factors
  - Inadequacy of Fixed Indivisible Factors
  - Indifference of Fixed Indivisible Factors
  - Immobility of Fixed Indivisible Factors
49. The "Law of Diminishing Returns" applies to- 
- The short run, but not the long run
  - The long run, but not the short run
  - Both the short run and the long run
  - Neither the short run nor the long run
51. Law of Diminishing Returns is not relevant when- 
- All labourers are equally e cient
  - The Time Period is short
  - All factory inputs are increased by the same proportion
  - Technology remains constant
53. During the stage of Decreasing Returns - 
- AP is negative
  - MP is decreasing
  - MP is negative
  - Both (a) and (b)
55. When the Law of Diminishing Returns sets in, then- 
- Marginal Cost falls at a decreasing rate
  - Marginal Cost falls at a constant rate
  - Marginal Cost falls at an increasing rate
  - Marginal Cost increases
57. The Third Stage of Law of Variable Proportion is known as- 
- Law of Negative Returns
  - Law of Decreasing Returns
  - Law of Diminishing Returns
  - None of these
59. In the stage of Negative Marginal Returns, Total Product (TP) - 
- Remains constant
  - Increases
  - Decreases
  - Remains at zero
61. In the stage of Negative Marginal Returns, Marginal Product (MP) - 
- Decreases but does not become negative
  - Remains constant
  - Increases
  - Becomes negative
63. The Law of Negative Marginal Returns operates because the Variable Factor is\_\_\_\_\_ in relation to the Fixed Factor of Production. 
- Irrelevant
  - Adequate
  - Excessive
  - Optimal
65. In which of the following situations, the Law of Variable Proportions will not apply? 
- Long-Run
  - Same level of technology
  - Change in proportions in which Factors are used
  - Short-Run
67. In a case of ....., MP and AP may rise instead of falling. 
- Constant State of Technology
  - Improvement in Technology
  - Erosion / Reduction in Technology
  - None of the above
- If Stage I = Increasing Returns, Stage II = Diminishing Returns, and Stage III = Negative Marginal Returns, answer the next 6 questions.**
69. A Rational Producer will not operate in - 
- Stages I and II
  - Stages II and III
  - Stages III and I
  - Only Stage II
71. Stages I and III are called - 
- Economic Optimality
  - Economic Nonsense
  - Economic Rationality
  - Economic Achievement

73. A Rational Producer will not operate in Stage III due to the reason that -
- (a) The Fixed Factor has become over-used and inefficient
  - (b) The MP of the Variable Factor is negative
  - (c) There is a reduction in Total Output
  - (d) All of the above



75. In which stage of production would a rational entrepreneur like to operate?
- (a) Stage 1 where MP is maximum
  - (b) Stage 2 where both MP and AP are decreasing, but both are positive
  - (c) Stage 3 where MP is negative
  - (d) Either Stage 2 or 3



**LAW OF RETURNS TO SCALE**

**LAW OF RETURNS TO SCALE**

1. The Law of Returns to Scale operates in -
- (a) Medium-run
  - (b) Short-run
  - (c) Long-run
  - (d) None of the above
3. In the \_\_\_\_\_, the quantities of all factors of production can be increased or decreased simultaneously.
- (a) Medium-run
  - (b) Short -run
  - (c) Long-run
  - (d) None of the above
5. The Law of Returns to Scale deals with -
- (a) Output Quantities
  - (b) Monetary Values
  - (c) Neither (a) nor (b)
  - (d) Both (a) and (b)
7. Law of Returns to Scale indicates the responsiveness of total product when all inputs
- (a) Remain same
  - (b) Are changed marginally
  - (c) Are changed drastically
  - (d) Are changed proportionately
9. Change in Scale means that all Factors of Production are increased or decreased -
- (a) In different proportions
  - (b) In the same proportion
  - (c) To infinity
  - (d) None of the above



11. In the initial stages, when there is an increase in scale, there is ..... increase in output.
- (a) Zero
  - (b) Proportionate
  - (c) Less than proportionate
  - (d) More than proportionate
13. In the initial stages, there will be increasing returns to scale, due to -
- (a) Economies in operations
  - (b) Diseconomies in operations
  - (c) Both (a) and (b)
  - (d) Neither (a) nor (b)
15. In a small scale rubber plant, factors of production like labour, material and capital are increased by 10% and output increases. It implies that the Firm is experiencing .....
- (a) Increasing as well as decreasing
  - (b) Constant Returns to Scale
  - (c) Increasing Returns to Scale
  - (d) Decreasing Returns to Scale



You are given the following data:

Factor	Output
0	0
1	15
2	35
3	60
4	92
5	140

17. The above data is an example of:
- (a) Decreasing returns to scale.
  - (b) Constant returns to scale.
  - (c) Increasing returns to scale.
  - (d) Positive fixed costs.



19. After the initial stages of increasing returns to scale, the Firm will experience -
- (a) Still Increasing Returns to Scale
  - (b) Constant Returns to Scale
  - (c) Diminishing Returns to Scale
  - (d) None of the above



21. If a change in scale inputs leads to a proportional change in the output, it is a case of-
- (a) Increasing Returns to Scale
  - (b) Constant Returns to Scale
  - (c) Diminishing Returns to Scale
  - (d) Variable Returns to Scale



You are given the following data:

Factor	Output
0	0
1	15
2	30
3	45

23. If one unit of labour and one unit of capital give 200 units of output, two units of labour and two units of capital give 400 units of output and 5 units of labour and five units of capital give 1000 units of output then this is a case of:



- (a) Constant Returns to Scale.
- (b) Increasing Returns to Scale.
- (c) Decreasing Returns to Scale.
- (d) None of the above

25. If Decreasing Returns to Scale are present, then if all inputs are increased by 10% then



- (a) Output will also decrease by 10%
- (b) Output will increase by 10%
- (c) Output will increase by less than 10%
- (d) Output will increase by more than 10%

27. If all inputs are trebled and the resultant output is doubled, this is a case of:



- (a) Constant returns to scale
- (b) Increasing returns to scale
- (c) Diminishing returns to scale
- (d) Negative returns to scale

29. Linear Homogeneous Production function is based on\_\_\_\_\_



- (a) Increasing Returns to Scale
- (b) Decreasing Returns to Scale
- (c) Constant Returns to Scale
- (d) None.

31. Problems like managerial difficulties, low employee morale, higher input prices, etc. arising out of large scale operations lead to-



- (a) Large Economies of Scale
- (b) Pecuniary Economies of Scale
- (c) Real Economies of Scale
- (d) Diseconomies of Scale

33. Economies and Diseconomies in operations can be-



- (a) Internal
- (b) External
- (c) Both (a) and (b)
- (d) Neither (a) nor (b)

35. Internal Economies and Diseconomies arise due to-



- (a) Overall industry-level changes
- (b) Changes at the Firm level
- (c) Both (a) and (b)
- (d) Neither (a) nor (b)

37. External Economies and Diseconomies arise due to



- (a) Overall industry-level changes
- (b) Changes at the Firm level
- (c) Neither (a) nor (b)
- (d) Both (a) and (b)

39. External Diseconomies may lead to\_\_\_\_\_












- (a) Decrease in cost of technology
- (b) External Assistance
- (c) Increase in the price of factors of production
- (d) All of the above

41. \_\_\_\_\_economies result from the use of specialized equipment and modern techniques of production



- (a) Managerial
- (b) Marketing
- (c) Selling
- (d) Production

43. \_\_\_\_\_ economies are associated with the distribution of the product of a Firm.
- (a) Production  
(b) Inventory  
(c) Manufacturing  
(d) Selling
- 
45. Difficulties of management, co-ordination and control due to bigger Plant Size is an example of-
- (a) Internal Economies of Scale  
(b) Internal Diseconomies of Scale  
(c) External Diseconomies of Scale  
(d) External Economies of Scale
- 
47. Increase in Prices of Factors of Production due to expansion in industry creates -
- (a) External Economies of Scale  
(b) Internal Diseconomies of Scale  
(c) Internal Economies of Scale  
(d) External Diseconomies of Scale
- 
49. Management Efficiency and Productivity due to creation of different specialised functional departments is an example of-
- (a) Internal Economies of Scale  
(b) External Diseconomies of Scale  
(c) External Economies of Scale  
(d) Internal Diseconomies of Scale
- 
51. Delays in internal communication due to complex management structure is an example of-
- (a) External Economies of Scale  
(b) Internal Diseconomies of Scale  
(c) Internal Economies of Scale  
(d) External Diseconomies of Scale
- 
53. When a large Firm makes bulk purchase and obtains its Raw Materials at lower prices than a small size Firm, the large Firm is said to have achieved -
- (a) Internal Economies of Scale  
(b) External Diseconomies of Scale  
(c) External Economies of Scale  
(d) Internal Diseconomies of Scale
- 
55. Internal and External Economies and Diseconomies of Scale has its impact on -
- (a) Long Run Average Cost (LAC) Curve  
(b) Short Run Average Cost (SAC) Curve  
(c) Neither (a) nor (b)  
(d) Both (a) and (b)
- 
57. Due to External Diseconomies of Scale, the Long Run Average Cost (LAC) Curve -
- (a) Remains constant  
(b) Shifts inward  
(c) Shifts outward  
(d) Not affected at all
- 
59. Identify the correct statement
- (a) Average Product is at its maximum when Marginal Product is equal to Average Product  
(b) Law of Increasing Returns to Scale relates to the effect of changes in factor proportions  
(c) Economies of Scale arise only because of invisibilities of factor proportions  
(d) Internal Economies of scale can accrue only to the exporting sector
- 

## Answer Keys

### PRODCUTION CONCEPTS

1	3	5	7	9	11	13	15	17	19	21	23	25	27	29	31	33	35	37	39
a	a	a	d	b	c	a	d	a	a	d	d	a	a	c	a	a	b	b	a
41	43	45	47	49	51	53	55	57	59	61	63	65	67	69	71	73	75	77	79
d	c	a	d	a	c	a	a	d	b	d	a	a	b	b	a	a	a	d	d
81	83	85	87	89	91	93	95	97	99	101	103	105	107	109	111	113	115	117	119
a	b	a	c	c	c	c	d	b	a	d	a	b	c	c	c	a	a	d	c
121	123	125	127	129	131	133	135	137	139	141	143	145	147	149	151	153	155	157	159
b	a	c	c	a	d	d	d	c	b	d	a	c	a	b	c	c	d	b	d
161	163	165	167	169	171	173	175	177	179	181	183								
c	c	a	a	a	a	b	d	c	d	b	a								



### PRODUCTION FUNCTION

1	3	5	7	9	11	13	15	17	19	21	23	25	27	29	31	33	35	37	39
c	b	a	b	d	a	b	c	d	d	c	c	a	a	a	b	d	b	c	b
41	43	45	47	49	51	53	55	57	59	61	63	65	67	69	71	73	75	77	79
b	b	a	a	a	a	b	c	a	a	d	c	b	a	b	a	a	b	c	c
81	83	85	87	89	91	93	95	97	99	101	103	105	107	109	111	113	115	117	119
b	c	a	a	b	b	d	c	d	a	c	c	a	c	a	c	a	a	a	a

### LAW OF VARIABLE PROPORTIONS

1	3	5	7	9	11	13	15	17	19	21	23	25	27	29	31	33	35	37	39
c	a	b	d	d	d	c	b	b	b	c	b	c	b	b	d	b	d	d	c
41	43	45	47	49	51	53	55	57	59	61	63	65	67	69	71	73	75		
b	b	a	b	a	c	b	d	a	c	d	c	a	b	c	b	d	b		

### PRODUCTION FUNCTION

1	3	5	7	9	11	13	15	17	19	21	23	25	27	29	31	33	35	37	39
c	c	a	d	b	d	a	c	c	b	b	a	c	c	c	d	c	b	a	c
41	43	45	47	49	51	53	55	57	59										
d	d	b	d	a	b	a	a	c	a										

### COST ANALYSIS AND COST FUNCTION

1. Cost Analysis is the study of behaviour of \_\_\_\_\_, in relation to one or more production criteria.

- (a) Output Quantity
- (b) Prices and Revenue
- (c) Costs
- (d) Profits



3. For Cost Analysis purposes, the Production Criteria may be -

- (a) Prices of factors of production
- (b) Scale of operations
- (c) Quantity of output
- (d) All of the above



5. Cost Analysis is concerned with \_\_\_\_\_ of production.

- (a) Financial aspects
- (b) Physical aspects
- (c) Either (a) or (b)
- (d) Both (a) and (b)



7. Cost Function refers to the mathematical relationship between cost of a product and the various determinants of Cost. This statement is

- (a) True
- (b) Partially True
- (c) False
- (d) None of the above



9. In a Cost Function, the Total Cost or Cost per unit is a/an - .

- (a) Dependent Variable
- (b) Independent Variable
- (c) Either (a) or (b)
- (d) Both (a) and (b)



11. In a Cost Function, the Scale of Operations is a/an-

- (a) Dependent Variable
- (b) Independent Variable
- (c) Both (a) and (b)
- (d) Neither (a) nor (b)



13. Identify the Dependent Variable in a Cost Function from the following.

- (a) Quantity of Output
- (b) Price of Factors of Production
- (c) Total Cost
- (d) Scale of Operations



15. Identify the Independent Variable in a Cost Function from the following.

- (a) Time Period under study
- (b) Cost per unit
- (c) Total Cost
- (d) All of the above



17. A Cost Function determines the behaviour of Costs with change in -

- (a) Output
- (b) Technology
- (c) Input
- (d) Wages



19. Which of the following is not a determinant of the Firm's Cost Function?

- (a) Production Function
- (b) Price of Labour
- (c) Rent paid for use of Building
- (d) Price of the Firm's Output



21. The Functional Relationship between Output and the Short Run Cost of Production is known as -

- (a) Cost Function
- (b) Long Run Cost Function
- (c) Short Run Cost Function
- (d) Output Function



23. Expansion of Scale of operation forms a part of \_\_\_\_\_ Cost Function.

- (a) Long run
- (b) Short run
- (c) Fixed
- (d) Both (a) and (c)



25. Which theory proposes that a country could be better off by producing the product in which it has relatively lower Labour Cost and relatively higher Labour productivity?
- (a) Imitation Theory
  - (b) Relative Advantage Theory
  - (c) Comparative Advantage Theory
  - (d) Absolute Advantage Theory



**EXPLICIT AND IMPLICIT COSTS**

27. Costs which involve payment made by the Entrepreneur to providers of other factors of production are called -
- (a) Explicit Cost
  - (b) Fixed Cost
  - (c) Variable Cost
  - (d) Implicit Cost



29. \_\_\_\_\_ can be defined as the Cost that involve actual payment to other parties.
- (a) Opportunity Costs
  - (b) Explicit Costs
  - (c) Hidden Costs
  - (d) Implicit Costs



31. Explicit Costs are also called-
- (a) Out-of-Pocket Costs
  - (b) Outlay Costs
  - (c) Accounting Costs
  - (d) All of the above



33. \_\_\_\_\_ are actually incurred and hence can be easily and objectively measured.
- (a) Implicit Costs
  - (b) Explicit Costs
  - (c) Hidden Costs
  - (d) Opportunity Costs



35. Explicit Costs are used for ..... purposes.
- (a) Accounting and Reporting
  - (b) Cost Control
  - (c) Decision Making
  - (d) All of the above



37. \_\_\_\_\_ are the value of foregone opportunities that do not involve any physical cash payment.
- (a) Implicit Costs
  - (b) Actual Costs
  - (c) Hidden Costs
  - (d) Explicit Costs



39. 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) Payment of Rent by the Firm for the building in which it is housed
  - (c) Payment of Wages by the Firm
  - (d) Interest Payment made by the Firm for funds borrowed from a Bank



41. Which of the following does not relate to Implicit Costs?
- (a) Opportunity Costs
  - (b) Out-of-Pocket Costs
  - (c) Imputed Costs
  - (d) Notional Costs



43. An entrepreneur who manages his Firm has to forego his salary, which he could have earned if he had worked elsewhere. The foregone Cost is known as -
- (a) Implicit Costs
  - (b) Explicit Costs
  - (c) Hidden Costs
  - (d) Actual Costs



45. An Implicit Cost is
- (a) Wages paid to Workers / Labourers
  - (b) Rent for Land and Building used in business
  - (c) Normal Rate of Profit in the business
  - (d) All of the above



47. Which of the following Costs is not included in the books of accounts?
- (a) Taxes
  - (b) Manufacturing Costs
  - (c) Explicit Costs
  - (d) Implicit Costs



49. Implicit Costs are used for \_\_\_\_\_ purposes.

- (a) Accounting and Reporting
- (b) Cost Control
- (c) Decision Making
- (d) None of the above



51. If Land is owned by the Entrepreneur, Rent is an -

- (a) Implicit Cost
- (b) Explicit Cost
- (c) Hidden Cost
- (d) Undisclosed Cost



53. If own people (e.g. family members) are employed in the Firm, without paying them any reward for their work, Labour Cost is an -

- (a) Implicit Cost
- (b) Explicit Cost
- (c) Hidden Cost
- (d) Undisclosed Cost



55. If Entrepreneur employs his own funds as Capital, then Interest is -

- (a) Implicit Cost
- (b) Explicit Cost
- (c) Hidden Cost
- (d) Undisclosed Cost



57. Reward for Entrepreneurial Ability (i.e. Normal Profit in the business) is included in -

- (a) Implicit Cost
- (b) Explicit Cost
- (c) Hidden Cost
- (d) Undisclosed Cost



59. Suppose the total cost of production of a commodity X is ₹ 1,25,000 out of which implicit cost 35,000 and normal profit is 25,000. What would be the explicit cost of commodity?

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



## ACCOUNTING COSTS AND ECONOMIC COSTS

61. Cost incurred in purchasing the Factor of Production is known as -

- (a) Accounting Cost
- (b) Implicit Cost
- (c) Marginal Cost
- (d) Economic Cost



63. Expenditure incurred on Wages, Rent, Interest, etc. are included in-

- (a) Accounting Cost
- (b) Opportunity Cost
- (c) Fixed Cost
- (d) Direct Cost



65. Economic Cost =

- (a) Accounting Cost + Non- Accounting Cost
- (b) Fixed Cost + Variable Cost
- (c) Explicit Cost + Implicit Cost
- (d) Short Run Cost + Long Run Cost



67. Economic Cost =

- (a) Wages paid to Workers / Labourers
- (b) Rent for Land and Building used in business
- (c) Normal Rate of Profit in the business
- (d) All of the above



69. \_\_\_\_\_ includes all payments paid to Factors of Production and Opportunity Cost.














- (a) Implicit Costs
- (b) Explicit Costs
- (c) Economic Costs
- (d) Accounting Costs







71. Which of the following is true regarding Economic Cost and Accounting Cost?

- (a) Economic Cost = Accounting Cost
- (b) Economic Cost > Accounting Cost
- (c) Economic Cost < Accounting Cost
- (d) None of the above





73. Which of the following is true regarding Economic Cost and Accounting Cost? 
- (a) Accounting Cost less Economic Cost = Explicit Cost
- (b) Economic Cost less Accounting Cost = Implicit Cost
- (c) Economic Cost less Accounting Cost = Explicit Cost
- (d) Accounting Cost less Economic Cost = Implicit Cost
75. When Total Revenue is less than Accounting Costs, it means that the Firm - 
- (a) Has No-Profit-No-Loss
- (b) Earns Normal Profits
- (c) Earns more than Normal Profits
- (d) Incurs Losses
77. When Total Revenue equals Economic Costs, it means that the Firm - 
- (a) Has No-Profit-No-Loss
- (b) Earns Normal Profits
- (c) Earns more than Normal Profits
- (d) Incurs Losses in the accounting sense
79. When Total Revenue is less than Economic Costs, it means that the Firm - 
- (a) Incurs Losses in the economic sense
- (b) Earns Normal Profits
- (c) Earns more than Normal Profits (i.e. Super-Normal Profits)
- (d) Incurs Losses in the accounting sense
81. If there are Implicit Costs of Production 
- (a) Economic Profit will be equal to Accounting Profit
- (b) Economic Profit will be less than Accounting Profit
- (c) Economic Profit will be more than Accounting Profit
- (d) Economic Profits will be zero
83. Opportunity Cost refers to \_\_\_\_\_ in accepting an alternative course of action. 
- (a) Value of sacrifice made
- (b) Benefit of opportunity foregone
- (c) Both (a) and (b)
- (d) Neither (a) nor (b)
85. The Cost of one thing in terms of the alternative given up is known as - 
- (a) Real Cost
- (b) Physical Cost
- (c) Production Cost
- (d) Opportunity Cost
87. Opportunity Costs arise only when resources are - 
- (a) Available only to a limited extent
- (b) Restricted in availability
- (c) Scarce
- (d) All of the above
89. If a resource can be put only to a particular use, then, Opportunity Costs - 
- (a) Are applicable and quantifiable
- (b) Are applicable but not quantifiable
- (c) Are not applicable at all
- (d) All of the above
91. Outlay Costs - 
- (a) Involve cash payment
- (b) Do not involve any cash payment
- (c) Both (a) and (b)
- (d) Neither (a) nor (b)
93. Opportunity Costs are used for ..... purposes 
- (a) Accounting and Reporting
- (b) Cost Control
- (c) Decision Making
- (d) None of the above
95. Which of the following is/are true? 
- (a) Total Cost includes only Variable Costs
- (b) Opportunity Cost is the value of the good of service forgone
- (c) Economic Costs include only Out-of-Pocket Costs
- (d) Both (a) and (c) above
97. \_\_\_\_\_ Cost is the Total Additional Cost that a Firm has to incur, as a result of implementing a major managerial decision. 
- (a) Opportunity
- (b) Incremental
- (c) Marginal
- (d) Sunk

### OPPORTUNITY COSTS






99. Which of the following statement is correct?
- Marginal Cost is a sub- set of Incremental Cost
  - Incremental Cost is sub- set of Marginal Cost 
  - Marginal Cost is a sub-set of Sunk Cost
  - Sunk Cost is a sub-set of Incremental Cost
101. Which of the following statement best describes Sunk Costs?
- Costs which are incurred in the past 
  - Cost incurred by the Firm as result of bankruptcy of one of its Creditors
  - Cost incurred by the Firm as a result of the fire that broke into one of the Firm's Godown.
  - Setting off the losses that the Firm incurred in the previous years
103. Suppose you find ₹ 100. If you choose to use ₹ 100 to go to a football match, your opportunity cost of going to the game is\_\_\_\_\_.
- Nothing, because you found the money. 
  - Only The value of your time spent at the game + The Expected Normal Interest / Return on ₹ 100.
  - ₹ 100 (because you could have used the ₹ 100 to buy other things) plus the value of your time spent at the game, plus the cost of the dinner you purchased at the game.
  - ₹ 100 (because you could have used the ₹ 100 to buy other things).
105. \_\_\_\_\_are not readily identified nor visibly traceable to specific goods, services, operations, etc.
- Direct Costs 
  - Indirect Costs
  - Neither (a) nor (b)
  - Both (a) and (b)

**Read the following paragraph and answer the following two questions.**


Nicole owns a small pottery factory. She can make 1,000 pieces of pottery per year and sell them for ₹ 100 each. It costs Nicole ₹ 20,000 for the raw materials to produce the 1,000 pieces of pottery. She has invested ₹ 100,000 in her factory and equipment: ₹ 50,000 from her savings and ₹ 50,000 borrowed at 10 per cent. (Assume that she could have loaned her money out at 10 per cent, too.) Nicole can work at a competing pottery factory for ₹ 40,000 per year.

107. The accounting cost at Nicole's pottery factory is:
- ₹ 25000
  - ₹ 75000 
  - ₹ 50000
  - ₹ 80000
109. The accounting profit at Nicole's pottery factory is:
- ₹ 80000
  - ₹ 30000 
  - ₹ 50000
  - ₹ 75000


### FIXED AND VARIABLE COSTS

111. \_\_\_\_\_are costs that do not vary with output, upto a certain level of activity.
- Variable
  - Fixed 
  - Both (a) and (b)
  - Neither (a) nor (b)
113. Fixed Costs are -
- Period-related
  - Product-related 
  - Both (a) and (b)
  - Neither (a) nor (b)
115. \_\_\_\_\_Cost must be paid even if the Firm's level of output is zero.
- Incremental
  - Direct 
  - Variable
  - Fixed
117. \_\_\_\_\_Cost will be incurred even when the Firm's produces Nil output.
- Variable
  - Fixed 
  - Both (a) and (b)
  - Neither (a) nor (b)
119. Some portion of Fixed Costs need not be incurred when operations are suspended. These are called-
- Avoidable Fixed Costs
  - Committed Fixed Costs 
  - Semi-Variable Costs
  - Variable Costs


121. Which of the following is not a Fixed Cost?

- (a) Depreciation Charges on Equipment and Buildings 
- (b) Charges for Fuel and Electricity
- (c) Payment of Interest on Borrowed Capital
- (d) Contractual Rent for Equipment of Building


123. The following are some Costs incurred by a Clothing Manufacturer. State which among them will be considered as Fixed Cost.

- (a) Cost of Cloth 
- (b) Piece Wages paid to Workers
- (c) Depreciation on Machines owing to time
- (d) Cost of Electricity for running machines


125. Variable Costs are -

- (a) Period-related 
- (b) Product-related
- (c) Both (a) and (b)
- (d) Neither (a) nor (b)


127. \_\_\_\_\_ Cost must be incurred only when the Firm's produces output.

- (a) Variable 
- (b) Fixed
- (c) Both (a) and (b)
- (d) Neither (a) nor (b)

129. All Variable Costs are avoidable or discretionary in nature. This statement is -


- (a) True 
- (b) False
- (c) Partially True
- (d) Nothing can be said

131. Which Cost increases continuously with the increase in production?


- (a) Fixed Cost
- (b) Marginal Cost 
- (c) Average Cost
- (d) Variable Cost

133. Over certain ranges of production Variable Costs vary less or more than proportionately depending on the utilisation of fixed facilities and resources during the production process.

This statement is -


- (a) True 
- (b) False
- (c) Partially True
- (d) Nothing can be said

135. Which of the following is an example of Variable Cost in the short run?


- (a) Cost of Equipment
- (b) Interest Payment on past borrowings
- (c) Payment of Rent on Building 
- (d) Cost of Raw Materials

**MARGINAL COSTS**


137. \_\_\_\_\_ is the addition made to the total cost by production of an additional unit of output.

- (a) Fixed Cost
- (b) Variable Costs 
- (c) Total Costs
- (d) Marginal Costs


139. \_\_\_\_\_ Costs are important in short term decision making of the Firm, to determine the output at which profits can be maximized.

- (a) Opportunity
- (b) Sunk 
- (c) Fixed
- (d) Marginal

141. Marginal Cost is independent of Fixed Cost. This statement is -

- (a) True
- (b) Partially True 
- (c) False
- (d) None of these

143. Which of the following will affect Marginal Costs?

- (a) Variable Costs
- (b) Output Quantity 
- (c) Both (a) and (b)
- (d) Neither (a) nor (b)

145.  $TC_n - TC_{n-1} =$  which cost function?

- (a) Marginal Cost
- (b) Average Cost
- (c) Total Cost
- (d) None of the above



147. Which of the following describes the behaviour of Marginal Cost Curve?

- (a) Declines first, reaches its minimum and then rises
- (b) Rises first, reaches a maximum and then decline
- (c) Remains constant throughout all output levels
- (d) Nothing can be said



149. Marginal Cost Curve of a Firm will show ..... behaviour when compared to Marginal Product (MP) Curve.

- (a) Same
- (b) Reverse
- (c) Either (a) or (b)
- (d) Nothing can be said



151. Use the following data to answer following question

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

The marginal cost of the sixth unit of output is

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



153. Diminishing Marginal Returns implies:

- (a) Constant MC
- (b) Increasing Marginal Cost
- (c) Decreasing MC
- (d) All of the above



155. Additional cost incurred by a Firm as a result of a business decision -

- (a) Extra Cost
- (b) Replacement Cost
- (c) Incremental Cost
- (d) Sunk Cost



157. Which of the following statement is correct?

- (a) An increase in price will make Replacement Costs higher than Historical Cost.
- (b) A decrease in price will make Replacement Costs higher than Historical Cost.
- (c) An increase in price will make Replacement Costs lower than Historical Cost.
- (d) None of the above



159. Cost of Production incurred by an Individual firm is -

- (a) Private Cost
- (b) Production Cost
- (c) Social Cost
- (d) None of the above



### Short-run & Long-run Cost Behaviour

#### TOTAL COST RELATIONSHIPS

1. Which of the following statements regarding Output is false?

- (a) Output is under the control of the Firm
- (b) Change in output level determines the rate of change in the Total Cost of Production
- (c) Magnitude of the Output determines the Total Cost of Production
- (d) Output has no role to play in determining the Cost Function



3. If the Firm's output level is below its short run capacity, it is \_\_\_\_\_ its Plant and Machinery.

- (a) Under utilizing
- (b) Fully utilizing
- (c) Over utilizing
- (d) Exploiting



5. Which of the following statements is correct concerning the relationships among the Firm's Costs?
- (a)  $TC = TVC \times TFC$   
 (b)  $TC = TFC - TVC$   
 (c)  $TC = TVC - TFC$   
 (d)  $TC = TFC + TVC$
7. TFC Curve will be a straight line -
- (a) Parallel to X-Axis  
 (b) Parallel to Y-Axis  
 (c) Increasing from left to right  
 (d) Decreasing from left to right
9. TVC Curve will be a -
- (a) Curve with a positive slope  
 (b) Curve with a negative slope  
 (c) Both (a) and (b)  
 (d) Neither (a) nor (b)
11. TVC Curve will commence from -
- (a) A certain point on the Quantity Axis (X Axis)  
 (b) A certain point on the Cost Axis (Y Axis)  
 (c) Origin  
 (d) All of the above
13. If Variable Cost per unit (i.e. AVC) is constant at all levels of output, TVC Curve will be -
- (a) Curve with positive slope  
 (b) Straight Line with positive slope  
 (c) Rectangular Hyperbola  
 (d) None of these
15. TC Curve will -
- (a) Increase, i.e. slope upward from left to right  
 (b) Decrease, i.e. slope downward from left to right  
 (c) Either (a) or (b)  
 (d) Neither (a) nor (b)
17. TVC Curve will be -
- (a) Higher than the TVC Curve  
 (b) Lower than the TVC Curve  
 (c) Parallel to X Axis  
 (d) Parallel to Y Axis

19. "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, his behaviour in the short run is:
- (a) rational, if the firm is covering its variable cost  
 (b) irrational, since fixed costs are eliminated if a firm shuts down  
 (c) irrational, since plant closing is necessary to eliminate losses  
 (d) rational, if the firm is covering its fixed costs

### AVERAGE COST

21. Which of the following is the Average Cost?
- (a) Average Fixed Cost + Average Variable Cost  
 (b) Average Total Cost  
 (c) Total Cost divided by the number of units  
 (d) All of the above
23. If  $TVC = 1,000$ ,  $TFC = 400$ , then calculate ATC at 5 units.
- (a) 280  
 (b) 150  
 (c) 300  
 (d) 250

### AVERAGE FIXED COST

25. Which of the following describes the behaviour of Average Fixed Cost?
- (a) Declines first, reaches its minimum and then rises  
 (b) Declines throughout as output increases  
 (c) Remains constant throughout all output levels  
 (d) Rises first, reaches a maximum and then declines
27. The Average Fixed Cost -
- (a) Remains the same whatever the level of output  
 (b) Increase as output increases  
 (c) Diminishes as output increases  
 (d) None of the above

29. Average Fixed Cost (AFC) of a Firm is ..... related to its output.

- (a) Directly
- (b) Inversely
- (c) Proportionately
- (d) Not



31. Which of the following is correct with respect to Average Fixed Cost?

- (a) It is a bell shaped Curve
- (b) As the quantity increases it approaches zero
- (c) If quantity produced tends to zero, Average Fixed Cost approaches infinity
- (d) Both (b) and (c) above



33. AFC Curve will be a -

- (a) Curve with a positive slope
- (b) Curve with a negative slope
- (c) Straight Line
- (d) None of the above



35. 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



37. AFC Curve-

- (a) Will touch the Quantity Axis (X Axis)
- (b) Will touch the Cost Axis (Y Axis)
- (c) Will touch both Axes
- (d) Will not touch any Axis



39. Which statement among below is correct in reference to AFC?

- (a) Never becomes zero
- (b) Curve never touch X-axis
- (c) Curve never touch Y-axis
- (d) All of the these



41. Average Cost of Producing 50 units of a Commodity is ₹ 250 and fixed cost is ₹ 1000. What will be the average fixed cost of producing 100 units of the Commodity?

- (a) 10
- (b) 5
- (c) 30
- (d) 20



### AVERAGE VARIABLE COST

43. Average Variable Cost (AVC) equals -

- (a)  $ATC - AFC$
- (b)  $TVC$  divided by Output Quantity
- (c) Both (a) and (b)
- (d) Neither (a) nor (b)



45. Upto Normal Capacity of output, as output increases, AVC will -

- (a) Remain constant
- (b) Decrease
- (c) Increase
- (d) Nothing can be said



47. AVC increases as output increases -

- (a) Upto normal capacity output
- (b) Beyond normal capacity output
- (c) At all levels of output
- (d) Nothing can be said



49. AVC increases as output increases, beyond normal capacity output, due to -

- (a) Law of Constant Returns
- (b) Law of Diminishing Returns
- (c) Law of Equi-Marginal Utility
- (d) Law of Increasing Returns



51. Average Variable Cost Curve slopes downwards -

- (a) Upto normal capacity output
- (b) Beyond normal capacity output
- (c) At all levels of output
- (d) All of the above



53. Average Variable Cost Curve slopes upwards -

- (a) Upto normal capacity output
- (b) Beyond normal capacity output
- (c) At all levels of output
- (d) Nothing to Say



55. Average Variable Cost Curve is -

- (a) Exactly a U Shaped Curve
- (b) Not exactly a U Shaped Curve
- (c) Not depicted in the Graph at all
- (d) Straight line



57. A firm produces 10 units of commodity at an average total cost of ₹ 200 and with a fixed cost of ₹ 500. Find out component of average variable cost in total cost.
- (a) ₹ 200  
(b) ₹ 100  
(c) ₹ 150  
(d) ₹200



### AVERAGE COST OR AVERAGE TOTAL COST

59. Initially Average Cost declines sharply due to the reason that -
- (a) AFC declines significantly as output increases  
(b) AVC declines significantly as output increases  
(c) AFC increases as output increases  
(d) AVC increases as output increases
61. Beyond certain output level, when there is an increase in Average Variable Cost (AVC), Average Cost (AC) also increases due to the reason that -
- (a) Fall in AFC is less than the sharp rise in AVC  
(b) Fall in AFC is greater than the sharp rise in AVC  
(c) Fall in AFC is equal to the rise in AVC  
(d) All of the above



63. The AC Curve and AVC Curve start increasing at the same output level only. This statement is
- (a) True  
(b) False  
(c) Partially True  
(d) Can't Say
65. Average Cost Curve is a -
- (a) U Shaped Curve  
(b) J Shaped Curve  
(c) L Shaped Curve  
(d) Straight Line



### MARGINAL COST AND AVERAGE COST RELATIONSHIPS

67. Marginal Cost Curve cuts the Average Cost Curve -
- (a) At the left to its lowest point  
(b) At its lowest point  
(c) At the right to its lowest point  
(d) Any of the above



69. The relationship between the AC and MC is that
- (a) MC will always be less than the AC  
(b) MC will be more than AC when MC is falling  
(c) AC may be more than MC when MC is rising  
(d) None of the above
71. If a Firm's Average Variable Cost Curve is rising, its Marginal Cost Curve must be -
- (a) Constant  
(b) Above the Total Cost Curve  
(c) Above the Average Variable Cost Curve.  
(d) None of the above
73. Marginal Cost is - .
- (a) Never equal to Average Cost  
(b) Always more than the Average Cost  
(c) Equal to the Average Cost at its minimum point  
(d) Always less than the Average Cost
75. The MC Curve cuts the AVC and ATC Curves
- (a) At the falling part of each  
(b) At the rising part of each  
(c) At their respective minimas  
(d) At different points
77. When AC falls as a result of an increase in output-
- (a)  $MC = AC$   
(b)  $MC < AC$   
(c)  $MC > AC$   
(d) None of these
79. When AC increases as a result of an increase in output
- (a)  $MC < AC$   
(b)  $MC = AC$   
(c)  $MC > AC$   
(d) Nothing can be said
81. When MC Curve intersects AC Curve, it means that-
- (a) AC is minimum  
(b)  $AC = MC$   
(c) Both (a) and (b)  
(d) Neither (a) nor (b)



### COST COMPUTATIONS

83. A Firm has a Variable Cost of ₹ 1000 at 5 units of output. If Fixed Costs are ₹ 400, what will be the Average Total Cost at 5 units of output?
- (a) ₹ 280  
(b) ₹ 60  
(c) ₹ 120  
(d) ₹ 1,400
85. 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) ₹ 300  
(b) ₹ 200  
(c) ₹ 50  
(d) ₹ 100
87. For producing 100 units, Total Variable Cost is ₹ 500 and Total Fixed Cost is ₹1,000. Compute Average Cost.
- (a) 10  
(b) 15  
(c) 5  
(d) 20

Use the following data to answer the following 6 questions

Output (in units)	Total Cost (TC) (in ₹)
0	240
1	330
2	410
3	480
4	540
5	610
6	690
7	840

89. TFC at all levels of Output is -
- (a) 300  
(b) 240  
(c) 690  
(d) 330

91. MC for 2nd unit of Output is -

- (a) Nil  
(b) 90  
(c) 80  
(d) 70

93. MC for 5th unit of Output is -

- (a) 90  
(b) 80  
(c) 70  
(d) 60

95. AC for 3 units of Output is -

- (a) 205  
(b) 160  
(c) 135  
(d) 122

97. AC for 5 units of Output is -

- (a) 205  
(b) 160  
(c) 135  
(d) 122

99. MC Curve will cut AC Curve at \_\_\_\_\_ units of Output.

- (a) 7  
(b) 4  
(c) 6  
(d) 5

### LONG RUN COST BEHAVIOUR

101. The period of time in which the Plant Capacity can be varied is known as -

- (a) Short Period  
(b) Market Period  
(c) Long Period  
(d) All of the above.

103. Which one of the following is also known as Planning Curve?

- (a) Long-Run Average Cost Curve  
(b) Short-Run Average Cost Curve  
(c) Average Variable Cost Curve  
(d) Average Total Cost Curve

105. LAC = Least Cost combination for an appropriate output level. This statement is -

- (a) True
- (b) False
- (c) Partially True
- (d) Nothing can be said



107. In the long-run, the Firm will decide on which SAC Curve it should operate to produce a given output, so that its -

- (a) AC is minimum
- (b) MC is maximum
- (c) MC is minimum
- (d) AC is maximum



109. In the long-run, when there are infinite SAC Curves, the LAC Curve will be -

- (a) Perpendicular to each SAC Curve
- (b) Connecting the lowest points of each SAC Curve
- (c) Smooth Curve, so as to be tangent to each of the SAC Curves
- (d) All of the above



111. LAC Curve is the connection of all minimum points of SAC Curves. This statement is -

- (a) True
- (b) False
- (c) Partially True
- (d) Nothing can be said



113. When LAC Curve is \_\_\_\_\_-it will be tangent to the falling portions of the SAC Curves.

- (a) Decreasing
- (b) Increasing
- (c) Both (a) and (b)
- (d) Neither (a) nor (b)



115. When LAC Curve is \_\_\_\_\_ it will be tangent to the rising portions of the SAC Curves.

- (a) Decreasing
- (b) Increasing
- (c) Both (a) and (b)
- (d) Neither (a) nor (b)



117. If the LAC Curve falls as output expands, this falls is due to -

- (a) Economies of Scale
- (b) Law of Diminishing Returns
- (c) Diseconomies of Scale
- (d) All of the above



119. Long Run Average Cost Curves are broadly-

- (a) U - shaped
- (b) Inverted U - shaped
- (c) V-shaped
- (d) L-shaped






















121. Positively sloped (i.e. rising) part of long run Average Cost Curve is due to which of the following\_\_\_\_\_







- (a) Constant Returns to Scale
- (b) Economics of Scale
- (c) Diseconomies of Scale
- (d) Increasing Returns to Scale



## Revenue Concepts

1. Total Revenue = 
- (a) Money which a Firm realises by selling certain units of a commodity.
- (b) Revenue earned per unit of output
- (c) Change in Total Revenue (TR) resulting from the sale of an additional unit of the commodity.
- (d) Both (a) and (b)
3. Marginal Revenue = 
- (a) Money which a Firm realises by selling certain units of a commodity
- (b) Revenue earned per unit of output
- (c) Change in Total Revenue (TR) resulting from the sale of an additional unit of the commodity.
- (d) All of the above
5. The firm will attain equilibrium at a point where MC curve cuts \_\_\_\_\_ curve from below 
- (a) AC
- (b) MR
- (c) AVC
- (d) AR
7. Price X Quantity = ..... 
- (a) Total Revenue
- (b) Zero Revenue
- (c) Marginal Revenue
- (d) Average Revenue
9. If TR = Total Revenue, and Q = Quantity sold, then  $TR \div Q$  refers to - 
- (a) Total Revenue
- (b) Average Revenue
- (c) Marginal Revenue
- (d) Zero Revenue
11. If Price = ₹ 50 and Quantity is 1,200 units, then Total Revenue = 
- (a) ₹ 1,250
- (b) ₹ 1,150
- (c) ₹ 60,000
- (d) ₹ 50,000.
13. If Total Revenue = ₹ 2,00,000 when 20,000 units are sold, then Average Revenue = 
- (a) ₹ 1,00,000
- (b) ₹ 20,000
- (c) ₹ 10
- (d) ₹ 1,20,000
15. When Price is ₹ 10, 5 units can be sold. When price is reduced to ₹ 9, 6 units can be sold. Here, Marginal Revenue will be - 
- (a) ₹ 11
- (b) ₹ 9
- (c) ₹ 2
- (d) ₹ 4
17. When Price is ₹ 50, 12 units can be sold. When price is reduced to ₹ 48, 15 units can be sold. Here, Marginal Revenue will be - 
- (a) ₹ 120
- (b) ₹ 30
- (c) ₹ 60
- (d) ₹ 20
19. If a Seller gets ₹ 10,000 by selling 100 units and ₹14,000 by selling 120 units, his Marginal Revenue is 
- (a) ₹ 4,000
- (b) ₹ 4,500
- (c) ₹ 200
- (d) ₹ 1,000
21. When Price = ₹ 20, quantity demanded is 15 units, and when Price = ₹ 18, quantity demanded is 16 units. What is the Marginal Revenue resulting from an increase in output from 15 units to 16 units? 
- (a) ₹ 12 negative
- (b) ₹ 12 positive
- (c) ₹ 12 negative
- (d) ₹ 18 positive
23. If Total Revenue (TR) increases, Marginal Revenue (MR) will be - 
- (a) Positive
- (b) Zero
- (c) Infinity
- (d) Negative

25. If Total Revenue (TR) is maximum, Marginal Revenue (MR) will be -
- Infinity
  - Positive
  - Zero
  - Negative
- 
27. Generally, Average Revenue (AR) Curve -
- Slopes upward from left to right
  - Is parallel to Y Axis
  - Is parallel to X Axis
  - Slopes downward from left to right
- 
29. Generally, as quantity sold increases, Marginal Revenue (MR) Curve -
- Increases
  - Decreases
  - Remains constant
  - None of the these
- 
31. Let, Marginal Revenue = MR and Average Revenue = AR. Generally, as quantity sold increases -
- MR falls quickly than AR
  - MR and AR fall at the same rate
  - MR falls slowly than AR
  - MR and AR do not change
- 
33. Marginal Revenue (MR) is-
- Can be positive or zero, but not negative
  - Will have negative values only
  - Will have positive values only
  - Can be positive or zero or even negative.
- 
35. Average Revenue (AR) -
- Will have positive values only
  - Will have negative values only
  - Can be positive or zero, but not negative.
  - Can be positive or zero or even negative.
- 
37. Average Revenue (AR) Curve denotes-
- Demand
  - Supply
  - Both (a) and (b)
  - Neither (a) nor (b)
- 

39. Which of the following is True?
- If Marginal Revenue is positive and falling, Total Revenue will rise at a decreasing rate.
  - Total Revenue is equal to price times the quantity sold.
  - Marginal Revenue and Average Revenue can be calculated from Total Revenue.
  - All of the above
- 
41. If Marginal Revenue = MR, Price Elasticity of Demand = 'e', and  $e < 1$ , then MR will be -
- Zero
  - Negative
  - Positive
  - Infinity
- 
43. If Marginal Revenue = MR, Price Elasticity of Demand = 'e', and  $e > 1$ , then MR will be -
- Positive
  - Infinity
  - Zero
  - Negative
- 
45. If Marginal Revenue = MR, Price Elasticity of Demand = 'e', and MR is positive (i.e.  $MR > 0$ ), e will be
- $e > 1$
  - $e = \text{zero}$
  - $e = 1$
  - $e < 1$
- 
47. If Marginal Revenue = MR, Price Elasticity of Demand = 'e', and  $MR = 0$ , e will be
- $e < 1$
  - $e > 1$
  - $e = 1$
  - $e = \text{zero}$
- 
49. If Average Revenue (AR) = ₹ 30, Price Elasticity of Demand (e) = 1, then MR will be -
- Positive
  - Negative
  - Zero
  - Infinity
- 

51. If Average Revenue (AR) = ₹ 300, Price Elasticity of Demand ( $e$ ) = 2.5, then MR will be
- ₹ 180
  - ₹ 160
  - ₹ 200
  - ₹ Nil



53. Given AR=5, Elasticity of demand =2 find MR-
- 2.5
  - 2.5
  - 1.5
  - 2.0



### PROFIT MAXIMISATION

55. In the short run, as the prices are fixed, Firms can maximize their profit when they operate at
- MC = MR
  - MC = AC
  - MC > MR
  - MC < MR



57. If Marginal Cost = MC, and Marginal Revenue = MR, then, for achieving equilibrium output -
- MC < MR
  - MC > MR
  - MC = MR
  - None of the above



59. If Marginal Cost = MC, and Marginal Revenue = MR, and MC < MR, the Firm should -
- Increase its output.
  - Reduce its output
  - Operate at the present level itself.
  - Should shut down.



61. What should Firm do when Marginal Revenue is greater than Marginal Cost?
- Firm should expand output
  - Efforts should be made to make them equal
  - Prices of the products should be lowered down
  - All of the above



63. If Marginal Cost = MC, and Marginal Revenue = MR, then, for achieving equilibrium output -
- MC Curve should have positive slope
  - MC Curve should be parallel to Y Axis
  - MC Curve should be parallel to X Axis
  - MC Curve should have negative slope



65. Let Marginal Cost = MC, and Marginal Revenue = MR. If MC Curve cuts MR from above, it means -
- MC Curve is parallel to X Axis
  - MC Curve has a positive slope
  - MC Curve has a negative slope
  - MC Curve is parallel to Y Axis



67. Let Marginal Cost = MC, and Marginal Revenue = MR. If MC Curve cuts MR from below, it means -
- Firm is at equilibrium output level.
  - Firm does not operate at all
  - Firm is above equilibrium output level.
  - Firm is below equilibrium output level



69. If any unit of production adds more to cost than to revenue it will result into -
- No change
  - Decrease in Profit
  - Increase in Profit
  - Loss



71. When a Market is in equilibrium -
- No shortages exist.
  - Quantity demanded equals quantity supplied.
  - A price is established that clears the market.
  - All of the above are correct.











73. Let Average Cost = AC, and Average Revenue = AR. If AR > AC, it means that the Firm -
- Is earning Super-Normal Profits
  - Is making Losses
  - Has to shut-down
  - Is earning Normal Profits






75. Let Average Cost = AC, and Average Revenue = AR. If AR < AC, it means that the Firm -
- Has to shut-down
  - Is earning Normal Profits
  - Is making Losses in the economic sense
  - Is earning Super-Normal Profits



77. Let Average Cost = AC, and Average Revenue = AR. If  $AC = AR$ , it means that the Firm -
- Is earning Super-Normal Profits
  - Is earning Normal Profits
  - Has to shut-down
  - Is making Losses
- 
79. When \_\_\_\_\_, the Firm will be earning just Normal Profits.
- $AC = AR$
  - $MC = AC$
  - $AR = MR$
  - $MC = MR$
- 
81. What are conditions when the Firm earns Super-Normal Profit?
- Average Revenue is more than Average Cost
  - MC Curve has negative slope
  - MR Curve has positive slope
  - Average Cost is more than Average Revenue
- 
83. For earning normal profits, the condition is ..... at the point when  $MC = MR$  (MC cutting from below)
- $AR > AC$
  - $AR = AC$
  - $AR < AC$
  - None of these
- 
85. When ....., we know that the Firms are earning just Normal Profits.
- $AC = AR$
  - $MC = MR$
  - $MC = AC$
  - $AR = MR$
- 
87. When  $AR = ₹10$  and  $AC = ₹8$ , the Firm makes-
- Gross Profit
  - Normal Profit
  - Net Profit
  - Super-Normal Profit
- 

89. Suppose that a Sole Proprietorship Firm is earning Total Revenues of ₹ 120,000 and is incurring Explicit Costs of ₹ 90,000. If the Owner could work for another Company for ₹ 50,000 a year, we would conclude that
- The Firm is incurring an Economic Loss
  - The Individual is earning an Economic Profit of ₹ 25,000
  - The total Economic Costs are ₹ 100,000
  - Implicit Costs are ₹ 90,000
- 
91. 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?
- ₹ 90,000
  - ₹ 65,000
  - ₹ 60,000
  - ₹ 1,00,000
- 

### SHUT DOWN POINT

93. Let Average Variable Cost = AVC, and Average Revenue = AR. If  $AR < AVC$ , it means that the Firm
- Is earning Super-Normal Profits
  - Is earning Normal Profits
  - Is making Losses but need not shut down
  - Has to shut-down
- 
95. A firm will close down in the short period, if AR is less than
- AVC
  - AC
  - MC
  - None
- 
97. If  $AR < AVC$  and the Firm continues production, then
- Losses will be reduced
  - Profits will be reduced
  - Losses will increase
  - Profits will increase
- 

99. What should Firm do if Total Revenue from its product does not equal or exceeds its Total Variable Cost?

- (a) Firm should carry production
- (b) Firm should stop the production
- (c) Firm should carry production and at least try to get revenues equal to fixed cost
- (d) All of these



101. A Firm encounters its "Shut- Down Point" when-

- (a) Marginal 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 Total Cost equals price at the profit-maximizing level of output
- (d) Average Fixed Cost equals price at the profit-maximizing level of output



103. "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, his behaviour in the short-run is

- (a) Rational, if the Firm is covering its Variable Cost.
- (b) Rational, if the Firm is covering its Fixed Costs.
- (c) Irrational, since Plant Closure is necessary to eliminate losses.
- (d) Irrational, since Fixed Costs are eliminated if a Firm shuts down.



105. Long-Run Normal Prices is that which is likely to prevail

- (a) All the times
- (b) In market period
- (c) In short-run period
- (d) In long-run period



107. In the long-run, any Firm will eventually leave the industry if -

- (a) Price does not at least cover Average Total Cost
- (b) Price does not equal Marginal Cost
- (c) Economies of Scale are being reaped
- (d) Price is greater than Long Run Average Cost



109. In the long run, there is enough time for the Firm to cover its Losses and earn Normal Profits. This is because in the long run, all inputs are -

- (a) Homogenous
- (b) Fixed
- (c) Variable
- (d) Identical



COMPREHENSIVE PROBLEMS

A Competitive Firm sells as much as of its product as it chooses at a Market Price of ₹ 100 per unit. Its Fixed Costs are ₹ 300 and its Variable Costs for different levels of production are shown in the following table. Use the following table and answer the next 7 questions.

111. When Production is 10 units, AC will be -

- (a) ₹ 50.00
- (b) ₹ 97.00
- (c) ₹ 77.00
- (d) ₹ 110.00



Quantity	TVC	TFC	TC	AVC	AFC	AC	MC
0	0						
5	250						
10	470						
15	700						
20	980						
25	1350						
30	1850						
35	2520						
40	3400						
45	4530						
50	5950						

113. When Production is 20 units, AC will be -

- (a) ₹ 50.00
- (b) ₹ 64.00
- (c) ₹ 77.00
- (d) ₹ 88.00



115. When Production is 30 units, AC will be -

- (a) ₹ 66.67
- (b) ₹ 71.67
- (c) ₹ 56.67
- (d) ₹ 76.67



117. When Production is 40 units, AC will be -

- (a) ₹ 85.00
- (b) ₹ 82.50
- (c) ₹ 92.50
- (d) ₹ 95.00



119. When Production is 50 units, AC will be -

- (a) ₹ 100.00
- (b) ₹ 119.00
- (c) ₹ 110.00
- (d) ₹ 125.00



121. MC Curve will cut AC Curve when output is

- (a) 10 units
- (b) 20 units
- (c) 30 units
- (d) 40 units



123. If the Market Price drops from ₹ 100 to ₹ 56, the Firm's short run response should be -

- (a) Shutdown
- (b) Produce 5 units
- (c) Produce 20 units
- (d) Continue to produce the same number of units as before the drop in price



Use Table to answer the following 4 questions.

Bozzo's burgers is a small restaurant and a price taker. The table below provides the data of Bozzo's output and costs in Rupees.

Qty	TC	FC	AVC	AC	MC
0	0	-	-	-	-
10	210				
20	300				
30	400				
40	540				
50	790				
60	1060				

125. What is the total variable cost when 50 burgers are produced?

- (a) ₹ 690
- (b) ₹ 960
- (c) ₹ 110
- (d) ₹ 440



127. Between 10 to 20 burgers, what is the marginal cost (per burger)?

- (a) ₹ 13
- (b) ₹ 11
- (c) ₹ 14
- (d) ₹ 9



Use Table to answer the following 2 questions.

The following table provides cost and price information for an individual firm. The first two columns represent the demand curve that the firm faces. The firm has a fixed amount of capital equipment, but can change the level of other inputs such as labour and materials.

Calculate the missing values in the table, and use the table to answer the below questions. (Make sure you answer each question using the production level specified.)

Q	P	TC	TVC	MC	TR	MR
0	130	45				
1	124	88				
2	118	125				
3	112	159				
4	106	193				
5	100	230				
6	94	273				
7	88	325				
8	82	389				
9	76	465				

129. When production equals 5 units, the firm's Total Revenue is:

- (a) ₹ 100
- (b) ₹ 270
- (c) ₹ 324
- (d) ₹ 500



131. When production equals 7 units, the firm's profit is:

- (a) ₹ 42.80
- (b) ₹ 41.57
- (c) ₹ 291
- (d) ₹ 300



## PRODUCTION OPTIMISATION

1. The term "Iso" means -
  - (a) Similar
  - (b) Single
  - (c) Equal
  - (d) Unequal
  
3. \_\_\_\_\_represents all those combinations of inputs which are capable of producing the same level of output.
  - (a) Isoquant
  - (b) Isocost
  - (c) Isoprice
  - (d) Both (b) and (c)
  
5. Isoquants
  - (a) Touched both the axis
  - (b) Are concave to the origin
  - (c) Are non-intersecting
  - (d) Are positively sloped
  
7. \_\_\_\_\_shows the various alternative combinations of two Factor Inputs, which a Firm can buy with given amount of money.
  - (a) Isocost Lines
  - (b) Isoproduct Lines
  - (c) Isoprice Lines
  - (d) Isoquant lines
  
9. The point of tangencybetween any Isoquant and an Isocost Line gives the
  - (a) highest-cost combination of inputs and maximum level of output that can be produced
  - (b) lowest-cost combination of inputs and minimum level of output that can be produced
  - (c) lowest-cost combination of inputs and maximum level of output that can be produced
  - (d) highest-cost combination of inputs and minimum level of output that can be produced

## Answer Keys

### COST & REVENUE CONCEPTS

1	3	5	7	9	11	13	15	17	19	21	23	25	27	29	31	33	35	37	39
c	d	a	a	a	b	c	a	a	d	c	a	c	a	b	d	b	d	a	a
41	43	45	47	49	51	53	55	57	59	61	63	65	67	69	71	73	75	77	79
b	a	c	d	c	a	a	a	a	b	a	a	c	d	c	b	b	d	b	a
81	83	85	87	89	91	93	95	97	99	101	103	105	107	109	111	113	115	117	119
b	c	d	d	c	a	c	b	b	a	a	b	b	a	d	b	a	d	b	a
121	123	125	127	129	131	133	135	137	139	141	143	145	147	149	151	153	155	157	159
b	c	b	a	a	d	a	d	d	d	a	c	a	a	b	a	b	c	a	a

### SHORT-RUN & LONG-RUN COST BEHAVIOUR

1	3	5	7	9	11	13	15	17	19	21	23	25	27	29	31	33	35	37	39
d	a	d	a	a	c	b	a	a	a	d	a	b	c	b	d	b	d	d	d
41	43	45	47	49	51	53	55	57	59	61	63	65	67	69	71	73	75	77	79
a	c	b	b	b	a	b	b	c	a	a	b	a	b	c	c	c	c	b	c
81	83	85	87	89	91	93	95	97	99	101	103	105	107	109	111	113	115	117	119
c	a	d	b	b	c	c	b	d	c	c	a	a	a	c	b	a	b	a	a
121																			
c																			

### REVENUE CONCEPTS

1	3	5	7	9	11	13	15	17	19	21	23	25	27	29	31	33	35	37	39
a	c	b	a	b	c	c	d	a	a	c	a	c	d	b	a	d	c	a	d
41	43	45	47	49	51	53	55	57	59	61	63	65	67	69	71	73	75	77	79
b	a	a	c	c	a	a	a	c	a	a	a	c	a	b	d	a	c	b	a
81	83	85	87	89	91	93	95	97	99	101	103	105	107	109	111	113	115	117	119
a	b	a	d	a	b	d	b	c	b	b	a	d	a	c	c	b	b	c	d
121	123	125	127	129	131														
b	c	a	d	d	c														

### PRODUCTION OPTIMISATION

1	3	5	7	9
c	a	c	a	c

### MARKETS BASICS

1. In Economics, a place where Buyers and Sellers meet and bargain over a commodity for a price is called -

- (a) Exchange
- (b) Den
- (c) Market
- (d) Shop



3. Which of these is not a feature of Market?

- (a) Buyers and Sellers.
- (b) Commodity, Product or Service.
- (c) Bargaining for a Price
- (d) Government Regulation and Control



5. Which of the following is an element of Market Structure?

- (a) Bargaining for a Price
- (b) Buyers & Sellers
- (c) A product or service
- (d) All of the above



7. Which of these is not a Market Structure in Economics?

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



9. Which of the following types of competition is just a theoretical economic concept, not a realistic case where actual competition and trade take place?

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



11. Free Entry / Exit is a not feature of-

- (a) Perfect Competition
- (b) Monopoly
- (c) Monopolistic Competition
- (d) None the above



13. Short run price is also called:

- (a) Market price
- (b) Showroom price
- (c) Maximum retail price
- (d) Both (a) and (b)



15. Railways is an example of -

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



17. Electricity Supply Service is an example of -

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



19. Agricultural Goods markets depict characteristics close to -

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



21. Toothpaste Manufacturing Industry is an example of

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



23. Toilet Soaps Industry is an example of -













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



25. The structure of the Cold Drink Industry in India is best described as

- (a) Monopolistically Competitive
- (b) Perfectly Competitive
- (c) Monopolistic
- (d) Oligopolistic



27. In which of the following market conditions, does a Firm maximize its profit when its Marginal Revenue = Marginal Cost?
- (a) Perfect Competition 
- (b) Monopolistic Competition
- (c) Monopoly
- (d) All of the above
29. Which of the following is not a characteristic feature common to both Monopolistic Competition and Perfect Competition?
- (a) Firms take other Firms' prices as given
- (b) Identical Products 
- (c) Many Buyers and Sellers
- (d) Easy entry and exit of Firms
31. The relationship Firm = Industry is applicable for -
- (a) Monopolistic Competition
- (b) Monopoly 
- (c) Oligopoly
- (d) Perfect Competition
33. The AR Curve and Industry Demand Curve are same in the case of -
- (a) Monopoly
- (b) Oligopoly 
- (c) Perfect Competition
- (d) Both (a) and (b)
35. The relationship Industry = Large Number of Firms, is applicable for -
- (a) Monopolistic Competition
- (b) Perfect Competition 
- (c) Monopoly
- (d) Both (a) and (b)
37. Which among the following market structures has the highest product differentiation?
- (a) Pure or Perfect Competition 
- (b) Monopolistic Competition
- (c) Oligopoly
- (d) Monopoly
39. Which of the following market forms will never suffer losses in the short run?
- (a) Monopoly
- (b) Oligopoly 
- (c) Perfect Competition
- (d) None of these
41. 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) Oligopoly 
- (c) Perfect Competition
- (d) Imperfect Competition
43. A market structure in which many Firms sell products that are similar but not identical is known as -
- (a) Monopolistic Competition
- (b) Perfect Competition 
- (c) Monopoly
- (d) Oligopoly
45. Which of the following statements about Price and Marginal Cost (MC) in competitive and monopolized markets is true?
- (a) In Competitive Markets, Price = MC; in Monopolized Markets, Price > MC. 
- (b) In Competitive Markets, Price > MC; in Monopolized markets, Price = MC.
- (c) In Competitive Markets, Price = MC; in Monopolized Markets, Price = MC.
- (d) In Competitive Markets, Price > MC; in Monopolized markets, Price > MC.
47. In which of the following types of market structure, do Firms produce homogeneous products?
- (a) Differentiated Oligopoly 
- (b) Monopoly
- (c) Perfect Competition
- (d) Monopolistic Competition
49. Which of the following statements is not true with respect to the long run?
- (a) A Firm in a monopolistically competitive industry earns only normal profits in the long run 
- (b) A Perfectly Competitive Firm earns only normal profits in the long run
- (c) A Monopolist does not make losses
- (d) Monopolistically Competitive Firms will be producing at minimum average cost

51. Which of the following features is not seen in Imperfect Competition?

- (a) Price wars
- (b) Few Sellers
- (c) Product Differentiation
- (d) All goods are Homogenous



53. A market characterized by a Single Buyer of a product or service means

- (a) Monoposony
- (b) Bilateral Monopoly
- (c) Duopoly
- (d) Oligopoly



55. A market structure in which there is only a Single Buyer and a Single Seller

- (a) Monoposony
- (b) Bilateral Monopoly
- (c) Duopoly
- (d) Oligoposony



57. A person who charges different prices in different sub-markets is -

- (a) Discriminating Monopolists
- (b) Simple Monopolists
- (c) Selective Monopolists
- (d) None of the above



## Perfect Competition

### PERFECT COMPETITION

1. In India which of the following best describes a perfectly competitive market?

- (a) Sugarcane Cultivation
- (b) Electricity Distribution
- (c) Toilet Soap Industry
- (d) Indian Railways



3. Under Perfect Competition, there are \_\_\_\_\_ Sellers.

- (a) Many
- (b) A Few
- (c) Only one
- (d) No



5. Which of the following is not an essential condition of Pure Competition?

- (a) Freedom of entry
- (b) Homogeneous Product
- (c) Large number of Buyers and Sellers
- (d) Absence of Transport Cost



7. Under Perfect Competition, the product is -

- (a) Influenced by Brand Name
- (b) Homogeneous
- (c) Differentiated
- (d) Always Intangible



9. Price under perfect competition is determined by-

- (a) Government
- (b) Industry
- (c) Firm
- (d) Society



11. The assumptions of large number of Sellers and product homogeneity in Perfect Competition, implies that all individual Firms in Perfect Competition are -

- (a) Price Takers
- (b) Price Givers
- (c) Price Offerers
- (d) Price Movers



13. In a Perfect Competitive Market -













- (a) Firm is the Price-Giver and Industry is the Price Taker
- (b) Firm is the Price Taker and industry is the Price-Giver
- (c) Both are Price Takers
- (d) Both (a) and (c)



























15. How are prices determined under Perfect Competition?

- (a) At the equilibrium price of Firm
- (b) At the equilibrium prices of Industry
- (c) At the point where  $MR = MC$
- (d) Both (a) and (b)



17. Under Perfect Competition, Price Elasticity of Demand is
- Nil
  - Less Elastic
  - More Elastic
  - Infinity
- 
19. Under Perfect Competition, the Firm's Demand Curve is
- Horizontal Line, parallel to X Axis
  - Vertical Line, parallel to Y Axis
  - Negatively Sloped
  - Kinked
- 
21. In India, the Milk Market resembles a perfectly competitive industry. If the industry is an increasing cost industry, the long run supply curve of the industry
- Slopes upward to the right
  - Slopes downward to the right
  - Would be a vertical straight line
  - Would be horizontal straight line
- 
23. Under Perfect Competition, in the long-run, a Firm
- will not have excess capacity
  - will leave the industry
  - may have excess capacity
  - has no capacity at all
- 
25. Which of these is not a feature of Perfect Competition?
- Free Entry / Exit
  - Large Number of Buyers & Sellers
  - Homogeneous Products
  - Preference of Consumers towards one Supplier
- 
27. One of the essential conditions of Perfect Competition is -
- Product Differentiation
  - Multiplicity of prices for identical product at any one time.
  - Many Sellers and few Buyers
  - Only one price for identical goods at any one time
- 
29. Which of the following statements regarding Perfect Competition is false?
- Supply and Demand forces determine the price of a commodity
  - All Buyers in the Market are always in position to influence the market
  - In the short run, the Firm takes Market Price as given
  - Considering the Market Price, Firm adjusts the level of output to maximize profits
- 
31. Which of the following is not a condition of Perfect Competition?
- Perfect Mobility of Factors
  - Large Number of Firms
  - Informative advertising to ensure that consumers have good information
  - Freedom of entry and exit into and out of the market
- 
33. Which of the following is not a feature of a Perfectly Competitive Market?
- Large number of Buyers and Sellers
  - Homogeneous Product
  - Free entry and exit of Firms
  - Presence of high transportation costs
- 
35. Which of the following is not a characteristic feature of Perfect Competition?
- Customers have no bargaining power
  - All the products are homogenous
  - All the sellers sell at the same price
  - Customers have no purchasing power
- 
37. Under Perfect Competition, all output can be sold-
- at different prices
  - at the same price only
  - only when Buyers are willing to buy
  - at zero price
- 
39. Under Perfect Competition, Demand (D) =
- Price (P)
  - Average Revenue (AR)
  - Marginal Revenue (MR)
  - All of the above
- 

41. Which of the following statement is incorrect about Perfect Competition?
- (a) The Demand Curve is also the Firm's Average Revenue Curve 
- (b) The Demand Curve is a horizontal line.
- (c) Demand increases as price increases
- (d) Supply increases as price decreases
43. In Perfect Competition, since the Firm is a price-taker, the \_\_\_\_\_ Curve is a Straight Line.
- (a) Total Revenue 
- (b) Marginal Cost
- (c) Total Cost
- (d) Marginal Revenue
45. Which of the following is not a feature of a "Price Taker"?
- (a)  $TR = P \times Q$  
- (b)  $AR = Price$
- (c) Negatively - sloped Demand Curve
- (d)  $Marginal Revenue = Price$
47. For the 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
49. A Perfectly Competitive Firm Producer has control over -
- (a) Control over production, price and consumers 
- (b) Production as well as price
- (c) Price
- (d) None of the above
51. Under Perfect Competition,  $TR = MR \times Q$ . This statement is -
- (a) True 
- (b) False
- (c) Partially True
- (d) None of the above
53. In Perfect Competition, a Firm can maximize its profit in short-run only when - 
- (a) Average Revenue is equal to Marginal Cost
- (b) Average Revenue is more than Marginal Revenue
- (c) Marginal Revenue is equal to Total Cost
- (d) Marginal Cost is equal to Marginal Revenue
55. In Perfect Competition, when Marginal Cost = Marginal Revenue, Profit is .....
- (a) Maximum 
- (b) Average
- (c) Zero
- (d) Minimum
57. Which of the following market situations explains Marginal Cost equal to Price for attaining equilibrium?
- (a) Perfect Competition. 
- (b) Monopoly
- (c) Oligopoly.
- (d) Monopolistic Competition.
59. Which is the first order condition for the profit of a firm to be maximum?
- (a)  $MR = AR$  
- (b)  $MC = MR$
- (c)  $AC = AR$
- (d)  $AC = MR$
61. Under Perfect Competition, a Firm can earn \_\_\_\_\_ in the short-run. 
- (a) Normal Profits only
- (b) Super Normal Profits
- (c) Losses
- (d) All of the above
63. Under Perfect Competition, in the short-run, if  $AR > AC$  at the point when  $MC = MR$ , it means that the Firm - 
- (a) Normal Profits only
- (b) Super Normal Profits
- (c) Losses
- (d) All of the above.

65. In the short run, If a Perfectly Competitive Firm finds itself operating at a loss, It will - 
- shutdown
  - reduce the size of Its plant to lower fixed costs
  - raise the price of Its product
  - continue to operate as long as It covers Its variable cost.
67. Which of the following is correct with reference to shut down point in a Perfect Competition?
- The profits of the Firm equals Its total costs
  - At that output level the price covers the average fixed costs of the Firm
  - At that output level the price covers the average variable costs of the Firm 
  - At that output level the price covers the average total costs of the Firm
69. In Perfect Competition, a Firm increases profit when \_\_\_\_\_ exceeds \_\_\_\_\_
- Average Cost, Average Revenue 
  - Total Revenue, Total Fixed Cost
  - Marginal Cost, Marginal Revenue
  - Average Revenue, Average Cost
71. In Perfect Competition, a Firm's Profit diminishes when \_\_\_\_\_ exceeds \_\_\_\_\_
- Total Revenue, Marginal Cost 
  - Marginal Cost, Marginal Revenue
  - Average Revenue, Average Cost
  - Marginal Revenue, Average Cost
73. Under Perfect Competition, the burden of a specific tax would be borne by -
- Seller 
  - Buyer
  - Seller and buyer equally
  - Nothing to say
75. Under Perfect Competition, In the long-run, the LAC Curve will be \_\_\_\_\_ to the AR Curve.
- tangent 
  - coinciding
  - parallel
  - perpendicular
77. Under Perfect Competition, In the long-run, the industry is said to be in equilibrium, if-
- All the Firms are earning normal profits only.
  - There is no further entry or exit of Firms to / from the market. 
  - Both (a) and (b)
  - Neither (a) nor (b)
79. In the long-run, Industry Equilibrium is achieved if  $SMC = SAC = LAC = LMC = LMR = LAR = Price$ . This condition is applicable for -
- Perfect Competition 
  - Monopoly
  - Monopolistic Competition
  - Oligopoly.
81. When the Perfectly Competitive Firm and industry are in long run equilibrium then -
- $P=MR=$ Lowest point on the LAC curve 
  - $P=MR=SAC=LAC$
  - $D=MR=SMC=LMC$
  - All of the above
83. In Long run which of the following is true for a perfect competition
- Industry is operating at minimum point of AC curve 
  - Price is less than AC
  - AFC is less than AVC
  - MC is greater than MR
85. What are the conditions for long-run equilibrium of the Competitive Firm?
- $LMC = LAC = P$  
  - $SMC = SAC = LMC$
  - $P = MR$
  - All of these
87. Under Perfect Competition, in the long-run, LAC refers to -
- minimum feasible cost 
  - optimal cost
  - zero cost
  - maximum cost

89. Excess Capacity is not found under-
- (a) Monopoly
  - (b) Monopolistic Competition
  - (c) Perfect Competition.
  - (d) Oligopoly.
91. Under Perfect Competition, the Firm's Demand Curve will be the same as -
- (a) Marginal Revenue (MR) Curve
  - (b) Average Revenue (AR) Curve
  - (c) Both (a) and (b)
  - (d) Neither (a) nor (b)
93. Under Perfect Competition, the Firm's Supply Curve will be the same as -
- (a) Marginal Revenue (MR) Curve
  - (b) Average Revenue (AR) Curve
  - (c) Marginal Cost (MC) Curve
  - (d) Average Cost (AC) Curve
95. Normally, in the short run, the supply curve of a perfectly competitive Firm slopes \_\_\_\_\_
- (a) Downward from left to right
  - (b) Downward from right to left
  - (c) Upward from left to right
  - (d) Upward from right to left
97. A Purely Competitive Firm's Supply Schedule in the short run is determined by -
- (a) Its Marginal Utility for money curve
  - (b) Its Marginal Revenue
  - (c) Its Average Revenue
  - (d) Its Marginal Cost curve

A Competitive Firm sells its product at Market Price of ₹ 51 per unit. The Fixed Cost is ' 300 and Variable Cost for different level of production are shown in the following table. Answer the following questions -














Quantity	Variable Cost	Fixed Cost	Total Cost	AVC	ATC	MC
0	0					
10	470					
20	980					
30	1850					
40	3400					
50	5950					

99. When production is 30 units, the Average Variable Cost is -
- (a) 70.6
  - (b) 63.6
  - (c) 61.6
  - (d) 72.6
101. To maximize profit, the Firm should produce
- (a) 30 units
  - (b) 10 units
  - (c) 20 units
  - (d) 40 units

## Monopoly

### Monopoly

1. Under Monopoly, there is / are \_\_\_\_\_ Seller(s).
- (a) No
  - (b) Only one
  - (c) Many
  - (d) A Few
3. In Monopoly, entry of new Firms -
- (a) is restricted at all times
  - (b) is possible only in long-run
  - (c) is possible only in short-run
  - (d) both (a) and (c)
5. Monopolist can control only
- (a) Price
  - (b) Utility
  - (c) Demand
  - (d) Both (b) & (c)
7. Under which of the followings forms of market structure does a firm has very considerable control over the price of its product?
- (a) Monopoly
  - (b) Monopolistic competition
  - (c) Perfect competition
  - (d) Oligopoly

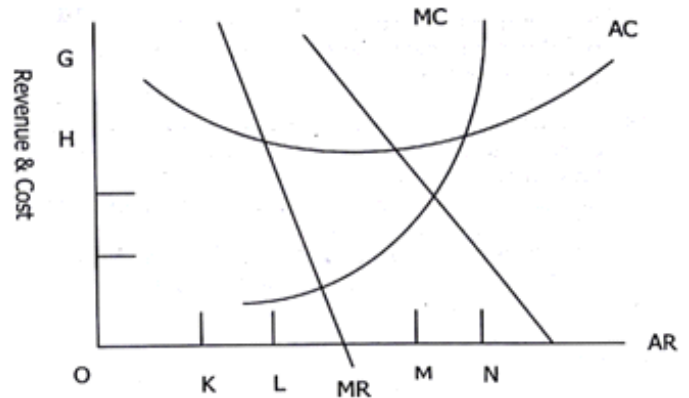
9. Which of the following best describes Monopoly?  
 (a) An indisputable market leader in an industry  
 (b) A single seller with large control over the price in the industry   
 (c) Only a single buyer in the market  
 (d) Only a single seller with complete control over the industry
11. A Market in which a Single Seller is required for efficient production is known as-  
 (a) Regulated Industry  
 (b) Natural Monopoly   
 (c) Legal Monopoly  
 (d) Contestable Market
13. By Imperfect Monopoly, we mean -  
 (a) It is possible to substitute the Monopolized product with another monopolized product  
 (b) Entry of new Firms is possible to produce the same product   
 (c) The amount of output produced is very small  
 (d) None of the above
15. In case of a profit maximizing Monopolist, what point determines the Selling Price?  
 (a) Point where average cost equals average revenue   
 (b) Point where average cost equals marginal revenue  
 (c) Point where marginal cost equals average revenue  
 (d) Point where marginal cost equals marginal revenue
17. Under Monopoly, the Firm's Demand Curve is  
 (a) Vertical Line, parallel to Y Axis  
 (b) Horizontal Line, parallel to Axis   
 (c) Negatively Sloped  
 (d) Kinked
19. A Monopolist who faces a negatively sloped demand curve operates in the region where the elasticity of demand is -  
 (a) Less than one  
 (b) Greater than one   
 (c) Equal to one  
 (d) Between zero and one
21. Under Monopoly, a Firm can earn \_\_\_\_\_ in the long-run.  
 (a) Normal Profits only   
 (b) Super Normal Profits  
 (c) Either (a) or (b)  
 (d) Losses
23. In the short run, the Monopolist -  
 (a) Earns Normal Profits  
 (b) Earns Super Normal Profits   
 (c) Incurs losses  
 (d) Any of these
25. Abnormal profits exists in the long run only under \_\_\_\_\_  
 (a) Monopoly  
 (b) Perfect competition   
 (c) Monopolistic competition  
 (d) Oligopoly
27. Under Monopoly, in the long-run, a Firm -  
 (a) will leave the industry   
 (b) will never be an Optimal Firm  
 (c) may or may not be an Optimal Firm  
 (d) will always be a Optimal Firm
29. The degree of Monopoly Power is measured in terms of difference between -  
 (a) Marginal Cost and Price  
 (b) Marginal Revenue and Average Cost   
 (c) Marginal Cost and Average Cost  
 (d) Average Cost and Average Revenue
31. Which of these is not a feature of Monopoly?  
 (a) Single Seller  
 (b) No substitutes   
 (c) Firm = Industry  
 (d) Elasticity of Demand = 0
33. Which of the following is not the characteristic of Monopoly?  
 (a) Many Buyers  
 (b) Heterogeneous Products   
 (c) Free Entry of new Firms  
 (d) Both b & c

35. All of the following are characteristics of a Monopoly except -
- The existence of some advertising
  - The Firm is a Price Taker
  - There is a single Firm
  - The Firm produces a unique product
37. Economics of Scale allows the Monopolist to set a \_\_\_\_\_ price than any new entrant.
- Higher
  - Lower
  - At the existing market rate
  - Economics of scale does not influence the price
39. Price Elasticity of Demand for Monopolist's Product is
- More than one
  - Infinity
  - Less than one
  - Zero
41. In the case of Monopoly -
- MR Curve cannot be defined
  - AR Curve cannot be defined
  - Short Run Supply Curve cannot be defined
  - All of the above
43. Equilibrium Price of a Monopolist is -
- Equal to Marginal Revenue
  - Equal to Marginal Cost
  - Less than Marginal Cost
  - More than Marginal Cost
45. A Monopolist is able to maximize his profits when-
- His average cost is minimum
  - His output is maximum
  - He charges a high price
  - His Marginal Cost is equal to Marginal Revenue
47. Under Monopoly, in the short-run, the condition  $AR = MR = MC = AC$ , means that the Firm is earning -
- Normal Profits only
  - Super Normal Profits
  - Losses
  - None of the above
49. Under Monopoly, in the short-run, if  $AR < AC$  at the point when  $MC = MR$ , it means that the Firm -
- Normal Profits only
  - Super Normal Profits
  - Losses
  - None of the above
51. Under Monopoly, in the short-run, the condition for shut-down is -
- $AR > AVC$
  - $AR < AC$
  - $AR > AC$
  - $AR < AVC$
53. When different prices are charged by the Producer, from different customers, it is called
- Optimum Price Search
  - Price Discrimination
  - Demand Supply Equilibrium
  - Profiteering
55. Price Discrimination in a Monopoly is described as-
- Different products having same price though costs of production are same
  - Same product selling at different prices though the costs of production are same
  - Same product selling at different prices since the costs of production are different
  - Different products having different prices since costs of production are different
57. Price discrimination will not be profitable if elasticity of demand is \_\_\_\_\_ in different markets.
- Uniform
  - Different
  - Less
  - Zero
59. Which of these is not a pre-requisite for Price Discrimination?
- Market Segmentation
  - Seller's Control over the supply of his product
  - Differing Elasticity in various market segments
  - Different versions of the same product

61. Which of these is a pre-requisite for Price Discrimination?
- Differing Elasticity in various market segments
  - No scope of re-sale between segments
  - Divisibility of Market into segments
  - All of the above
63. Barriers to entry like \_\_\_\_\_ allows the Monopolist to charge a price much below then the price of new entrant, thereby driving the new entrant out of business.
- Economics of Scale
  - High Quality Product
  - Price Discrimination
  - Product Differentiation
65. Which of the following statements in not Correct about a discriminating Monopolist?
- He operates in more than one market
  - He makes more profit because he discriminates
  - He maximizes his profits in each market
  - He charges different prices in each market
67. Under Price Discrimination, the Producer Firm may charge lower prices from a market, if Price Elasticity (e)
- $e = 0$
  - $e < 1$
  - $e > 1$
  - $e = 1$
69. Price Discrimination is not possible if the market is an indivisible whole of Buyers. This statement is -
- True
  - Partially True
  - False
  - None of the above
71. Price Discrimination is possible -
- Only under Monopoly situation
  - Only under Perfect Competition
  - Only under Oligopoly
  - Under any market form

73. Discriminating Monopolist divides the total production in two markets in a way that -
- MR earned in market with higher elasticity of demand is greater than the other with lower elasticity of demand
  - MR earned in market with lower elasticity of demand is greater than the other
  - MR earned in each market is the same
  - MR earned in each market is maximum













Questions 75 to 77 are based on the Figure



75. In figure, the firm's marginal revenue curve is:
- A
  - B
  - F
  - E
77. Which of the following is false with reference to first- degree price discrimination?
- The Monopolist will be able to extract entire Consumer's Surplus
  - The price of each unit will be different
  - By following first degree price discrimination, the Monopolist will earn higher profits than he would have earned by adopting a single price
  - The price of the first unit will be less than that of the subsequent units

## Monopolistic

### MONOPOLISTIC COMPETITION

1. Under Monopolistic Competition, there are \_\_\_\_\_ Sellers.
  - (a) Many
  - (b) No
  - (c) A Few
  - (d) Only one
  
3. A market structure in which many firms sell product that are similar, but not identical.
  - (a) Monopolistic Competition
  - (b) Perfect Competition
  - (c) Monopoly
  - (d) Oligopoly
  
5. Under Monopolistic Competition, each Firm is a
  - (a) Price Maker
  - (b) Price Taker
  - (c) Price Maker for its own product
  - (d) None of the above
  
7. Under Monopolistic Competition, Price Elasticity of Demand is -
  - (a) Nil
  - (b) Less Elastic
  - (c) More Elastic
  - (d) Infinity
  
9. Product Differentiation in a Monopolistic Competition could lead to -
  - (a) Horizontal Demand Curve
  - (b) Downward Sloping Demand Curve
  - (c) Vertical Demand Curve
  - (d) Downward Sloping Supply Curve
  
11. Under Monopolistic Competition, in the long run, a Firm
  - (a) will not have excess capacity.
  - (b) may have excess capacity
  - (c) has no capacity at all
  - (d) will leave the industry.
  
13. Excess Capacity' is the essential characteristic of the Firm in the market form of -
  - (a) Monopoly
  - (b) Perfect Competition
  - (c) Monopolistic Competition
  - (d) Oligopoly
  
15. Non-price competition in popular sense known as-
  - (a) Monopoly market
  - (b) Oligopoly market
  - (c) Monopolistic competition
  - (d) Perfect competition
  
17. Which of these does not apply to Monopolistic Competition?
  - (a) Product Differentiation
  - (b) Free entry/exit
  - (c) Large Number of Buyers
  - (d) Single Seller
  
19. Which of the following is not a characteristic feature of Monopolistic Competition?
  - (a) Many Buyers and Sellers
  - (b) Identical Products
  - (c) Easy entry and exit of Firms
  - (d) Firms take other Firms' prices as given
  
21. Which of these applies to Monopolistic Competition?
  - (a) Price Competition
  - (b) Restrictions in entry /exit
  - (c) Large Number of Sellers
  - (d) Homogeneous Product
  
23. The sale of branded articles is common in a situation of
  - (a) Excess Capacity.
  - (b) Monopolistic Competition.
  - (c) Pure Competition
  - (d) Monopoly

25. Through more advertising, a monopolistically competitive Firm has successfully created more demand for its product. It would have resulted in shifting of -
- (a) AC Curve upward  
(b) MR Curve to the left  
(c) AC Curve upward and MR curve to the right  
(d) AC Curve upward and MR curve to the right
27. Which of these does not apply to Monopolistic Competition?
- (a) Aggressive Advertising and Publicity  
(b) Efficient after-sales service  
(c) Price Competition  
(d) Product improvement and Development
29. Under Monopolistic Competition, the Firm can \_\_\_\_\_ earn in the short-run.
- (a) Losses  
(b) Normal Profits only  
(c) Super Normal Profits  
(d) All of the above.
31. In long-run, all Firms in Monopolistic Competition -
- (a) earn super normal profits  
(b) earn normal profits  
(c) incur losses  
(d) may earn super normal profit, normal profit or incur losses
33. Under Monopolistic Competition, in the short-run, the condition  $AR = MR = MC = AC$ , means that the Firm is earning -
- (a) Normal Profits only  
(b) Super Normal Profits  
(c) Losses  
(d) All of the above.
35. Under Monopolistic Competition, in the short-run, if  $AR < AC$  at the point when  $MC = MR$ , it means that the Firm -
- (a) Normal Profits only  
(b) Super Normal Profits  
(c) Losses  
(d) None of the above
37. Under Monopolistic Competition, in the short-run, the condition for shut-down is -
- (a)  $AR > AVC$   
(b)  $AR < AC$   
(c)  $AR > AC$   
(d)  $AR < AVC$
39. Under Monopolistic Competition, in the long run, if  $MC = MR$  and  $LAC = LAR$ , then the industry is said to be -
- (a) inefficient  
(b) growing  
(c) in Equilibrium  
(d) in troubled times
41. In the long-run, Industry Equilibrium is achieved in Monopolistic Competition only if  $LAC = LMC$ . This statement is -
- (a) True  
(b) False  
(c) Partially True  
(d) None of the above
43. In Monopolistic Competition, a Firm is in long run equilibrium -
- (a) when price is equal to Marginal Cost  
(b) in the declining segment of the LAC Curve  
(c) at the minimum point of the LAC Curve  
(d) In the rising segment of the LAC Curve
45. Under Monopolistic Competition, in the long run, resources -
- (a) may not be used at all  
(b) may be partially used  
(c) will be fully used  
(d) will not be required at all
47. The long-run equilibrium outcomes in Monopolistic competition and Perfect Competition are similar, because in both market structures -
- (a) Firms will be producing at minimum average cost  
(b) Firms realize all economies of scale  
(c) Firms will only earn a normal profit  
(d) The efficient output level will be produced in the long run

## Oligopoly

### Oligopoly

1. Under Oligopoly, there are \_\_\_\_\_ Sellers.

- (a) Only one
- (b) Many
- (c) A Few
- (d) No



3. Which one of the following is the best example of agreement between Oligopolists?

- (a) GATT
- (b) OPEC
- (c) WTO
- (d) UNIDO



5. One feature not typical of Oligopolistic Industry is

- (a) Horizontal Demand Curve
- (b) Too much importance to Non-Price Competition
- (c) Price Stickiness
- (d) A small number of Firms in the industry



7. Under Oligopoly, each Firm's control over price is -

- (a) Nil
- (b) Full and Absolute
- (c) Subject to Competing Firms' Strategies
- (d) All of the above



9. Under Oligopoly, the Firm's Demand Curve is -

- (a) Vertical Line, parallel to Y Axis
- (b) Horizontal Line, parallel to X Axis
- (c) Negatively Sloped
- (d) Kinked



11. Which of the following most closely approximates the definition of an Oligopoly?

- (a) Readymade Garments units in a city
- (b) Vehicle manufacturers in India
- (c) Rice Producers
- (d) Tobacco Industry



13. Oligopolistic Industries are characterized by

- (a) A few dominant Firms and substantial barriers to entry
- (b) A large number of small Firms and no entry barriers
- (c) A few large Firms and no entry barriers
- (d) One dominant Firm and low entry barriers



15. Which of these does not apply to Oligopoly?

- (a) Group Behaviour between Sellers
- (b) Inter-dependence between Sellers
- (c) Only one Buyer
- (d) A Few Sellers



17. Which of these applies to Oligopoly?

- (a) Group Behaviour between Sellers
- (b) Non-Price Competition
- (c) A Few Sellers
- (d) All the above



19. The American Economist Sweezy developed the -

- (a) Price Discrimination Theory
- (b) Diminishing Marginal Utility Theory
- (c) Kinked Demand Curve Theory
- (d) Production Possibility Curve concept



21. A Price War in an Oligopoly refers to -











- (a) Successive and continued price cuts by the Firms to increase sales and revenues
- (b) Increase in the price by one Firm and other Firms following in a reverse way by decreasing their prices
- (c) Flooding the market with its goods by one Firm leading to price reduction by others
- (d) Free gift offers by all Firms on a competitive basis



23. Price Leadership is form of -

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



25. Under Oligopoly, if one Firm reduces its prices, the other Firms will generally
- exit the market
  - reduce their prices
  - maintain their prices
  - increase their prices
- 
27. Kinked demand curve is found in:
- Perfectly Competitive firm
  - Monopolistic
  - Perfectly competitive industry
  - None of the above
- 
29. As per Kinked Demand Curve Theory of Oligopoly, the demand above the Kink is -
- more elastic
  - zero elastic
  - unit elastic
  - less elastic
- 
31. The upper part of kinked demand curve is -
- Elastic
  - Inelastic
  - Perfectly Elastic
  - Unitary Elastic
- 
33. A Firm having a Kinked Demand Curve indicates that
- If the Firm increases the price, competitive Firms reduce the price
  - If the Firm increases the price, competitive Firms also increase the price
  - If the Firm reduces the price, competitive Firms do not reduce the price
  - If the Firm increases the price, competitive Firm do not increase the price
- 
35. The Kinked Demand Curve model assumes that price elasticity of demand is -
- Higher for a price increase than for a price decrease
  - Lower for a price increase than for a price increase
  - Perfectly elastic for a price increase perfectly inelastic for a price decrease
  - Perfectly inelastic for a price increase and perfectly elastic for a price increase
- 
37. Kinky demand curve model explains the market situation known as \_\_\_\_\_
- Differentiated Oligopoly
  - Collusive oligopoly
  - Pure Oligopoly
  - Price rigidity
- 
39. The Kinked Demand Curve model of Oligopoly assumes that -
- Response to a price increase is less than the response to a price decrease
  - Elasticity of demand is perfectly elastic if price increases and perfectly inelastic if price decreases
  - Response to a price increase is more than the response to a price decrease
  - Elasticity of demand is constant regardless of whether price increases or decreases
- 
41. In Oligopoly, why it is difficult to determine the equilibrium price and output?
- All the Firms take their independent decisions
  - Firms are interdependent making it difficult to specify the particular reaction of the rivals
  - A large number of Firms exist in the market
  - Very few Firms exist in the market
- 
43. Kinked demand curve of the Oligopoly indicates
- If one firm decreases price other firms also decrease the price
  - If one firm increases price other firms also increase the price
  - If one firm decreases the price other firms do not decrease the price.
  - If one firm increases the price other firms do not increase the price.
- Only II
  - II and IV
  - I and IV
  - II and III
- 

# Answer Keys

## FORMS OF MARKET

1	3	5	7	9	11	13	15	17	19	21	23	25	27	29	31	33	35	37	39
c	d	d	d	c	b	a	b	b	a	c	c	d	d	b	b	a	d	d	d
41	43	45	47	49	51	53	55	57											
a	a	a	c	d	d	a	b	a											

## PERFECT COMPETITION

1	3	5	7	9	11	13	15	17	19	21	23	25	27	29	31	33	35	37	39
a	a	d	b	b	a	b	b	d	a	a	a	d	d	b	c	d	d	b	d
41	43	45	47	49	51	53	55	57	59	61	63	65	67	69	71	73	75	77	79
c	d	c	b	d	a	d	a	a	b	d	b	d	c	d	b	d	a	c	a
81	83	85	87	89	91	93	95	97	99	101									
d	a	d	a	c	c	c	c	d	c	c									

## MONOPOLY

1	3	5	7	9	11	13	15	17	19	21	23	25	27	29	31	33	35	37	39
b	a	a	a	d	b	a	d	c	a	c	d	a	c	a	d	c	b	a	c
41	43	45	47	49	51	53	55	57	59	61	63	65	67	69	71	73	75	77	
c	d	d	a	c	d	b	b	a	d	d	a	c	c	a	a	c	c	d	

## MONOPOLISTIC

1	3	5	7	9	11	13	15	17	19	21	23	25	27	29	31	33	35	37	39
a	a	c	c	b	b	c	c	d	b	c	b	d	c	d	b	a	c	d	c
41	43	45	47																
b	b	b	c																

## OLIGOPOLY

1	3	5	7	9	11	13	15	17	19	21	23	25	27	29	31	33	35	37	39
c	b	a	c	d	b	a	c	d	c	a	c	c	d	a	a	d	a	d	a
41	43																		
b	c																		

# WORKSHEET

## Chapter 8 - Business Cycle

1. 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) increasing unemployment rate and diminishing rate of savings
  - (d) decline in economic activities over prolonged period of time
2. When does an economic expansion occur in the business cycle?
  - (a) Between the peak and trough
  - (b) At the trough of the business cycle
  - (c) At the peak of the business cycle
  - (d) Between the trough and peak
3. Increasing Prosperity and High standards of living are the characteristics of
  - (a) Contraction
  - (b) Trough
  - (c) Expansion
  - (d) Peak
4. The end of expansion is termed as -
  - (a) Peak
  - (b) Contraction
  - (c) Trough
  - (d) None of the above
5. The beginning of recession is
  - (a) Trough
  - (b) Peak
  - (c) Contraction
  - (d) Expansion
6. A significant decline in general economic activity extending over a period of time is
  - (a) business cycle
  - (b) contraction phase
  - (c) recession
  - (d) recovery
7. Severe form of recession is
  - (a) Peak
  - (b) Depression
  - (c) Expansion
  - (d) Contraction
8. The trough of a business cycle occurs when \_\_\_\_\_ hits its lowest point.
  - (a) inflation in the economy
  - (b) the unemployment rate
  - (c) aggregate economic activity
  - (d) the money supply
9. The lowest point in the business cycle is referred to as the
  - (a) Expansion.
  - (b) Boom.
  - (c) Peak.
  - (d) Trough.
10. Even with lower rate of interest, demand for credit declines in
  - (a) Contraction Phase
  - (b) Expansion Phase
  - (c) Peak
  - (d) Depression
11. Which of the following statements is true?
  - (a) It is easy to predict turning points of Business Cycle
  - (b) An Economy grows endlessly
  - (c) An Economy Contracts endlessly
  - (d) None of the above
12. Which of the following statement is not true?
  - (a) Business Cycles are periodical
  - (b) Business Cycles are regular
  - (c) Business Cycles vary in intensity
  - (d) Business Cycles vary in length

13. A leading indicator is
- a variable that tends to move along with the level of economic activity
  - a variable that tends to move in advance of aggregate economic activity
  - a variable that tends to move consequent on the level of aggregate economic activity
  - Both (a) and (c)
14. A variable that tends to move later than aggregate economic activity is called
- a cyclical variable
  - a leading variable
  - a lagging variable
  - a coincident variable
15. Changes in housing interest rate is a
- a leading indicator
  - a coincident indicator
  - a lagging indicator
  - a cyclical indicator
16. Unemployment is a
- a cyclical indicator
  - a leading indicator
  - a lagging indicator
  - a coincident indicator
17. GDP is a
- a leading indicator
  - a coincident indicator
  - a lagging indicator
  - a cyclical indicator
18. Industries that are extremely sensitive to the business cycle are the
- Durable goods and service sectors
  - Non-durable goods and service sectors
  - Capital goods and durable goods sectors
  - Capital goods and non-durable goods sectors
19. A decrease in government spending would cause
- the aggregate demand curve to shift to the right.
  - the aggregate demand curve to shift to the left.
  - a movement down and to the right along the aggregate demand curve.
  - a movement up and to the left along the aggregate demand curve.
20. Which of the following does not occur during an expansion?
- Business profits and business confidence tend to increase
  - Consumer purchases of all types of goods tend to increase
  - Employment increases as demand for labour rises
  - None of the above
21. Which of the following best describes a typical business cycle?
- Economic expansions are followed by economic contractions
  - Economic expansions are followed by economic growth and development
  - Inflation is followed by rising income and unemployment
  - Stagflation is followed by inflationary economic growth
22. A During recession, the unemployment rate \_\_\_\_\_ and output \_\_\_\_\_.
- Rises; falls
  - Falls; rises
  - Falls; falls
  - Rises; rises
23. The four phases of the business cycle are
- peak, depression, bust, and boom
  - peak, recession, trough, and boom
  - peak, recession, trough, and recovery
  - peak, depression, trough, and boom
24. Leading economic indicators
- are used to forecast probable shifts in economic policies
  - are generally used to forecast economic fluctuations
  - are indicators of stock prices existing in an economy
  - are indicators of probable recession and depression

25. When aggregate economic activity is decline, the economy is said to be in
- Contraction.
  - a turning point.
  - an expansion.
  - a trough.
26. Peaks and troughs of the business cycle are collectively called as
- Volatility.
  - Turning points.
  - Equilibrium points.
  - Real business cycle events.
27. The most probable outcome of an rise in the money supply is
- interest rates to rise, investment spending to rise, and aggregate demand to rise
  - interest rates to rise, investment spending to fall, and aggregate demand to fall
  - interest rates to fall, investment spending to rise, and aggregate demand to rise
  - interest rates to fall, investment spending to fall, and aggregate demand to fall
28. Which of the following is not a feature of business cycles
- Business cycles have serious consequences on the well-being of the society.
  - Business cycles occur periodically, although they do not exhibit the same regularity.
  - Business cycles have uniform characteristics and causes.
  - Business cycles are contagious and unpredictable.
29. Economic recession shares all of these characteristics except.
- Incomes of wage and interest earners gradually decline resulting in decreased demand for goods and services
  - Fall in the levels of investment, employment
  - Investor confidence is adversely affected and new investments may not be forthcoming
  - Increase in the price of inputs due to increased demand for inputs
30. The different phases of a business cycle
- Do not have the same length and severity
  - expansion phase always last more than ten years
  - last many years and are difficult to get over in short periods
  - All of the above
31. Which of the following is not an example of coincident indicator?
- Industrial production
  - inflation
  - Retail sales
  - New orders for plant and equipment
32. According to \_\_\_\_\_ trade cycles occur due to onset of innovations.
- J M Keynes
  - ADAM Smith
  - Hawtrey
  - Schumpeter
33. According to Keynes, Fluctuations in economic activity are due to fluctuations in
- Supply of resources
  - Aggregate effective demand
  - Price
  - None of the above
34. What is the cause for increase in investments?
- Low interest rate in the economy
  - Profit expectations
  - New inventions
  - All of the above
35. Internal Cause for Business Cycle include
- Money Supply
  - Weather Cycles
  - Changing Technology
  - Wars

## Answer Keys

### Business Cycle

1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
b	d	c	a	c	c	b	c	d	d	d	b	b	c	a	c	b	b	d	d
21	22	23	24	25	26	27	28	29	30	31	32	33	34	35					
a	a	c	b	a	b	c	c	d	a	d	d	d	d	a					