

# CH 1 -INTRODUCTION

EASY MEDIUM HARD

## DEFINITION/MEANING OF ECONOMICS/ SCARCITY/ ECONOMIC ACTIVITY

1. 'Economics is the study of mankind in the ordinary business of life' was given by:
  - (a) Adam Smith
  - (b) Lord Robbins
  - (c) Alfred Marshall
  - (d) Samuelson
  
2. According to Robbins, 'means' are:
  - (a) Scarce
  - (b) Unlimited
  - (c) Undefined
  - (d) All of these
  
3. Who is the author of the Book "An enquiry into the Nature and Causes of Wealth of Nation".
  - (a) Karl Mars
  - (b) Adam Smith
  - (c) J B Say
  - (d) A C Pigou
  
4. Definition of economics given by Robbins does not deal with limited ends as in the definition he deals with unlimited ends & \_\_\_\_\_ .
  - (a) Scarce means
  - (b) Limited means
  - (c) Alternative means
  - (d) Economic is a science
  
5. "Economics is neutral between ends". This statement is given by -
  - (a) L. Robbins
  - (b) Mrs. Joan
  - (c) Alfred Marshall
  - (d) A.C. Pigou
  
6. Who defines Economics in terms of Dynamic growth & Development?
  - (a) Robbins
  - (b) Paul A. Samuelson
  - (c) Adam Smith
  - (d) None of the above
  
7. Who defined Economics as "science which deals with wealth"?
  - (a) Adam smith
  - (b) Canon
  - (c) J B Say
  - (d) A C Pigou

8. Which of the following statements is incorrect?
- (a) Alfred Marshall propagated the wealth definition of Economics
  - (b) L. Robbins introduced the "Scarcity" definition of Economics
  - (c) Samuelson emphasized upon the "growth" aspect of Economics
  - (d) A.C Pigou believed in "welfare" aspect of Economics
9. Definition of Economics given by Robbins does not deal with one of the following aspect. Indicate that aspect
- (a) Scarce means
  - (b) Limited ends
  - (c) Alternative uses
  - (d) Economics is a science
10. Economics is the study of:
- (a) How society manages its unlimited resources
  - (b) How to reduce our wants until we are satisfied
  - (c) How society manages its scarce resources
  - (d) How fully satisfy our unlimited wants
11. The meaning of time element in Economics is:
- (a) Calendar time
  - (b) Clock time
  - (c) Operational time in which supply adjusts with the market demand
  - (d) None of the above.
12. Which one in the following is not correct:
- (a) There are limited wants
  - (b) Means are scarce
  - (c) Resources have alternative uses
  - (d) Economics is science
13. 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
14. Consider the following and decide which, economy if any is without scarcity —
- (a) The pre—dependent Indian economy, where most people were farmers
  - (b) A mythical economy where everybody is a rich person
  - (c) Any economy where income is distributed equally among its people
  - (d) None of the above
15. The meaning of the word Economic' is most closely connected with the word —
- (a) Extravagant
  - (b) Scarce
  - (c) Unlimited
  - (d) Restricted
16. Human Wants are —
- (a) Extravagant
  - (b) Scarce
  - (c) Unlimited
  - (d) Restricted

17. "Ends" refer to —  
(a) Human Wants  
(b) Resources  
(c) Both (a) and (b)  
(d) Neither (a) nor (b)
18. "Means" refer to —  
(a) Human Wants  
(b) Resources  
(c) Both (a) and (b)  
(d) Neither (a) nor (b)
19. "Resources" refer to —  
(a) Unproductive Resources  
(b) Productive Resources  
(c) Money only  
(d) None of the above
20. The Means for satisfying Wants are —  
(a) Not available at all  
(b) Scarce  
(c) Unlimited  
(d) Not usable
21. Economists regard decision making as important because:  
(a) The resources required to satisfy our unlimited wants and needs are finite or scarce.  
(b) It is crucial to understand how we can best allocate our scarce resources to satisfy society's unlimited wants and needs.  
(c) Resources have alternative uses.  
(d) All the above.
22. In Economics, we use the term scarcity to mean  
(a) Absolute scarcity and lack of resources in less developed countries.  
(b) Relative scarcity i.e. scarcity in relation to the wants of the society.  
(c) Scarcity during times of business failure and natural calamities.  
(d) Scarcity caused on account of excessive consumption by the rich.
23. What implication(s) does resource scarcity have for the satisfaction of wants?  
(a) Not all wants can be satisfied.  
(b) We will never be faced with the need to make choices.  
(c) We must develop ways to decrease our individual wants.  
(d) The discovery of new natural resources is necessary to increase our ability to satisfy wants.
24. In every economic system, scarcity imposes limitations on -  
(a) Households, business firms, governments, and the nation as a whole.  
(b) Households and business firms, but not the governments.  
(c) Local and state governments, but not the federal government.  
(d) Households and governments, but not business firms.
25. Consider the following and decide which, if any, economy is without scarcity:  
(a) The pre-independent Indian economy, where most people were farmers.  
(b) A mythical economy where everybody is a billionaire.

- (c) Any economy where income is distributed equally among its people.
- (d) None of the above.

26. Economic goods are considered scarce resources because they -

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

27. The Law of Scarcity —

- (a) Does not 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

28. Resources are scarce in relation to —

- (a) Human Wants
- (b) Firm's Profit Motive
- (c) Country's Social Goals
- (d) All of the above

29. Economic Theories are —

- (a) Accurate
- (b) Hypothetical
- (c) Real
- (d) Factual

## ECONOMIC ACTIVITY

30. 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

31. Which of the following is not an economic activity?

- (a) A Son looking after his ailing mother
- (b) A Chartered Accountant doing his own practice
- (c) A Soldier serving at the border
- (d) A Farmer growing Millets

32. 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

33. Which of the following is an economic activity?

- (a) Playing friendly cricket match
- (b) Teaching one's own daughter at home
- (c) Manufacturing Chairs at subsidized rate
- (d) A Housewife doing household duties

**BUSINESS ECONOMICS**

34. **Business Economics is -**  
(a) Abstract and applies the tools of Microeconomics.  
(b) Involves practical application of economic theory in business decision making.  
(c) Incorporates tools from multiple disciplines.  
(d) (b) and (c) above.
35. **Which of the following is not the subject matter of Business Economics?**  
(a) Should our firm be in this business?  
(b) How much should be produced and at price should be kept?  
(c) How will the product be placed in the market?  
(d) How should we decrease unemployment in the economy?
36. **Which of the following is not a tool/component of Business Economics?**  
(a) Capital Budgeting  
(b) Demand Analysis  
(c) Break Even Point  
(d) None of the above
37. **Integration of Economic theory with business practice is called —**  
(a) Managerial Economics  
(b) Business Economics  
(c) Applied Economics  
(d) All of the above
38. **Business Economics has a Pragmatic Approach which means it is not —**  
(a) Practical  
(b) Realistic  
(c) Abstract  
(d) All of the above
39. **Business economics is a science because —**  
(a) It establishes a cause and effect relationship  
(b) Integrates the tools of decision sciences  
(c) Follows scientific methods and empirically tests the validity of the results.  
(d) All of the above
40. **The emphasis of Business Economics is more on**  
(a) Normative theory only  
(b) Positive theory only  
(c) More Normative than Positive theory  
(d) More Positive than Normative theory
41. \_\_\_\_\_ refers to the process of selecting an appropriate alternative that will provide the most efficient means of attaining a desired end, from two or more alternative courses of action.  
(a) Decision making  
(b) Strategy  
(c) Problem solving  
(d) Effectiveness

42. Business Economics is essentially a component of \_\_\_\_\_ as it includes application of selected quantitative techniques.
- (a) Pure economics
  - (b) Applied economics
  - (c) Statistical economics
  - (d) None of the above
43. Business economics enables application of economic logic & analytical tools to -
- (a) Fill the gap between theory & practice
  - (b) Increase the implementation science
  - (c) Increase the effectiveness
  - (d) Apply the tools of macro economics
44. Concept of Business economics is given by -
- (a) Joel Deah
  - (b) Alfred Marshall
  - (c) Adam Smith
  - (d) L Robbins

### INDUCTIVE/DEDUCTIVE METHODS

45. Deductive & Inductive methods are complementary to each other. It is -
- (a) Absolutely correct
  - (b) Absolutely incorrect
  - (c) Partially incorrect
  - (d) None of the above
46. In inductive method, logic proceeds from -
- (a) General to particular
  - (b) Particular to general
  - (c) Both a & b
  - (d) None of these
47. Under inductive method, logic proceeds from -
- (a) General to particular
  - (b) Positive to normative
  - (c) Normative to positive
  - (d) Particular to general
48. In which of the following methods conclusions are drawn on the basis of collection & analysis of facts?
- (a) Deductive method
  - (b) Scientific method
  - (c) Inductive method
  - (d) Experimental method

**MICRO/MACRO ECONOMICS**

49. The branch of economics theory that deals with the problem of allocation of resources is:
- (a) Micro Economics
  - (b) Macro Economics
  - (c) Econometrics
  - (d) None of these
50. Which of the following falls under micro economics?
- (a) National income
  - (b) General Price level
  - (c) Factor pricing
  - (d) National saving and investment
51. Micro Economics is also known as \_\_\_\_
- (a) Public economics
  - (b) Price theory
  - (c) Income theory
  - (d) Demand theory
52. Which one is the feature of Marshall's definition?
- (a) Limited ends
  - (b) Scarce means
  - (c) Study of wealth as well as study of man
  - (d) Study of allocation of resources
53. Micro Economics is concerned with:
- (a) Consumer Behavior
  - (b) Product pricing
  - (c) Factor Pricing
  - (d) All of the above
54. Which of these is a part of micro economics?
- (a) Factor pricing
  - (b) National income
  - (c) Balance of payment
  - (d) None
55. Which of these is an example of macro economics:
- (a) Problem of unemployment in India
  - (b) Rising price level in the country
  - (c) Increase in disparities of income
  - (d) All of the above
56. Macroeconomics is also called——— economics.
- (a) Applied
  - (b) Aggregate
  - (c) Experimental
  - (d) none of the above
57. A study of how increase in the corporate income tax rate will affect the national unemployment rate is an example of -
- (a) Macro-Economics.
  - (b) Descriptive Economics.

- (c) Micro-economics.  
(d) Normative economics.
58. Which of the following does not suggest a macro approach for India?  
(a) Determining the GNP of India.  
(b) Finding the causes of failure of ABC Ltd.  
(c) Identifying the causes of in action in India  
(d) Analyses the causes of failure of industry in providing large scale employment
59. Which of the following is not a subject matter of Micro-economies?  
(a) The price of mangoes.  
(b) The cost of producing truck for the department at Delhi, India.  
(c) The quantity of mangoes produced for the mangoes market.  
(d) The national economy's annual rate of growth.
60. The branch of economic theory that deals with the problem of allocation of resources is  
(a) Micro-Economic theory.  
(b) Macro-economic theory.  
(c) Econometrics.  
(d) None of the above.
61. Which of the following would be considered a topic of study in Macroeconomics?  
(a) The effect of increase in wages on the portability of cotton industry  
(b) The effect on steel prices when more steel is imported  
(c) The effect of an increasing in action rate on living standards of people in India  
(d) The effect of an increase in the price of coffee on the quantity of tea consumed
62. Macro Economics is the study of \_\_\_\_\_.  
(a) all aspects of scarcity.  
(b) the national economy and the global economy as a whole.  
(c) big businesses.  
(d) the decisions of individual businesses and people
63. Micro economics does not study  
(a) Consumer behavior  
(b) Factory pricing  
(c) General price levels  
(d) firm's equilibrium
64. Micro Economics is —  
(a) Unrealistic  
(b) Theoretical  
(c) Abstract  
(d) All of the above

### POSITIVE/NORMATIVE ECONOMICS

65. Normative aspect of Economics is given by:  
(a) Marshall  
(b) Robbins  
(c) Adam Smith  
(d) Samuelson

66. Who gave the positive aspect of science?  
(a) Alfred Marshall  
(b) A.C Pigou  
(c) Adam Smith  
(d) Robbins
67. Which of the following is a normative statement?  
(a) Planned economies allocate resources via government departments.  
(b) Most transitional economies have experienced problems of falling output and rising prices over the past decade.  
(c) There is a greater degree of consumer sovereignty in market economies than planned economies.  
(d) Reducing inequality should be a major priority for mixed economies.
68. An example of 'positive' economic analysis would be:  
(a) An analysis of the relationship between the price of food and the quantity purchased.  
(b) Determining how much income each person should be guaranteed.  
(c) Determining the 'fair' price for food.  
(d) Deciding how to distribute the output of the economy
69. Ram: My corn harvest this year is poor.  
Krishan: Don't worry. Price increases will compensate for the fall in quantity supplied.  
Vinod: Climate affects crop yields. Some years are bad, others are good.  
Madhu: The Government ought to guarantee that our income will not fall. In this conversation, the normative statement is made by  
(a) Ram  
(b) Krishan  
(c) Vinod  
(d) Madhu
70. Shyam: This year due to heavy rainfall my option crop was damaged.  
Krishna: Climate affects crop yields. Some years are bad, other are good  
Hari: Don't worry, Price increase will compensate for fall in quantity supplied  
Radhe: The Government ought to guarantee that our income will not fall.  
In this conversation, the normative statement is made by -  
(a) Shyam  
(b) Krishna  
(c) Hari  
(d) Radhe
71. Which of the following is a normative economic statement?  
(a) Unemployment rate decreases with industrialization  
(b) Economics is a social science that studies human behavior.  
(c) The minimum wage should be raised to Rs.200/- per day  
(d) India spends a huge amount of money on national defense.
72. The difference between positive and normative Economics is:  
(a) Positive Economics explains the performance of the economy while normative Economics finds out the reasons for poor performance.  
(b) Positive Economics describes the facts of the economy while normative Economics involves evaluating whether some of these are good or bad for the welfare of the people.  
(c) Normative Economics describes the facts of the economy while positive Economics involves evaluating whether some of these are good or bad for the welfare of the people.

(d) Positive Economics prescribes while normative Economics describes.

73. Normative Economics is based on:

- (a) Ethical Considerations
- (b) Facts and Generalization
- (c) What is?
- (d) All of the above.

74. Positive Science only explains

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

### NATURE/SCOPE OF BUSINESS ECONOMICS

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

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

76. Which of the following statements is incorrect?

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

### CENTRAL PROBLEMS OF AN ECONOMY

77. Capital Intensive Technique would get chosen in

- (a) Labour Surplus Economy
- (b) Capital Surplus Economy
- (c) Developed Economy
- (d) Developing Economy

78. Labour Intensive Technique would get chosen in

- (a) Labour Surplus Economy
- (b) Capital Surplus Economy
- (c) Developed Economy
- (d) Developing Economy

79. Production of Capital Goods vs Consumer Goods relates to the problem of —

- (a) What to Produce
- (b) How to Produce
- (c) For whom to Produce
- (d) How to provide for growth

80. 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
81. Distribution and Sharing of National Product relates to the problem of —
- (a) What to Produce
  - (b) How to Produce
  - (c) For whom to Produce
  - (d) How to provide for growth
82. 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)
83. A developed economy uses \_\_\_\_\_ technique of production
- (a) Labour intensive
  - (b) Capital intensive
  - (c) Home-based
  - (d) Traditional

### PRODUCTION POSSIBILITY CURVE/FRONTIER

84. If a point falls inside the PPC, what does it indicate?
- (a) Resources are over utilized
  - (b) Resources are under utilized
  - (c) There is unemployment in the economy
  - (d) Both b & c
85. If opportunity cost is constant, then PPC would be -
- (a) Convex
  - (b) Straight line
  - (c) Backward sloping
  - (d) Concave
86. What will be the shape of PPC when marginal opportunity cost is constant?
- (a) Concave
  - (b) Convex
  - (c) Backward sloping
  - (d) Straight line
87. The usual shape of PPC is \_\_\_\_\_ towards the origin
- (a) Convex
  - (b) Concave
  - (c) Straight line
  - (d) A rectangular hyperbola

88. PPC is also known as
- (a) Demand curve
  - (b) Transformation curve
  - (c) Supply curve
  - (d) Indifference curve

## TYPES OF ECONOMY

89. In which types of economy do consumers and producers make their choices based on the market forces of demand and supply?
- (a) Open Economy
  - (b) Controlled Economy
  - (c) Command Economy
  - (d) Market Economy
90. A free market economy's driving force is:
- (a) Profit motive
  - (b) Welfare of the people
  - (c) Rising income and levels of living
  - (d) None of the above
91. Economics which is concerned with welfare proposition is called
- (a) Socialistic economics
  - (b) Capitalistic economics
  - (c) Positive economics
  - (d) Normative economics
92. A system of economy in which means of all 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) All of the above
93. For analyzing ownership and utilization of resources, Economies are classified into —
- (a) Capitalist Economies
  - (b) Socialist Economies
  - (c) Mixed Economies
  - (d) All of the above
94. 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
95. A Capitalist Economy is also called as —
- (a) Free Market Economy
  - (b) Command Market Economy
  - (c) Controlled Market Economy
  - (d) Regulated Market Economy

96. In which type of economic system has the Government no control over price fluctuations?

- (a) Market Economy
  - (b) Command Economy
  - (c) Mixed Economy
  - (d) Regulated Economy
97. Which type of economy gives rise to the most efficient allocation of resources and capital in the standard Micro—Economics framework?
- (a) Free Market Economy
  - (b) Command Market Economy
  - (c) Controlled Market Economy
  - (d) Regulated Market Economy
98. In a Free Market Economy the allocation of resources is determined by
- (a) Votes taken by consumers
  - (b) A Central Planning Authority
  - (c) Consumer Preference
  - (d) All of the above
99. In a Free Market Economy, when consumers increase their purchase of a good and the level of \_\_\_\_ exceeds \_\_\_\_, then the prices of those goods tend to rise.
- (a) Demand, Supply
  - (b) Supply, Demand
  - (c) Prices, Demand
  - (d) Profits, Supply
100. 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 is called —
- (a) Economic Power of Choice
  - (b) Consumer Sovereignty
  - (c) Positive Economy
  - (d) Producer Sovereignty
101. “Consumer Sovereignty” refers to —
- (a) Consumer participation in Production
  - (b) Consumer is the Ruler of the State
  - (c) Producers produce any type of goods and dump them in the market.
  - (d) Producers produce only those goods which Consumers prefer to buy.
102. A Capitalist Economy uses \_\_\_\_\_ as the principal means of allocating resources
- (a) Demand
  - (b) Supply
  - (c) Efficiency
  - (d) Prices
103. Which of the following statements regarding Market Economy is not true?
- (a) Price plays a major role in Market Economy
  - (b) The Government controls production and distribution of goods
  - (c) Consumers choose the goods they want
  - (d) Efficiency is achieved through Profit Motive
104. In a Mixed Economy, there are \_\_\_\_\_ Sectors of industries.
- (a) One
  - (b) Two
  - (c) Three

(d) None

105. In a Mixed Economy, industries are found in—

- (a) Private Sector
- (b) Public Sector
- (c) Joint Sector
- (d) All of the above

106. 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 —

- (a) Pricing Mechanism
- (b) Market Mechanism
- (c) Dual System of Pricing
- (d) Unregulated Pricing

107. In a Mixed Economy, the Private Sector —

- (a) are absolute free to make any type of decisions.
- (b) works only for social objectives.
- (c) are regulated directly and / or indirectly by Government
- (d) does not exist at all.

108. Indian Economy is an example of—

- (a) Capitalist Economy
- (b) Socialist Economy
- (c) Mixed Economy
- (d) None of the above

109. In India, the Central Planning Authority is called —

- (a) State Government
- (b) President of India
- (c) Ministry of Economy
- (d) NITI Aayog

110. Capitalist Economy —

- (a) Encourages Entrepreneurial class
- (b) Facilitates economic growth
- (c) Ignores human welfare
- (d) All of the above

111. Demerits of Capitalistic Economy includes —

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

112. Autonomy and Freedom is more in —

- (a) Socialistic Economy
- (b) Capitalistic Economy
- (c) Mixed Economy
- (d) All the above

113. The classification of economies is based on their:
- (a) Mode of production, exchange & distribution
  - (b) Government's role in economic activity
  - (c) Both a & b
  - (d) Neither a nor b
114. Which of the following is not an example of capitalist economy?
- (a) Japan
  - (b) Mexico
  - (c) Germany
  - (d) Cuba
115. Socialist economy was propounded by -
- (a) Karl Marx
  - (b) Samuelson
  - (c) A.C.Pigou
  - (d) Adam Smith
116. Although price mechanism exists in \_\_\_\_\_ but it has only a secondary role
- (a) Capitalist economy
  - (b) Socialist economy
  - (c) Mixed economy
  - (d) Price economy
117. Inequalities of income do not perpetuate in \_\_\_\_\_.
- (a) Socialism
  - (b) Mixed economy
  - (c) Capitalism
  - (d) None
118. A capitalist economy follows the policy of -
- (a) Laissez faire
  - (b) Regulated markets
  - (c) Promoting public sector
  - (d) None of the above

### COMPREHENSIVE QUESTIONS

119. Find out the correct statements-
- (a) Higher the prices, lower the quantity demanded of a product is a normative statement
  - (b) Micro and macro-economics are interdependent
  - (c) In a capitalistic economy, the economics problems are solved by planning commission
  - (d) In deduction methods logic proceeds from particular to the general.
120. Which of the following is the best general definition of the study of Economics?
- (a) Inflation and Unemployment in a growing economy
  - (b) Business decision—making under foreign competition

- (c) Individual and Social Choice in the face of scarcity
- (d) The best way to invest in the stock market

121. Rational decision—making requires that —

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

122. Which of the following statements is true?

- (a) The Economy has unlimited resources and there is a need for choosing the most efficient alternative.
- (b) Decisions are always taken under conditions of imperfect knowledge and uncertainty
- (c) Decision making arises only if there is choice available
- (d) All of the above

123. Business Decision making involves —

- (a) Whether the Firm has to make the components or buy the components?
- (b) Whether the Firm has to shut down or continue in the business?
- (c) What mix of debt and equity should the Firm use?
- (d) All of the above

124. Find out the correct statement -

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

125. Larger production of \_\_\_\_\_ goods would lead to higher production in future.

- (a) Consumer goods
- (b) Capital goods
- (c) Agricultural goods
- (d) Public goods

**ANSWERS TO CHAPTER - INTRODUCTION**

1	C	26	B	51	B	76	C	101	D
2	A	27	D	52	C	77	B	102	D
3	B	28	D	53	D	78	A	103	B
4	A	29	B	54	A	79	A	104	C
5	A	30	C	55	D	80	B	105	D
6	B	31	A	56	B	81	C	106	C
7	A	32	A	57	A	82	C	107	C
8	A	33	C	58	B	83	B	108	C
9	B	34	D	59	D	84	B	109	D
10	C	35	D	60	A	85	B	110	D
11	C	36	D	61	C	86	D	111	C
12	A	37	B	62	B	87	A	112	B
13	C	38	C	63	C	88	B	113	C
14	D	39	D	64	D	89	D	114	D
15	B	40	C	65	A	90	A	115	A
16	C	41	A	66	D	91	A	116	B
17	A	42	B	67	D	92	B	117	A
18	B	43	A	68	A	93	D	118	A
19	B	44	A	69	D	94	B	119	B
20	B	45	A	70	D	95	A	120	C
21	D	46	B	71	C	96	A	121	B
22	B	47	D	72	B	97	A	122	C
23	A	48	C	73	A	98	C	123	D
24	A	49	A	74	A	99	A	124	B
25	D	50	C	75	D	100	B	125	B

# CH 2 - THEORY OF DEMAND

## BASICS OF DEMAND

1. Demand for a commodity refers to :
  - (a) Desire for the commodity
  - (b) Need for the commodity
  - (c) Quantity demanded of that commodity
  - (d) Quantity of the commodity demanded at a certain price during any particular period of time
2. Bricks for houses in an example of which kind of demand?
  - (a) Composite
  - (b) Competitive
  - (c) Joint
  - (d) Derived
3. A good which cannot be consumed more than once is known as
  - (a) durable good
  - (b) non-durable good
  - (c) producer good
  - (d) none of the above
4. A relative price is
  - (a) price expressed in terms of money
  - (b) what you get paid for babysitting your cousin
  - (c) the ratio of one money price to another
  - (d) equal to a money price
5. Demand is the
  - (a) the desire for a commodity given its price and those of related commodities.
  - (b) the entire relationship between the quantity demanded and the price of a good other things remaining the same.
  - (c) willingness to pay for a good if income is larger enough.
  - (d) ability to pay for a good.
6. 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. For want to become an Effective Demand, it must be backed by the —
  - (a) Ability to buy the product
  - (b) Necessity to buy the product
  - (c) Desire to buy the product
  - (d) Utility of the product
8. Which of the following is an important aspect in Demand?
  - (a) Ability to buy the product
  - (b) Willingness to spend

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- (c) Availability of the product in the market  
(d) All of the above
9. Purchasing Power refers to —  
(a) Availability of money with the Consumer to purchase the Commodity  
(b) Availability of money with the Producer to produce the Commodity  
(c) Availability of goods in the market  
(d) Availability of substitute goods
10. Purchasing Power refers to —  
(a) Desire to buy the product  
(b) Necessity to buy the product  
(c) Ability to buy the product  
(d) Utility of the product
11. Purchasing power of money fall when  
(a) Price level increases  
(b) Price level decreases  
(c) Income level increases  
(d) Money supply falls
12. Unless Demand is backed by purchasing power or ability to pay, it does not constitute Demand. This statement is —  
(a) True  
(b) False  
(c) Partially True  
(d) Nothing can be said
13. In the context of Effective Demand, Willingness to spend means —  
(a) Availability of Money with Consumers  
(b) Readiness to use available money for purchasing a Commodity  
(c) Both (a) and (b)  
(d) Neither (a) nor (b)
14. For Demand to be effective, the Commodity should be available —  
(a) At a certain price  
(b) At a certain place  
(c) At a certain time  
(d) All of the above
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)
16. Demand arises in respect of —  
(a) Capital Goods only  
(b) Consumer Goods only  
(c) Both (a) and (b)  
(d) Neither (a) nor (b)
17. Demand for Final Consumption arises in —  
(a) Household Sector only  
(b) Government Sector only  
(c) Both Household and Government Sectors

(d) Neither Household nor Government Sector

18. Demand for Intermediate Consumption arises in —

- (a) Household Consumers
- (b) Government Enterprises only
- (c) Corporate Enterprises only
- (d) All Producing Sectors of the economy

19. The demand for factors of production is \_\_\_\_\_ demand

- (a) Fundamental
- (b) Derived
- (c) Market
- (d) Joint

20. If Household Demand and Market Demand are equal in a situation, it means that —

- (a) There is only one Producer
- (b) There is only one Consumer
- (c) Both (a) and (b)
- (d) Neither (a) nor (b)

21. The total demand for the product of an individual Firm at various prices is known as —

- (a) Industrial Demand
- (b) Market Demand
- (c) Household Demand
- (d) Firm Demand

22. If Market Demand and Firm's Demand are equal in a situation, it means that —

- (a) There is only one Producer
- (b) There is only one Consumer
- (c) Both (a) and (b)
- (d) Neither (a) nor (b)

23. If Individual Demand = Market Demand = Firm's Demand, it means that —

- (a) There is only one Producer
- (b) There is only one Consumer
- (c) Both (a) and (b)
- (d) Neither (a) nor (b)

24. Which of the following influence most the price level in the very short—run period?

- (a) Demand
- (b) Supply
- (c) Cost
- (d) Production

25. The sum of individual demand for a product at a price per unit of time is called as \_\_\_\_\_

- (a) Firm's Demand
- (b) Market Demand
- (c) Goods available in the market
- (d) Goods to be sold in the market

### **DETERMINANTS OF DEMAND**

26. Certain goods for which quantity demanded decrease when income increases are called \_\_\_\_\_

- (a) Superior goods
- (b) Inferior goods
- (c) Prestige goods
- (d) Conspicuous goods

27. In case of Inferior goods like bajra, a fall in its price tends to:

- (a) Make the demand remain constant
- (b) Reduce the demand
- (c) Increase the demand
- (d) Change the demand in an abnormal way

28. Demand of a commodity depends upon:

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

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

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

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

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

31. All of the following are determinants of demand except:

- (a) tastes and preferences.
- (b) quantity supplied.
- (c) income of the consumer.
- (d) price of related goods.

32. If the price of Pepsi decreases relative to the price of Coke and 7-UP, the demand for :

- (a) Coke will decrease.
- (b) 7-Up will decrease.
- (c) Coke and 7-UP will increase.
- (d) Coke and 7-Up will decrease.

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

- (a) The demand for rice will increase.
- (b) The demand for rice will decrease.
- (c) The demand for rice will be unaffected.
- (d) None of the above.

34. If, as people's income increases, the quantity demanded of a good decreases, the good is called

- (a) a substitute.
- (b) a normal good.
- (c) an inferior good.
- (d) a complement.

35. The price of tomatoes increases and people buy tomato puree. You infer that tomato puree and tomatoes are

- (a) normal goods.
- (b) complements.
- (c) substitutes.
- (d) inferior goods.

36. Potato chips and popcorn are substitutes. A rise in the price of potato chips will ——— the demand for popcorn and the quantity of popcorn will ———
- increase; increase
  - increase; decrease
  - decrease; decrease
  - decrease; increase
37. If the price of Orange Juice increases, the demand for Apple Juice will \_\_\_\_\_.
- increase
  - decrease
  - remain the same.
  - become negative.
38. An increase in the demand for computers, other things remaining same, will:
- Increase the number of computers bought.
  - Decrease the price but increase the number of computers bought.
  - Increase the price of computers.
  - Increase the price and number of computers bought.
39. \_\_\_\_\_ are goods which are consumed together or simultaneously.
- Inferior Goods
  - Normal Goods
  - Complementary Goods
  - Substitute Goods
40. Complementary Goods are goods which are consumed —
- Only when the goods are distributed as free compliment to the Consumer
  - Together or simultaneously
  - In place of one another
  - Only at high income levels of Consumer

### LAW OF DEMAND

41. The Law of Demand is given by \_\_\_\_\_
- Alfred Marshall
  - Paul Samuelson
  - Robbins
  - J B Say
42. What is an Engels of curve?
- Another name of demand curve
  - Curve showing both demand & supply curves
  - Curve named after Lord Engles
  - All
43. Law of Demand is
- Quantitative Statement
  - Qualitative Statement
  - Both a & b
  - Hypothetical
44. What is Engel's Curve?
- Curve showing three demand curve
  - Named after Ernst Engel
  - Both (a) and (b)

(d) None

45. All but one of the following are assumed to remain the same while drawing an individual's demand curve for a commodity. Which one is it?
- (a) The preference of the individual.
  - (b) His monetary income.
  - (c) Price of the commodity.
  - (d) Price of related goods.
46. The Law of Demand, assuming other things to remain constant, establishes the relationship between:
- (a) income of the consumer and the quantity of a good demanded by him.
  - (b) price of a good and the quantity demanded.
  - (c) price of a good and the demand for its substitute.
  - (d) quantity demanded of a good and the relative prices of its complementary goods.
47. If regardless of changes in its price, the quantity demanded of a good remains unchanged, then the demand curve for the good will be:
- (a) horizontal.
  - (b) vertical.
  - (c) positively sloped.
  - (d) negatively sloped.
48. When total demand for a commodity whose price has fallen increases, it is due to:
- (a) income effect
  - (b) substitution effect
  - (c) complementary effect
  - (d) price effect
49. With a fall in the price of a commodity:
- (a) consumer's real income increases.
  - (b) consumer's real income decreases.
  - (c) there is no change in the real income of the consumer.
  - (d) none of the above.
50. Demand Curve in most cases has a —
- (a) Positive Slope
  - (b) Negative Slope
  - (c) Zero Slope
  - (d) Infinity Slope
51. If any quantity increases at the same price, then, the Demand Curve for that product will be —
- (a) Horizontal
  - (b) Vertical
  - (c) Positively Sloped
  - (d) Negatively Sloped
52. In a Demand Curve, the Horizontal Axis will be —
- (a) Quantity Demanded
  - (b) Price of the Product
  - (c) Income Levels of Consumer
  - (d) Any of the above
53. The Law of Demand is explained by —
- (a) Cardinal Approach

- (b) Ordinal Approach
  - (c) Both (a) and (b)
  - (d) Neither (a) nor (b)
54. Which of these is a variable factor in the Law of Demand?
- (a) Consumers' Income Level
  - (b) Economic Conditions of Boom I Recession
  - (c) Quality of the Product
  - (d) Price of the Product
55. Why does the Law of Demand operate?
- (a) Income Effect
  - (b) Substitution Effect
  - (c) Both (a) and (b)
  - (d) Neither (a) nor (b)
56. The total effect of a price change of a commodity is
- (a) Substitution Effect + Price Effect
  - (b) Substitution Effect + Income Effect
  - (c) Substitution Effect + Demonstration Effect
  - (d) Substitution Effect minus Income Effect
57. The operations of diminishing marginal utility & the act of the consumer to equalize the utility of the commodity with its price result in a \_\_\_\_\_ demand curve.
- (a) Downward sloping
  - (b) Upward sloping
  - (c) Straight line
  - (d) Hyperbola upward
58. As a result of fall in price of a commodity, consumer real income or purchasing power increases. This increase in the real income induces him to buy more of that commodity. This is technically termed as -
- (a) Price effect
  - (b) Substitution effect
  - (c) Income effect
  - (d) Both b & c
59. Which one of the following is not the rationale of Law of Demand?
- (a) Law of Diminishing Marginal utility
  - (b) Price effect
  - (c) Arrival of new customers
  - (d) Change of taste & preferences

## CHANGE IN QUANTITY DEMANDED & DEMAND

60. Movement along the same demand curve shows:
- (a) Expansion of demand
  - (b) Expansion of supply
  - (c) Expansion and contraction of demand
  - (d) Increase and decrease of demand
61. An increase in demand can result from:
- (a) A decline in the market price
  - (b) An increase in income
  - (c) A reduction in the price of substitutes

**(d) An increase in the price of complements**

62. If the price of any complement goods rises:
- (a) Demand curve shifts to left
  - (b) Demand curve shifts to right
  - (c) Demand curve moves downward
  - (d) Demand curve moves upward
63. Contraction of demand results due to \_\_\_\_\_
- (a) Increase in price of goods
  - (b) Decrease in no. of producers
  - (c) Decrease in output of sellers
  - (d) Decrease in price of good
64. Expansion & contraction of Demand curve occurs due to
- (a) Change in the price of commodity
  - (b) Change in price of substitute or complementary goods
  - (c) Change in income
  - (d) None
65. Other things remaining constant, if the price of the inferior goods decreases then what will be the effect?
- (a) Demand increase
  - (b) Demand decrease
  - (c) Quantity demanded increase
  - (d) Quantity demand decreases
66. In expansion and contraction of demand \_\_\_\_\_
- (a) Demand curve remains unchanged.
  - (b) Demand curve changes
  - (c) Slope of the demand curve changes
  - (d) Both (a) & (c)
67. Contraction of demand results due to \_\_\_\_\_
- (a) Increase in price of goods
  - (b) Decrease in no. of producers
  - (c) Decrease in output of sellers
  - (d) Decrease in price of good
68. A movement along the demand curve for soft drinks is best described as :
- (a) An increase in demand.
  - (b) A decrease in demand.
  - (c) A change in quantity demanded.
  - (d) A change in demand.
69. When the price of a product increases, Consumers tend to switch to purchasing the substitutes of the product. This describes why the Demand Curve for the good
- (a) Shift downward to the left
  - (b) Shift upward to the right
  - (c) Slopes downward to the right
  - (d) Slopes downward to the left
70. Which one of the following would cause the demand curve of the automobiles to shift to the left?
- (a) An increase in price of the automobiles
  - (b) An increase in interest rate paid to borrow money to pay for the automobiles

- (c) An increase in buyer's income
- (d) An increase in cost of production

## EXCEPTIONS TO LAW OF DEMAND

71. Giffen Paradox is an exception of
- (a) Demand
  - (b) Supply
  - (c) Production
  - (d) Utility
72. The demand of which type of goods do not decrease with increase in its price
- (a) Comforts
  - (b) Luxury
  - (c) Necessities
  - (d) Capital goods
73. The commodity whose demand is associated with the name of Sir Robert Giffen?
- (a) Necessary good
  - (b) Luxury good
  - (c) Inferior good
  - (d) Ordinary good
74. In the case of a Giffen good, the demand curve will be:
- (a) horizontal.
  - (b) downward-sloping to the right.
  - (c) vertical.
  - (d) upward-sloping to the right.
75. Conspicuous goods are also known as:
- (a) prestige goods.
  - (b) snob goods.
  - (c) Veblen goods.
  - (d) all of the above.
76. With an increase in the price of diamond, the quantity demanded also increases. This is because it is
- (a) substitute good.
  - (b) complementary good.
  - (c) conspicuous good.
  - (d) none of the above.
77. An example of a good that exhibit direct price-demand relationship is
- (a) Giffen goods.
  - (b) Complementary goods.
  - (c) Substitute goods.
  - (d) None of the above.
78. At higher prices people demand more of certain goods not for their worth but for their prestige value - This is called
- (a) Veblen effect.
  - (b) giffen paradox.
  - (c) speculative effect.
  - (d) none of the above.

79. When a Consumer prefers a commodity due to prestige attached to it, it is known as —
- (a) Substitution Effect
  - (b) Demonstration Effect
  - (c) Income Effect
  - (d) All of the above
80. When a Consumer wants a product by seeing another person use that product, it is called —
- (a) Disturbance Effect
  - (b) Comparison Effect
  - (c) Demonstration Effect
  - (d) Marshallian Effect
81. Demonstration Effect is generally found in respect of
- (a) Necessary Goods
  - (b) Luxury and Quasi—Luxury Goods
  - (c) Both (a) and (b)
  - (d) Neither (a) nor (b)
82. Goods covered by Demonstration Effect can be best described as —
- (a) Necessities of Life
  - (b) Conspicuous Necessities
  - (c) Absolute Luxuries
  - (d) All of the above
83. In which of the following will the Demonstration Effect be high?
- (a) Water
  - (b) Rice
  - (c) Cell phone
  - (d) Plant and Machinery
84. 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

### PRICE ELASTICITY OF DEMAND

85. Elasticity between two points
- (a) Point elasticity
  - (b) Arc elasticity
  - (c) Cross elasticity
  - (d) None
86. The price of hot-dogs decreases by 22% and the quantity demanded for hot dogs increases by 25%, then Demand is :
- (a) Elastic
  - (b) Inelastic
  - (c) Unitary elastic
  - (d) Perfectly elastic
87. When price falls from Rs.6 to Rs.4, the demand rises from 10 to 15 units. Calculate price elasticity of demand.
- (a) 1.5
  - (b) 3.5
  - (c) 0.5

(d) 2

88. Which factor generally keeps the price-elasticity of demand for a good low:
- (a) Variety of uses for that good
  - (b) Its low price
  - (c) Close substitutes for that good
  - (d) High proportion of the consumer's income spent on it.
89. In case of straight line demand curve meeting the two axes, the price elasticity of demand at the mid-point of the line would be:
- (a) 0
  - (b) 1
  - (c) 1.5
  - (d) 2
90. For a commodity with a unitary elastic demand curve if the price of the commodity rises, then the consumer's total expenditure on this commodity would:
- (a) Increase
  - (b) Decrease
  - (c) Remains constants
  - (d) Either increase or decrease
91. What is the value of elasticity of demand if the demand for the good is perfectly elastic?
- (a) 0
  - (b) 1
  - (c) Infinity
  - (d) Less than 0
92. What is the original price of a commodity when price elasticity is 0.71 and demand changes from 20 units to 15 units and the new price is Rs 10? (Point Elasticity)
- (a) Rs 15.4
  - (b) Rs.18
  - (c) Rs.20
  - (d) Rs.8
93. If there is increase in Price from Rs.4 to Rs.6 then decrease in demand from 15 units to 10 units. What is the price elasticity? (Point elasticity)
- (a) 0.66
  - (b) 5
  - (c) 1.5
  - (d) 2
94. Suppose the price of movies seen at a theatre rises from Rs.120 per person to Rs.200 per person. The theatre manager observed that the rise in prices has lead to a fall in attendance at a given movies from 300 persons to 200 persons. What is the price elasticity to demand for the movie? (Arc Elasticity)
- (a) 0.5
  - (b) 0.8
  - (c) 1.00
  - (d) None of these
95. The quantity demanded does not respond to price change and so the elasticity is:
- (a) Zero
  - (b) One
  - (c) Infinite
  - (d) None

96. If the demand curve is parallel to x axis, what will be the nature of elasticity?
- (a) Perfectly elastic
  - (b) Inelastic
  - (c) Elastic
  - (d) Highly elastic
97. A consumer spends Rs.80 on purchasing a commodity when its price is Rs1 per unit and spends Rs.96 when the price is Rs.2 per unit. Calculate the price elasticity of demand.
- (a) 0.2
  - (b) 0.3
  - (c) 0.4
  - (d) 0.5
98. When the price of cylinder rises from Rs.120 to Rs.200, the demand falls from 300 to 200. Calculate price elasticity of demand.
- (a) 1.00
  - (b) 0.50
  - (c) 5.00
  - (d) None
99. If the price a decreased from Rs.10 to Rs.8 of a commodity but the quantity demanded remains the same price elasticity is \_\_\_\_\_
- (a) 1
  - (b) 0
  - (c)  $\infty$
  - (d) None
100. Straight line demand curve meeting two axis, the price elasticity of demand at the point where the curve meets y- axis would be \_\_\_\_\_
- (a) Zero
  - (b) Greater than one
  - (c) Less than one
  - (d) Infinity

101. The Demand for a electricity power is elastic because \_\_\_\_\_
- (a) It is available at a very high price
  - (b) It is essential for life
  - (c) It has many uses
  - (d) It has many substitutes
102. When price falls by 5% and demand increase by 6%, then elasticity of demand is \_\_\_\_\_.
- (a) Elastic
  - (b) Inelastic
  - (c) Unitary elastic
  - (d) Zero
103. In which of the following cases the demand for goods tends to be less elastic?
- (a) Good is necessary
  - (b) Time period is shorter
  - (c) Number of close substitutes is less
  - (d) All of the above
104. Identify the factor which generally keeps the price-elasticity of demand for a good low:
- (a) Variety of uses for that good.
  - (b) very low price of a commodity.
  - (c) Close substitutes for that good.
  - (d) High proportion of the consumer's income spent on it.
105. Identify the coefficient of price-elasticity of demand when the percentage increase in the quantity of a good demanded is smaller than the percentage fall in its price:
- (a) Equal to one.
  - (b) Greater than one.
  - (c) Smaller than one.
  - (d) Zero.
106. If the demand for a good is inelastic, an increase in its price will cause the total expenditure of the consumers of the good to:
- (a) remain the same.
  - (b) increase.
  - (c) decrease.
  - (d) any of these.
107. Given the following four possibilities, which one results in an increase in total consumer expenditure?
- (a) demand is unitary elastic and price falls.
  - (b) demand is elastic and price rises.
  - (c) demand is inelastic and price falls.
  - (d) demand is inelastic and prices rises.
108. Suppose a department store has a sale on its silverware. If the price of a plate-setting is reduced from Rs.300 to Rs.200 and the quantity demanded increases from 3,000 plate-settings to 5,000 plate-settings, what is the price elasticity of demand for silverware? (Use Arc Elasticity Method)
- (a) 0.8
  - (b) 1.0
  - (c) 1.25
  - (d) 1.50

109. If the local pizzeria raises the price of a medium pizza from Rs.60 to Rs.100 and quantity demanded falls from 700 pizzas a night to 100 pizzas a night, the price elasticity of demand for pizzas is: (Use Arc Elasticity Method)
- (a) .67
  - (b) 1.5
  - (c) 2.0
  - (d) 3.0
110. If electricity demand is inelastic, and electricity charges increase, which of the following is likely to occur?
- (a) Quantity demanded will fall by a relatively large amount.
  - (b) Quantity demanded will fall by a relatively small amount.
  - (c) Quantity demanded will rise in the short run, but fall in the long run.
  - (d) Quantity demanded will fall in the short run, but rise in the long run.
111. Suppose the demand for meals at a medium-priced restaurant is elastic. If the management of the restaurant is considering raising prices, it can expect a relatively:
- (a) large fall in quantity demanded.
  - (b) large fall in demand.
  - (c) small fall in quantity demanded.
  - (d) small fall in demand.
112. Point elasticity is useful for which of the following situations?
- (a) The bookstore is considering doubling the price of notebooks.
  - (b) A restaurant is considering lowering the price of its most expensive dishes by 50 percent.
  - (c) An auto producer is interested in determining the response of consumers to the price of cars being lowered by Rs.100.
  - (d) None of the above.
113. A decrease in price will result in an increase in total revenue if :
- (a) the percentage change in quantity demanded is less than the percentage change in price.
  - (b) the percentage change in quantity demanded is greater than the percentage change in price.
  - (c) demand is inelastic.
  - (d) the consumer is operating along a linear demand curve at a point at which the price is very low and the quantity demanded is very high.
114. An increase in price will result in an increase in total revenue if :
- (a) the percentage change in quantity demanded is less than the percentage change in price.
  - (b) the percentage change in quantity demanded is greater than the percentage change in price.
  - (c) demand is elastic.
  - (d) the consumer is operating along a linear demand curve at a point at which the price is very high and the quantity demanded is very low.
115. Demand for a good will tend to be more elastic if it exhibits which of the following characteristics?
- (a) It represents a small part of the consumer's income.
  - (b) The good has many substitutes available.
  - (c) It is a necessity (as opposed to a luxury).
  - (d) There is little time for the consumer to adjust to the price change
116. Demand for a good will tend to be more inelastic if it exhibits which of the following characteristics?
- (a) The good has many substitutes.

- (b) The good is a luxury (as opposed to a necessity).  
 (c) The good is a small part of the consumer's income.  
 (d) There is a great deal of time for the consumer to adjust to the change in prices.
117. Price Elasticity of Demand is defined as —  
 (a) Change in quantity demanded ÷ Change in price  
 (b) Proportionate change in quantity demanded + Change in Price  
 (c) Change in quantity demanded ÷ Proportionate change in Price  
 (d) Proportionate change in quantity demanded ÷ Proportionate change in price
118. Price Elasticity of Demand for addictive products like cigarettes and alcohol would be  
 (a) Greater than 1  
 (b) Less than 1  
 (c) Infinity  
 (d) One
119. If R point bisects the Demand Curve in two equal parts, then elasticity at R equals —  
 (a) Zero  
 (b) Five  
 (c) Two  
 (d) One
120. What is the elasticity between midpoint & upper extreme point of a straight line continuous demand curve?  
 (a) Infinite  
 (b) Zero  
 (c) >1  
 (d) <1
121. 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)
122. Point Elasticity is useful for which of the following situations —  
 (a) The bookstore is considering doubling the price of notebooks  
 (b) A restaurant is considering lowering the price of its most expensive dishes by 50%  
 (c) An automobile producer is interested determining the response of consumers to price of cars being lowered by 50,000  
 (d) None of the above
123. Which one of the following is correct about price elasticity of a commodity?  
 (a) It remains same under all the situations  
 (b) It has several degrees/nature  
 (c) It remains unaffected by the price of any commodity  
 (d) It is an immeasurable concept
124. Using Total outlay method, \_\_\_\_\_  
 (a) We cannot find exact co-efficient of price elasticity  
 (b) We can find exact co-efficient of price elasticity  
 (c) We cannot determine whether the good is elastic or inelastic  
 (d) None of the above

## INCOME ELASTICITY OF DEMAND

125. In case of an inferior good, the income elasticity of demand is:
- (a) Positive
  - (b) Zero
  - (c) Negative
  - (d) Infinite
126. Compute income elasticity if demand increases by 5% and income by 1%
- (a) 5
  - (b)  $1/5$
  - (c) 0
  - (d) None
127. What is income elasticity of demand, when income changes by 20% and demand changes by 40%
- (a)  $1/2$
  - (b) 2
  - (c) 0.33
  - (d) None
128. If income of person increases by 10% and his demand for goods increases by 30% income elasticity will be \_\_\_\_\_
- (a) Equal to one.
  - (b) Less than one
  - (c) More than one
  - (d) None of these
129. Calculate income elasticity for the household when the income of the household increase by 10% and the demand for cars rises by 20%
- (a) +2.
  - (b) -2.
  - (c) +5.
  - (d) -5.
130. Demand of i-pod increase from Rs.950 to Rs.980 and income increase from Rs.9,000 to Rs.9,800.what is income elasticity?
- (a) 0.53
  - (b) 0.35
  - (c) 0.43
  - (d) None

131. If a good is a luxury, its income elasticity of demand is:
- (a) positive and less than 1.
  - (b) negative but greater than -1.
  - (c) positive and greater than 1.
  - (d) zero.
132. Suppose a consumer's income increases from Rs.30,000 to Rs.36,000. As a result, the consumer increases her purchases of compact discs (CDs) from 25 CDs to 30 CDs. What is the consumer's income elasticity of demand for CDs? (Use Arc Elasticity Method)
- (a) 0.5
  - (b) 1.0
  - (c) 1.5
  - (d) 2.0
133. The quantity purchased remains constant irrespective of the change in income. This is known as
- (a) negative income elasticity of demand.
  - (b) income elasticity of demand less than one.
  - (c) zero income elasticity of demand.
  - (d) income elasticity of demand is greater than one.
134. As income increases, the consumer will go in for superior goods and consequently the demand for inferior goods will fall. This means, for inferior goods there is:
- (a) income elasticity of demand less than one.
  - (b) negative income elasticity of demand.
  - (c) zero income elasticity of demand.
  - (d) unitary income elasticity of demand.
135. When income increases the money spent on necessities of life may not increase in the same proportion, This means:
- (a) income elasticity of demand is zero.
  - (b) income elasticity of demand is one.
  - (c) income elasticity of demand is greater than one.
  - (d) income elasticity of demand is less than one.
136. The luxury goods like jewellery and fancy articles will have
- (a) low income elasticity of demand
  - (b) high income elasticity of demand
  - (c) zero income elasticity of demand
  - (d) none of the above
137. The income elasticity of tomatoes is 0.25, it means tomatoes are:
- (a) inferior goods.
  - (b) luxury goods.
  - (c) normal goods.
  - (d) can't say
138. Suppose the income elasticity of education in private school in India is 1.6. What does this indicate:
- (a) Private school education is a luxury.
  - (b) Private school education is a necessity.
  - (c) Private school education is an inferior commodity.
  - (d) We should have more private schools.

139. The income elasticity of demand of the commodity "Buttons" is \_\_\_\_\_
- (a) Greater than 1
  - (b) Less than 1
  - (c) Zero
  - (d) One
140. Bajra, is an inferior good in the eyes of individuals. Its income elasticity of demand will be
- (a) More than 1
  - (b) Equal to 1
  - (c) Less than 1 but greater than 0
  - (d) Negative

### CROSS ELASTICITY OF DEMAND

141. Cross elasticity of demand in Monopoly market is:
- (a) Elastic
  - (b) Zero
  - (c) Infinite
  - (d) One
142. In case of substitute goods, cross elasticity is \_\_\_\_\_
- (a) Negative
  - (b) Zero
  - (c) Positive
  - (d) None of these
143. Cross elasticity of perfect substitutes is:
- (a) Zero
  - (b) Negative
  - (c) One
  - (d) Infinity
144. Cross elasticity of complementary goods is:
- (a) Positive
  - (b) Negative
  - (c) Infinity
  - (d) None of these

145. When the numerical value of cross elasticity between two goods is very high, it means
- The goods are perfect complements and therefore have to be used together.
  - The goods are perfect substitutes and can be used with ease in place of one another.
  - There is a high degree of substitutability between the two goods.
  - The goods are neutral and therefore cannot be considered as substitutes.
146. The cross elasticity between Rye bread and Whole Wheat bread is expected to be:
- positive
  - negative
  - zero
  - can't say
147. The cross elasticity between personal computers and soft wares is:
- positive.
  - negative.
  - zero .
  - one.
148. The cross elasticity between Bread and DVDs is:
- positive.
  - negative.
  - zero .
  - one

### ADVERTISEMENT ELASTICITY

149. Advertisement elasticity of demand values between \_\_\_\_\_ & \_\_\_\_\_
- One, infinity
  - Zero, infinity
  - Zero, one
  - (-) infinity, (+)infinity
150. When the change in demand is less than proportionate change in advertisement expenditure, the advertisement elasticity will be \_\_\_\_\_
- Zero
  - > zero
  - < one
  - > zero but < one
151. Usually advertisement elasticity of demand is typically \_\_\_\_\_
- Positive
  - Unitary
  - Negative
  - Zero
152. What will be the advertisement elasticity in the following case?
- % change in demand = 30%
- % change in price = nil
- % change in advertisement exp. = 25%
- 1.2
  - 0.83`

- (c) 1  
(d) 25

## DEMAND FORECASTING

153. Method of forecasting does not include -  
(a) Mathematical method  
(b) Barometric method  
(c) Expert opinion method  
(d) Statistical method
154. Forecasting of demand is the art & science of predicting  
(a) Actual demand of a product at same future date  
(b) Probable demand in future  
(c) Total demand in future  
(d) None of these
155. The demand for cement in India is forecasted. It refers to  
(a) Micro level forecasting  
(b) Long term forecasting  
(c) Industry forecasting  
(d) Firm level forecasting
156. \_\_\_\_\_ method of forecasting includes the methods - complete enumeration, sample survey, end use  
(a) Collective opinion  
(b) Survey of buyer's intention  
(c) Expert opinion  
(d) Barometric
157. In order to find out turning point, it is necessary to find out the general behavior of the economy. This method of forecasting is called as \_\_\_\_\_ -  
(a) Controlled experiments  
(b) Barometric method  
(c) Statistical method  
(d) None of these
158. Which of the following is the statistical method of demand forecasting?  
(a) Trend projection method  
(b) Fitting equation method  
(c) Regression analysis  
(d) All of the above
159. Under \_\_\_\_\_ method of demand forecasting, the future demand is estimated by conducting market studies & experiments on consumer behavior under actual, though controlled market conditions?  
(a) Controlled experiment method  
(b) Market experimentation method  
(c) Barometric method  
(d) Both a & b

## MISCELLANEOUS

160. Which of the following is an incorrect statement?
- (a) When goods are substitutes, a fall in the price of one (ceteris paribus) leads to a fall in the quantity demanded of its substitutes.
  - (b) When commodities are complements, a fall in the price of one (other things being equal) will cause the demand of the other to rise.
  - (c) As the income of the consumer increases, the demand for the commodity increases always and vice versa.
  - (d) When a commodity becomes fashionable people prefer to buy it and therefore its demand increases.
161. Which of the following statements is correct?
- (a) With the help of statistical tools, the demand can be forecasted accurately.
  - (b) The more the number of substitutes of a commodity, more elastic is the demand.
  - (c) Demand for butter is perfectly elastic.
  - (d) Gold jewellery will have negative income elasticity.
162. In which phase of the business cycle do Producers try to sell out their inventories?
- (a) Recession
  - (b) Prosperity
  - (c) Boom
  - (d) Recovery
163. Which of the following Statements is not true about Individual Demand?
- (a) The decision to purchase is always influenced by the Income Constraint.
  - (b) Selection of products and services are based on the Opportunity Cost.
  - (c) Consumers measure their Opportunity Cost in terms of the price they pay for the products and services they forego.
  - (d) Decision to purchase is never influenced or concerned with the Income Constraint.
164. What effect does an increase in the price of a product have on the Purchasing Power of the Consumer?
- (a) Increases
  - (b) Decreases
  - (c) No effect
  - (d) Decreases initially, but increases over a period of time
165. The Demand for a commodity depends only upon the money income of the household. This statement is —
- (a) True
  - (b) False
  - (c) Partially True
  - (d) Nothing can be said
166. Why is the Demand Curve otherwise known as the Average Revenue Curve?
- (a) Price paid for each unit by the Consumer, is the Average Revenue per unit for the Seller
  - (b) Price paid for each unit by the Consumer, is the Total Revenue for the Seller
  - (c) Price paid by Consumer is equal to the Seller's willingness to sell the product.
  - (d) All of the above
167. The Total Area under the Demand Curve of a product measures —
- (a) Marginal Utility
  - (b) Total Utility

- (c) Consumer's Surplus
- (d) Producers Surplus

168. If Marginal Utility of a product remains constant, the Demand Curve will be —

- (a) Convex
- (b) Concave
- (c) Straight line
- (d) None of the above

169. The concept of Elasticity of Demand was developed by —

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

170. Two important factors which make difference in the Elasticity of Demand for different commodities are

- (a) Preferences and Income
- (b) Income and Expenditure
- (c) Quantity and Price of the Commodity
- (d) Tax Rates and Level of Income

171. 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

172. Comfort lies between -

- (a) Inferior goods & necessities
- (b) Luxurious & inferior goods
- (c) Necessaries & luxuries
- (d) None of the above

173. Identify Producer good

- (a) Plant & equipment
- (b) Readymade clothes
- (c) Residential houses
- (d) All of the above

**ANSWERS TO CHAPTER 2 - DEMAND & ELASTICITY OF DEMAND**

1	D	31	B	61	B	91	B	121	B	151	A
2	D	32	D	62	A	92	A	122	C	152	A
3	B	33	A	63	A	93	C	123	B	153	A
4	C	34	C	64	A	94	B	124	A	154	B
5	B	35	C	65	D	95	A	125	C	155	C
6	D	36	A	66	D	96	A	126	A	156	B
7	A	37	A	67	A	97	C	127	B	157	B
8	D	38	A	68	C	98	B	128	C	158	D
9	A	39	C	69	D	99	B	129	A	159	D
10	C	40	B	70	B	100	D	130	B	160	C
11	A	41	A	71	A	101	C	131	C	161	B
12	A	42	D	72	C	102	A	132	B	162	A
13	B	43	B	73	C	103	D	133	C	163	D
14	D	44	C	74	D	104	B	134	B	164	B
15	C	45	C	75	D	105	C	135	D	165	B
16	C	46	B	76	C	106	B	136	B	166	A
17	C	47	B	77	A	107	D	137	C	167	B
18	D	48	D	78	A	108	C	138	A	168	C
19	B	49	A	79	B	109	D	139	C	169	A
20	B	50	B	80	C	110	B	140	D	170	C
21	B	51	A	81	B	111	A	141	B	171	D
22	A	52	A	82	B	112	C	142	C	172	C
23	C	53	D	83	C	113	B	143	D	173	A
24	A	54	D	84	C	114	A	144	B		
25	B	55	C	85	B	115	B	145	B		
26	B	56	B	86	A	116	C	146	A		
27	B	57	A	87	A	117	D	147	B		
28	D	58	C	88	B	118	B	148	C		
29	B	59	D	89	B	119	D	149	B		
30	B	60	C	90	C	120	C	150	C		

# CH 3 - THEORY OF SUPPLY

## INTRODUCTION TO SUPPLY

- The supply of a good refers to :
  - Actual production of goods
  - Total stock of goods
  - Stock available
  - Amount of goods offered for sales at a particular price per unit of time
- Supply refers to quantity supplied at a particular price for a particular period of time:
  - True
  - False
  - Partly true
  - None
- Supply of a commodity is a \_\_\_\_\_.
  - Stock concept
  - Flow concept
  - Both stock and flow concept
  - Whole sale concept
- The quantity supplied of a good or service is the amount that
  - is actually bought during a given time period at a given price.
  - producers wish they could sell at a higher price.
  - producers plan to sell during a given time period at a given price.
  - people are willing to buy during a given time period at a given price.
- Supply is the
  - limited resources that are available with the seller.
  - cost of producing a good.
  - entire relationship between the quantity supplied and the price of good.
  - Willingness to produce a good if the technology to produce it becomes available.
- In a very short period, the supply
  - can be changed.
  - cannot be changed.
  - can be increased.
  - none of the above.
- Which among the following is not a determinant of Supply?
  - Price of the - commodity concerned
  - Prices of the factors of production
  - State of technology used in the production process
  - Customs and the traditions in the society.
- Supply Quantity is the same as Sales Quantity. This statement is —
  - True
  - False
  - Partially True
  - None of the above

9. Supply refers to what Firms offer for sale, and not necessarily to what they succeed in selling. This statement is —
- (a) True
  - (b) False
  - (c) Partially True
  - (d) None of the above
10. 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. Supply refers to the \_\_\_\_ by Producing Firms.
- (a) Quantities offered for sale
  - (b) Prices offered
  - (c) Sales achieved
  - (d) Profits earned
12. \_\_\_\_ refers to the quantity which is actually brought in the market.
- (a) Demand
  - (b) Supply
  - (c) Stock
  - (d) Sales
13. Supply is different from Stock. This statement is
- (a) True
  - (b) False
  - (c) Partially True
  - (d) None of the above
14. Stock is potential supply.
- (a) True
  - (b) False
  - (c) Partially True
  - (d) None of the above
15. Market Forces refer to —
- (a) Demand
  - (b) Supply
  - (c) Both (a) and (b)
  - (d) Neither (a) nor (b)
16. Which of these refer to “Market Forces”?
- (a) Price and Output
  - (b) Demand and Supply
  - (c) Cost and Revenue
  - (d) All of the above

## THEORY OF SUPPLY

17. When supply price increase in the short run, the profit of the producer \_\_\_\_\_ :
- (a) Increases
  - (b) Decreases
  - (c) Remains constant
  - (d) Decreases marginally
18. A change in the supply of a commodity along with same supply curve may occur due to:
- (a) Change in the price of the commodity
  - (b) Change in the price of related goods
  - (c) Change in the future, expectations about the price of the good
  - (d) Change in the cost of inputs
19. In the book market, the supply of books will decrease if any of the following occurs except
- (a) a decrease in the number of book publishers.
  - (b) a decrease in the price of the book.
  - (c) an increase in the future expected price of the book.
  - (d) an increase in the price of paper used.
20. An increase in the number of sellers of bikes will increase the
- (a) the price of a bike.
  - (b) demand for bikes.
  - (c) the supply of bikes.
  - (d) demand for helmets.
21. 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) None of these
22. Which of the following is the only determinant that the Law of Supply takes into account?
- (a) Technology
  - (b) Price of the Product
  - (c) Quality of the Product
  - (d) Purchasing Power of Sellers
23. 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
24. Generally, the Supply Curve —
- (a) Slopes downwards from left to right
  - (b) Slopes upwards from right to left
  - (c) Slopes upwards from left to right
  - (d) Nothing can be said
25. Generally, the Supply Curve —
- (a) Positively sloped
  - (b) Negatively sloped
  - (c) Zero—sloped
  - (d) Nothing can be said

## **CHANGE IN SUPPLY & QUANTITY SUPPLIED**

26. Increase or decrease in supply means
- (a) Shift in Supply curve
  - (b) Movement along same supply
  - (c) Both (a) and (b)
  - (d) Neither (a) or (b)
27. Expansion in supply refers to a situation when the producers are willing to supply a :
- (a) Larger quantity of the commodity at an increased price
  - (b) Larger quantity of the commodity due to increased taxation on that commodity
  - (c) Larger quantity of the commodity at the same price
  - (d) Larger quantity of the commodity at the decreased price
28. If there is an improvement in technology\_\_\_\_\_:
- (a) The supply curve shift to the left
  - (b) The supply curve shift to the right
  - (c) Quantity supplied increase
  - (d) Both (b) and (c)
29. Increase or decrease in supply means:
- (a) Change in supply due to change in its own price
  - (b) Change in supply due to change in factors other than its own price
  - (c) Both of above
  - (d) None of above
30. When supply Curve shifts to the right there is \_\_\_\_\_ in supply
- (a) An increase
  - (b) Expansion
  - (c) Contraction
  - (d) Decrease
31. An increase in the supply of a good is caused by:
- (a) improvements in its technology.
  - (b) fall in the prices of other goods.
  - (c) fall in the prices of factors of production.
  - (d) all of the above.
32. Contraction of supply is the result of:
- (a) decrease in the number of producers.
  - (b) decrease in the price of the good concerned.
  - (c) increase in the prices of other goods.
  - (d) decrease in the outlay of sellers.
33. When supply curve moves to the left, it means
- (a) Smaller supply at a given price.
  - (b) larger supply at a given price.
  - (c) constant supply at a lower price.
  - (d) none of the above.
34. When supply curve moves to right, it means
- (a) supply increases.
  - (b) supply decreases.

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- (c) supply remains constant.
  - (d) none of the above.
35. Increase or Decrease in Supply meant
- (a) Shift in Supply curve
  - (b) Movement along same supply curve
  - (c) Both (a) and (b)
  - (d) Neither (a) or (b)
36. A change in the supply of a commodity along with same supply curve may occur due to:
- (a) Change In the price of the commodity
  - (b) Change In the prices of related goods
  - (c) Change In the future expectations about the price of goods
  - (d) Change in the cost of Inputs
37. Expansion in supply refers to a situation when the producer are willing to supply a
- (a) Larger quantity of the commodity at an Increased price
  - (b) Larger quantity .t the. commodity due to Increased taxation on that commodity
  - (c) Larger quantity of. the commodity at the same price
  - (d) Larger quantity, of the commodity at the decreased price
38. When Supply Curve shifts to the right it is \_\_\_\_\_ in Supply
- (a) an increase
  - (b) expansion
  - (c) contraction
  - (d) decrease
39. Inventions and Innovations lead to —
- (a) Increase in supply quantity of new products
  - (b) Reduction in the supply quantity of products that are displaced
  - (c) Both (a) and (b)
  - (d) Neither (a) nor (b)
40. Other things being equal, the supply quantity of a product is \_\_\_\_\_related to price of related goods.
- (a) Directly
  - (b) Inversely
  - (c) Proportionally
  - (d) Not at all
41. Other things being equal, the supply quantity of a product is \_\_\_\_\_related to the Cost of Production of that product.
- (a) Directly
  - (b) Inversely
  - (c) Proportionally
  - (d) Not at all
42. 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) Increase
  - (b) Decrease
  - (c) Remain Constant
  - (d) Become Zero
43. Generally, if there are incentives like Subsidies which reduce the cost of production, the supply quantity will -
- (a) Increase
  - (b) Decrease

- (c) Remain Constant
  - (d) Become Zero
44. 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
45. In case of better rainfall, improvement in irrigation, improved seeds, etc. the supply of agricultural commodities will —
- (a) Increase
  - (b) Decrease
  - (c) Remain Constant
  - (d) Become Zero
46. Movement from one supply curve to another will be caused due to
- (a) Contraction of supply
  - (b) expansion of supply
  - (c) decrease in supply
  - (d) all of the above
47. While recognizing increase or decrease in the quantity supplied, we assume \_\_\_\_\_ remains constant.
- (a) Price
  - (b) All factors other than price
  - (c) Both (a) and (b)
  - (d) Neither (a) nor (b)

## PRICE ELASTICITY OF SUPPLY

48. Elasticity of supply is defined as responsiveness of quantity supplied of a good to change in \_\_\_\_.
- (a) Price of concerned good
  - (b) Price of substitute good
  - (c) Demand
  - (d) None
49. If supply curve is perfectly inelastic, the supply curve is :
- (a) Vertical
  - (b) Horizontal
  - (c) Upward sloping
  - (d) Downward sloping
50. What is the elasticity of supply when price changes from Rs.15 to Rs.12 and supply change from 6 units to 5 units?
- (a) 0.77
  - (b) 0.87
  - (c) 0.833
  - (d) 0.58
51. A perfectly inelastic supply curve will be
- (a) Parallel to X axis
  - (b) Parallel of Y axis
  - (c) Downward sloping
  - (d) None of these

52. When change in the quantity supplied is proportionate to the change in the price, the producer is said to have \_\_\_\_\_:
- (a) Perfectly elastic supply
  - (b) Relatively elastic supply
  - (c) Unitary elastic supply
  - (d) Perfectly inelastic supply
53. When supply is perfectly inelastic, elasticity of supply is equal to :
- (a) + 1
  - (b) 0
  - (c) .1
  - (d) Infinity
54. If the price of apples rises from Rs.30 per kg to Rs.40 per kg and the supply increase from 240 kg to 300 kg. Elasticity of supply is:
- (a) 0.75
  - (b) 0.67
  - (c) 00.67
  - (d) 00.77
55. A horizontal supply curve parallel to the quantity axis implies that the elasticity of supply is:
- (a) Zero
  - (b) Infinite
  - (c) Equal to one
  - (d) Greater than Zero but less than one
56. A vertical supply curve parallel to Y axis implies that the elasticity of supply is:
- (a) Zero.
  - (b) Infinity.
  - (c) Equal to one.
  - (d) Greater than zero but less than infinity.
57. 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.
58. A horizontal supply curve parallel to the quantity axis implies that the elasticity of supply is:
- (a) zero.
  - (b) infinite.
  - (c) equal to one.
  - (d) greater than zero but less than one.
59. If price of computers increases by 10% and supply increases by 25%. The elasticity of supply is :
- (a) 2.5
  - (b) 0.4
  - (c) - 2.5
  - (d) - 0.4
60. The elasticity of supply is defined as the
- (a) responsiveness of the quantity supplied of a good to a change in its price.
  - (b) responsiveness of the quantity supplied of a good without change in its price.
  - (c) responsiveness of the quantity demanded of a good to a change in its price.
  - (d) responsiveness of the quantity demanded of a good without change in its price.

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61. Elasticity of supply is measured by dividing the percentage change in quantity supplied of a good by —  
—
- (a) Percentage change in income.
  - (b) Percentage change in quantity demanded of goods.
  - (c) Percentage change in price.
  - (d) Percentage change in taste and preference.
62. Elasticity of supply is zero means
- (a) perfectly inelastic supply
  - (b) perfectly elastic supply.
  - (c) imperfectly elastic supply.
  - (d) none of the above.
63. Elasticity of supply is greater than one when
- (a) proportionate change in quantity supplied is more than the proportionate change in price.
  - (b) proportionate change in price is greater than the proportionate change in quantity supplied.
  - (c) change in price and quantity supplied are equal.
  - (d) None of the above.
64. If the change in quantity supplied is exactly equal to the relative change in price then the elasticity of supply is
- (a) less than one.
  - (b) greater than one.
  - (c) one.
  - (d) none of the above
65. The supply function is given as  $Q = -100 + 10P$ . Find the elasticity using point method, when price is 15.
- (a) 4
  - (b) -3
  - (c) -5
  - (d) 3
66. If the percentage change in supply is less than the percentage change in price it is called
- (a) unit elasticity of supply.
  - (b) perfectly elastic.
  - (c) more elastic supply.
  - (d) inelastic supply.
67. The supply curve for perishable commodities is \_\_\_\_\_.
- (a) elastic
  - (b) inelastic
  - (c) perfectly elastic
  - (d) perfectly inelastic
68. If supply curve is Perfectly Inelastic, the supply curve is:
- (a) Vertical
  - (b) Horizontal
  - (c) Upward sloping
  - (d) Downward sloping
69. When change in the quantity supplied is proportionate to the change in the price, the producer is said to have —
- (a) perfectly elastic supply
  - (b) relatively elastic supply
  - (c) unitary elastic supply
  - (d) perfectly inelastic supply

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70. If a 20% fall in price brings about a 10% fall in quantity supplied, then elasticity of supply will be equal to
- (a) 2.0
  - (b) 0.5
  - (c) 1.0
  - (d) 1.5
71. At a price of Rs.25 per kg. the supply of a commodity is 10,000 kg per week. An increase in its price to Rs.30 per kg, increases the supply of the commodity to 12,000 kg per elasticity of supply will be:-
- (a) 0.75.
  - (b) 1.00
  - (c) 1.50
  - (d) 1.75
72. Elasticity of supply is greater than one when:
- (a) Proportionate change in –price is more than the proportionate change in quantity supplied
  - (b) Proportionate change in quantity supplied is more than the proportionate change in price
  - (c) Change in price and quantify - supplied, are equal .. -.
  - (d) All of the above
73. When the price of the commodity increases from Rs. 200 per unit to Rs.250 per unit and consequently the quantity supplied rises from 1000 units to 1100 units. What will be the coefficient of elasticity of supply?
- (a) 4.0
  - (b) 0.4
  - (c) 5.0
  - (d) 0.5
74. Which of the following has the lowest Price Elasticity of Supply?
- (a) Luxury Items
  - (b) Necessities
  - (c) Perishable Goods
  - (d) Items that have the least budgetary allocation
75. 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
76. Elasticity of Supply is given by the formula —
- (a)  $\Delta p / \Delta q \times q / p$
  - (b)  $\Delta p / \Delta q \times p / q$
  - (c)  $\Delta q / \Delta p \times q / p$
  - (d)  $\Delta q / \Delta p \times p / q$
77. Elasticity of Supply can be measured using —
- (a) Percentage Change or Proportional Method
  - (b) Point Elasticity Method
  - (c) Arc Elasticity Method
  - (d) All the above
78. Which of the following method is not used for measuring elasticity of supply?
- (a) Arc Method
  - (b) Percentage Method

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- (c) Total outlay Method
- (d) Point Method

79. If Quantity Supplied increases by 60% for a 50% increase in Price, Elasticity of Supply is —

- (a)  $-1.2$
- (b)  $+1.2$
- (c)  $-0.83$
- (d)  $+0.83$

80. 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)  $-1.5$
- (b)  $+1.5$
- (c)  $-0.98$
- (d)  $+0.98$

81. If the Elasticity of Supply is Infinity, then Supply Curve will be —

- (a) Horizontal
- (b) Downward Sloping
- (c) Upward sloping to the right
- (d) Vertical

82. If a fisherman must sell all of his daily catch before it spoils for whatever price he is offered once the fish are caught. The Fisherman's Price Elasticity of Supply for fresh fish is —

- (a) Zero
- (b) Infinity
- (c) One
- (d) Cannot be determined

83. If the Budget of the consumer is Rs.900. and he buys 2 commodities as – 90 chocolates and 45 ice-creams. What will be the price of these commodities respectively?

- (a) Rs.10 & Rs.20
- (b) Rs.20 & Rs.10
- (c) Rs.10 & Rs.5
- (d) Any of the above

## EQUILIBRIUM POINT

84. If the supply of bottled water decreases, other things remaining the same, the equilibrium price —— and the equilibrium quantity ————
- (a) increases; decreases.
  - (b) decreases; increases.
  - (c) decreases; decreases.
  - (d) increases; increases.
85. A decrease in the demand for cameras, other things remaining the same will.
- (a) increase the number of cameras bought.
  - (b) decrease the price but increase the number of cameras bought.
  - (c) increase the price of cameras.
  - (d) decrease the price and decrease in the number of cameras bought.
86. If good growing conditions increases the supply of strawberries and hot weather increases the demand for strawberries, the quantity of strawberries bought
- (a) increases and the price might rise, fall or not change.
  - (b) does not change but the price rises.
  - (c) does not change but the price falls.
  - (d) increases and the price rises.
87. If the demand is more than supply, then the pressure on price will move it
- (a) upward
  - (b) downward
  - (c) constant
  - (d) none of the above
88. If equilibrium is present in a market then it can be said that
- (a) The price of the product will tend to rise
  - (b) Quantity demanded equals quantity supplied
  - (c) Quantity demanded exceeds quantity supplied
  - (d) Quantity supplied exceeds quantity demanded.
89. Increase in supply denotes shift in the supply curve to the right. If there is an increase in supply without change in demand, equilibrium price will \_\_\_\_\_ and the quantity demanded will go up.
- (a) fall
  - (b) remain constant
  - (c) Increase
  - (d) become zero
90. Demand & Supply interact in determining—
- (a) Price and Output
  - (b) Cost and Revenue
  - (c) Both (a) and (b)
  - (d) Neither (a) nor (b)
91. 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) None of these

92. If decrease in demand is less than the decrease in supply, then —
- (a) Equilibrium Price and Quantity both increase.
  - (b) Equilibrium Price and Quantity both decrease.
  - (c) Equilibrium Price increases and Quantity decreases.
  - (d) Equilibrium Price decreases and Quantity increases.
93. Which of the following situation does not lead to an increase 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.
94. When a market is in equilibrium –
- (a) No shortages exist
  - (b) Quantity demanded equals Quantity supplied
  - (c) A price is established that clears the market
  - (d) All of the above are correct
95. The market of computers is not in equilibrium then which of the following is definitely true?
- (a) The prices of computers will rise.
  - (b) The prices of computers will fall.
  - (c) The prices of computers will change but not enough information is given to determine the direction of change
  - (d) None of the above
96. If increase in demand is equal to increase in supply, then –
- (a) Equilibrium price and Equilibrium quantity both increases.
  - (b) Equilibrium price and Equilibrium quantity both decrease.
  - (c) Equilibrium price remains the same and Equilibrium quantity increases.
  - (d) Equilibrium price remains the same and Equilibrium quantity decreases.
97. If decrease in demand is less than the decrease in supply, then the Equilibrium price –
- (a) Decreases
  - (b) Increases
  - (c) Does not change at all
  - (d) Cannot be commented on
98. If decrease in demand is less than the decrease in supply, then the Quantity at Equilibrium price –
- (a) Increases
  - (b) Decreases
  - (c) Does not change at all
  - (d) Cannot be commented on
99. If the Supply of a commodity is perfectly elastic, an increase in Demand will result in —
- (a) Decrease in both Price and Quantity at equilibrium
  - (b) Increase in both Price and Quantity at equilibrium
  - (c) Increase in Equilibrium Quantity, Equilibrium Price remaining constant
  - (d) Increase in Equilibrium Price, Equilibrium Quantity remaining constant
100. 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) Increase in both Price and Quantity at equilibrium

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

101. If the Supply of a commodity is perfectly inelastic, an increase in Demand will result in —

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

102. 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) 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

103. If the Demand of a commodity is perfectly elastic, an increase in Supply will result in —

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

104. 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) 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

105. If the Demand of a commodity is perfectly inelastic, an increase in Supply will result in —

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

106. 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) Increase in Equilibrium Price, Equilibrium Quantity remaining constant

## **MISCELLANEOUS**

107. Which of the following statements is correct?

- (a) When the price falls the quantity demanded falls.
- (b) Seasonal changes do not affect the supply of a commodity.
- (c) Taxes and subsidies do not influence the supply of the commodity.
- (d) With lower cost, it is probable to supply more of the commodity.

108. When supply price increases in the short run the profit of the producers \_\_\_\_.

- (a) increase
- (b) decrease
- (c) remains constant
- (d) decreases marginally

109. Short run price is also called by the name of \_\_\_\_

- (a) market price
- (b) showroom price
- (c) maximum retail price
- (d) none of these

110. Period in which supply cannot be increased is called

- (a) Market Period
- (b) Short Run
- (c) Long Run
- (d) None of these

111. Given the Market Demand, the burden of specific tax that will be borne by the Consumer (Buyer) depends on the —

- (a) Price Elasticity of Supply
- (b) Price Elasticity of Demand
- (c) Consumer's Ability
- (d) Type of the Product

#### ANSWERS TO CHAPTER – THEORY OF SUPPLY

1	D	26	A	51	B	76	D	101	D
2	A	27	A	52	C	77	D	102	D
3	B	28	B	53	B	78	C	103	C
4	C	29	B	54	A	79	B	104	C
5	C	30	A	55	B	80	B	105	D
6	B	31	D	56	A	81	A	106	D
7	D	32	B	57	B	82	A	107	D
8	B	33	A	58	B	83	A	108	A
9	A	34	A	59	A	84	A	109	A
10	C	35	A	60	A	85	D	110	A
11	A	36	A	61	C	86	A	111	A
12	B	37	A	62	A	87	A		
13	A	38	A	63	A	88	B		
14	A	39	C	64	C	89	A		
15	C	40	B	65	D	90	A		
16	B	41	B	66	D	91	A		
17	A	42	B	67	D	92	C		
18	A	43	A	68	A	93	D		
19	B	44	B	69	C	94	D		
20	C	45	A	70	A	95	C		
21	C	46	C	71	B	96	C		
22	B	47	B	72	B	97	B		
23	D	48	A	73	B	98	B		
24	C	49	A	74	C	99	C		
25	A	50	C	75	C	100	C		

# CH 4 - CONSUMER BEHAV- IOUR

## **BASICS & INTRODUCTION**

1. Wants may arise due to \_\_\_\_\_ causes.
  - (a) Elementary
  - (b) Psychological
  - (c) Internal
  - (d) Both a & b
2. Which of the following is not the characteristic of wants of human beings?
  - (a) Wants are unlimited
  - (b) Wants are subjective & relative
  - (c) Wants are affected by income, taste, fashion, advertisements & social customs
  - (d) Wants do not vary with time, place & person
3. Wants arise from multiple causes including \_\_\_\_\_
  - (a) Natural instincts
  - (b) Social obligations
  - (c) Individual's social & economic status
  - (d) All of the above
4. Which one of the following is not an act of consumption?
  - (a) Burning of gas for cooking food
  - (b) Burning of furniture in an accidental fire
  - (c) Burning of crackers on Diwali
  - (d) Eating an ice-cream.
5. The creation of utilities in terms of goods and services is called
  - (a) marginal utility.
  - (b) total Utility.
  - (c) production
  - (d) distribution
6. 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.
7. Utility is a —
  - (a) Subjective concept
  - (b) Objective concept
  - (c) Irrelevant concept
  - (d) Indeterminate concept

8. Utility—
- (a) Differs from person to person
  - (b) Differs from time to time
  - (c) Differs from product to product
  - (d) All of the above are correct
9. Utility is applicable —
- (a) Only for socially desirable goods (food,etc.)
  - (b) Only for harmful goods like Liquor, Cigarettes, etc.
  - (c) Both (a) and (b)
  - (d) Neither (a) nor (b)
10. Utility is ethically neutral. This statement is —
- (a) True
  - (b) False
  - (c) Partially True
  - (d) Nothing can be said about Utility
11. All wants of an individual are not of;
- (a) Equal importance
  - (b) Immediate importance
  - (c) Fixed importance
  - (d) All of the above
12. The economic analysis expects the Consumer to behave in a \_\_\_\_\_ manner.
- (a) Rational
  - (b) Irrational
  - (c) Emotional
  - (d) Indifferent.
13. A Rational Person does not act unless —
- (a) The action is ethical.
  - (b) The action leads to Marginal Costs that exceed Marginal Benefits.
  - (c) The action produces Marginal Benefits that exceed Marginal Costs.
  - (d) The action makes money for the person
14. 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 choices never vary
  - (d) One's makes choices that do not involve tradeoffs.

### **CARDINAL APPROACH**

15. Total utility is maximum when:
- (a) Marginal utility is zero
  - (b) Marginal utility is maximum
  - (c) Average utility is maximum
  - (d) Average utility is zero
16. Marginal utility curve of a consumer is also his:
- (a) Indifference curve
  - (b) Total utility curve
  - (c) Supply curve
  - (d) Demand curve

17. Marginal utility approach was given by:

- (a) J.R Hicks
- (b) Alfred Marshall
- (c) Robbins
- (d) A.C Pigou

18. Which economist said that money is the measuring rod of utility?

- (a) A.C Pigou
- (b) Marshall
- (c) Adam smith
- (d) Robbin

19. Marginal utility is a \_\_\_\_\_ Concept

- (a) Cardinal
- (b) Ordinal
- (c) Both
- (d) None

20. Consumer surplus is based on which concept?

- (a) Diminishing Marginal utility
- (b) Law of Demand
- (c) Indifference Curve Approach
- (d) None

21. Cardinal approach is related to :

- (a) Indifference curve
- (b) Equi- marginal utility
- (c) Law of diminishing returns
- (d) None of these

22. The second glass of lemonade gives lesser satisfaction to a thirsty boy. This is a clear case of

- (a) Law of demand.
- (b) Law of diminishing returns.
- (c) Law of diminishing utility.
- (d) Law of supply

23. By consumer surplus, economists mean

- (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.

24. The aim of the consumer in allocating his income is to \_\_\_\_\_.

- (a) maximize his total utility.
- (b) maximize his marginal utility.
- (c) to buy the goods he wants most whatever the price.
- (d) to buy the goods which he expects to be short in supply.

25. The law of equal marginal utility considers price of money as:

- (a) zero
- (b) less than one
- (c) more than one
- (d) one

26. The difference between what a consumer is ready to pay and what he actually pays is:

- (a) Consumer Surplus
- (b) Consumer deficit
- (c) Both
- (d) None

27. Excess of the “price which a consumer would be willing to, pay rather than go without a thing Over that Which he actually does pay”. Who among the following has given this statement about consumer surplus?

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

28. A consumer buys two commodities X and Y, he would be in equilibrium when:

- (a)  $\frac{MU_x}{P_x} = \frac{MU_y}{P_y}$
- (b)  $\frac{MU_x}{MU_y} = MU_m$
- (c)  $\frac{MU_x}{MU_x} = \frac{MU_y}{P_x}$
- (d)  $\frac{P_x}{P_y} = MU_m$

29. Consumer Surplus is based on which concept?

- (a) Diminishing Marginal Utility
- (b) Law of Demand
- (c) Indifference Curve approach
- (d) None

30. The value of X in the following table is:

Number of units consumed	Marginal utility	Total utility
1	30	30
2	27	x

- (a) 27
- (b) 30
- (c) 54
- (d) 57

31. When marginal utility from the consumption of commodity is zero, then

- (a) Total utility is zero
- (b) Total utility is highest
- (c) Total utility rising
- (d) Total utility is falling

32. Total utility starts decreasing when

- (a) marginal utility is positive
- (b) marginal utility becomes negative
- (c) marginal utility becomes zero
- (d) none of above

33. Marshalling utility analysis is known as \_\_\_\_ analysis.

- (a) Cardinal

- (b) Ordinal
- (c) Classical
- (d) Historical

34. When total utility increases at a diminishing rate, marginal utility is:
- (a) Zero
  - (b) Diminishing
  - (c) One
  - (d) Maximum
35. Which among the following is not the assumption of the law of diminishing marginal utility?
- (a) Consumption should be continuous
  - (b) Different units of the commodity under use should consist of standard units
  - (c) Different units consumed should be identical
  - (d) State of mind of the consumer should not be normal and rational.
36. Who is the main exponent of Marginal Utility Analysis?
- (a) Paul Samuelson
  - (b) Hicks
  - (c) Keynes
  - (d) Marshall
37. According to Marginal Utility analysis, Utility can be measured in —
- (a) Ranks
  - (b) Cardinal Numbers
  - (c) Nominal Values
  - (d) All of the above
38. Which one of the following assumptions is not necessary for the Cardinal Utility Theory?
- (a) Rationality of the Consumer
  - (b) Constant Marginal Utility of Money
  - (c) Perfectly Competitive Market
  - (d) Additivity of Utility
39. Cardinal Approach to Utility analyses —
- (a) One Commodity at a time
  - (b) Two Commodities at a time
  - (c) Many Commodities at a time
  - (d) Does not analyse any Commodity at all
40. Under Cardinal Approach to Utility \_\_\_ is the measuring rod of Utility.
- (a) Customer Satisfaction
  - (b) Relative Preference
  - (c) Money
  - (d) All of the above
41. 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
42. Which of the following is not an assumption under Cardinal Approach to Utility Analysis?
- (a) Utilities of goods are independent of one another.
  - (b) Marginal Utility of Money is constant

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(c) Utility is comparable across goods

(d) Utility cannot be measured, but only ranked

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43. The Cardinal Approach to Utility Analysis assumes that Utility is measurable and quantifiable. This 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) All of the above
44. The Cardinal Approach to Utility assumes Marginal Utility of Money is —
- (a) Zero
  - (b) Constant
  - (c) Increasing Trend
  - (d) Decreasing Trend
45. \_\_\_\_\_ is the sum total of the Utility derived from additional units of a commodity
- (a) Average Utility
  - (b) Marginal Utility
  - (c) Total Utility
  - (d) Ordinal Utility
46. Marginal Utility = Additional Utility derived by consuming additional \_\_\_\_\_ unit of a commodity.
- (a) One
  - (b) Next
  - (c) Single
  - (d) All of the above
47. Marginal Utility —
- (a) Will always be positive
  - (b) Will always be negative
  - (c) Can be positive or negative but not zero
  - (d) Can be positive or negative or zero
48. Total Utility —
- (a) Will generally be positive
  - (b) Will generally be negative
  - (c) Can be positive or negative but not zero
  - (d) Can be positive or negative or zero
49. 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) +4
  - (c) 9
  - (d) 3
50. The Total Utility that Shyam derives after having 4 Mangoes is 10, and the Total Utility on consuming 5 Mangoes is 9. What is the Marginal Utility for 5<sup>th</sup> mango?
- (a) 1
  - (b) 0
  - (c) - 1
  - (d) ±1
51. 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) 250

- (c) 190  
(d) 310

52. Total Utility derived by Ram by eating 6 Apples is 300. Marginal Utility of the 7<sup>th</sup> Apple is 30. What will be the Total Utility for 7 Apples?

- (a) 330  
(b) 270  
(c) 300  
(d) 30

USE THE FOLLOWING TABLE TO ANSWER THE FOLLOWING 3 QUESTIONS -

UNITS	TU	MU
0	0	
1	3600	
2	6800	
3	9600	
4	12000	
5	14000	
6	15600	
7	16800	
8	17600	
9	18000	

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

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

54. What is the Marginal Utility when consumption increases from 6 units to 7 units?

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

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

- (a) 3000  
(b) 400  
(c) 2000  
(d) 1500

56. Which of the following laws say "If a person has a product which can be put to several uses he 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 Utility  
(c) Law of Utility  
(d) Law of Diminishing Marginal Returns

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

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

(d) Equal

58. 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) No
  - (d) Infinite
59. The \_\_\_\_\_ Consumer will attain maximum satisfaction, and will be in equilibrium when MU of money spent on various goods that he buys, are equal.
- (a) Irrational
  - (b) Not in equilibrium
  - (c) Rational
  - (d) In happiness
60. 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) All of the above
61. If MU of money spent on Commodity A is greater than the MU of money spent on Commodity B, the Consumer will withdraw some money from the purchase of B, and will spend it on A, till the MU of money in the two cases becomes equal. Which theory says so?
- (a) Theory of Total Utility
  - (b) Theory of Diminishing Marginal Utility
  - (c) Theory of Equi—Marginal Utility
  - (d) Theory of Diminishing Marginal Returns
62. 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
63. A Buyer's willingness to pay is that Buyer's —
- (a) Minimum amount he is willing to pay for a product.
  - (b) Producer Surplus.
  - (c) Consumer Surplus.
  - (d) Maximum Amount he is willing to pay for a product.
64. 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
65. The Consumer is in equilibrium when Marginal Utility from a Commodity equals —
- (a) Demand for that Commodity
  - (b) Supply of that Commodity
  - (c) Price of the Commodity
  - (d) All of the above

66. 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
67. Consumer is in equilibrium and he keeps purchasing till the point —
- (a) Marginal Utility = Price
  - (b) Marginal Utility = Zero
  - (c) Marginal Utility = negative
  - (d) Marginal Utility = Quantity
68. 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.
69. Consumer Surplus is the area —
- (a) Below the Demand Curve and above the price
  - (b) Above the Supply Curve and below the price
  - (c) Above the Demand Curve and below the price
  - (d) Below the Supply Curve and above the price
70. Consumer stops purchasing the additional units of the commodity when —
- (a) Marginal Utility starts declining
  - (b) Marginal Utility become zero
  - (c) Marginal Utility is equal to Marginal Utility of Money
  - (d) Total Utility is increasing
71. Consumer's Surplus left with the consumer under Price Discrimination is —
- (a) Maximum
  - (b) Minimum
  - (c) Zero
  - (d) Not predictable
72. Under which of the following market types will Consumers Surplus be generally minimum —
- (a) Perfect Competition
  - (b) Monopoly
  - (c) Monopolistic Competition
  - (d) All of the above
73. A Monopolist will try to use Consumer's Surplus to his advantage by adopting —
- (a) Price Rigidity
  - (b) Price Exploitation
  - (c) Price Discrimination
  - (d) Price Equilibrium
74. In case of two or more products, a Consumer reaches equilibrium when —
- (a)  $MU_x/P_x = MU_y/P_y$
  - (b)  $MU_x P_x = MU_y P_y$
  - (c)  $MU_x + P_x = MU_y + P_y$
  - (d)  $MU_x/P_y = MU_y/P_x$

75. 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 and 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
76. If the prices of ice—cream and chocolate are 40 and 30 respectively, and the Marginal Utility of Chocolate is 150, what is the Marginal Utility of ice—cream assuming that consumer is at equilibrium?
- (a) 112.5
  - (b) 125
  - (c) 200
  - (d) 225
77. Which among the following is the drawback of Consumer Surplus (as explained in Marginal Utility analysis)?
- (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
78. In case of necessities, the Marginal Utilities of the first few units are —
- (a) Infinite
  - (b) Zero
  - (c) There is no Marginal Utility at all
  - (d) Nothing can be said
79. The Consumer's Surplus derived from a product is \_\_\_\_\_ by the availability of substitutes.
- (a) Not affected
  - (b) Affected
  - (c) Nothing can be said
  - (d) Substitutes are not available at all
80. The concept of Consumer's Surplus fails in case of articles which are used for their prestige value, e.g. Diamonds, etc. This statement is —
- (a) True
  - (b) False
  - (c) Partially True
  - (d) Nothing can be said
81. The concept of Consumer's Surplus is based on the assumption that Marginal Utility of Money is
- (a) Zero
  - (b) Negative
  - (c) Constant
  - (d) Any of the above
82. The concept of Consumer's Surplus adopts —
- (a) Cardinal Approach only
  - (b) Ordinal Approach only
  - (c) Both (a) and (b)
  - (d) Neither (a) nor (b)
83. 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) Nothing can be said

USE THE FOLLOWING TABLE AND ANSWER THE FOLLOWING QUESTIONS -

UNITS	TU	MU
0	0	?
1	1800	A
2	B	1600
3	4800	C
4	D	1200
5	7000	E
6	F	800
7	8400	G
8	8800	H
9	I	200
10	J	0
11	8800	K
12	L	- 600

84. Find the value of "?" in the above table.

- (a) 0
- (b) 1
- (c) 1800
- (d) Cannot be determined

85. Find the value of "A" in the above table.

- (a) 0
- (b) 1
- (c) 1800
- (d) Cannot be determined

86. Find the value of "B" in the above table.

- (a) 2
- (b) 3400
- (c) 1600
- (d) Cannot be determined

87. Find the value of "C" in the above table.

- (a) 3
- (b) 4800
- (c) 1400
- (d) Cannot be determined

88. Find the value of "D" in the above table.

- (a) 6000
- (b) 4
- (c) 1200
- (d) Cannot be determined

89. Find the value of "E" in the above table.

- (a) 7000
- (b) 5
- (c) 1000
- (d) Cannot be determined

90. Find the value of "F" in the above table.

- (a) 6
- (b) 7800
- (c) 800
- (d) Cannot be determined

91. Find the value of "G" in the above table.

- (a) 7
- (b) 8400
- (c) 600
- (d) Cannot be determined

92. Find the value of "H" in the above table.

- (a) 8800
- (b) 400
- (c) 8
- (d) Cannot be determined

93. Find the value of "I" in the above table.

- (a) 9000
- (b) 200
- (c) 9
- (d) Cannot be determined

94. Find the value of "J" in the above table.

- (a) 9000
- (b) 0
- (c) 10
- (d) Cannot be determined

95. Find the value of "K" in the above table.

- (a) 200
- (b) - 200
- (c) 11
- (d) Cannot be determined

96. Find the value of "L" in the above table.

- (a) 600
- (b) - 60
- (c) 8200
- (d) - 8200

97. Which of the following goods give the maximum amount of consumer surplus?

- (a) Ice cream
- (b) Car
- (c) Color television
- (d) Water

98. A Rational consumer will consume the Product X till -

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

99. The law of equi marginal utility considers price of money as:

- (a) Zero
- (b) Less than one
- (c) More than one
- (d) One

100. Total utility derived from the consumption of a commodity is equal to Rs.5. Price is equal to 1 and consumer has bought 3 units. What will be his consumer surplus?

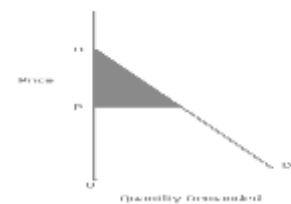
- (a) Rs.2
- (b) Rs.2.5
- (c) Rs.3
- (d) Rs.4

101. The satisfaction which a consumer derives in the consumption of a commodity is equal to Rs.320. The price of that commodity is Rs.180. what will be his consumer surplus?

- (a) 180.
- (b) 200.
- (c) 140.
- (d) 500.

102. In the diagram given below, the shaded portion represents.

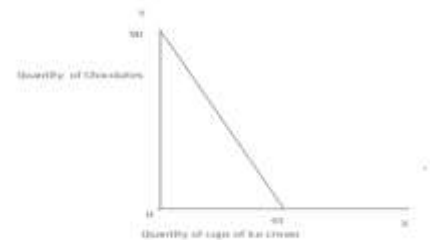
- (a) Price above which there is no demand for the commodity.
- (b) Monopoly price of the commodity.
- (c) Consumer surplus.
- (d) None of the above.



103. The figure below shows the budget constraint of a consumer with an income of Rs. 900/- to spend on two commodities, namely ice cream and chocolates. The prices of these two commodities respectively

are:

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



104. The law of equal marginal utility is one of the laws within whose parameters Marginal Utility

Analysis is framed. The other one is:

- (a) Law of diminishing marginal utility.
- (b) Law of proportions.
- (c) Law of consumer surplus
- (d) Law of increasing returns.

105. Consumer's surplus cannot be measured in terms of money because

- I. the marginal utility of money changes as purchases are made
- II. the consumer's stock of money reduces
- III. of the Income of the consumer
- IV. the price of the product changes

Choose the Correct option:

- (a) I and II only
- (b) II and III Only
- (c) III and IV
- (d) I and IV only

**ORDINAL APPROACH**

106. \_\_\_\_\_ shows various combinations of two production that give same amount of satisfaction :
- (a) ISO cost curve
  - (b) Indifference curve
  - (c) Marginal utility curve
  - (d) ISO quant
107. An indifference curve is always:
- (a) Concave to the origin
  - (b) Convex to the origin
  - (c) L- shaped
  - (d) vertical straight line
108. At equilibrium, the slope of the indifference curve is:
- (a) Equal to the slope of budget line
  - (b) Greater than the slope of budget
  - (c) Similar than the slope of budget one
  - (d) None
109. Indifference curves between income and leisure for an individual are generally:
- (a) Concave to the original
  - (b) Convex to the origin
  - (c) Negatively sloped straight line
  - (d) Positively sloped straight lines
110. In case of a right angled indifference curve the goods are:
- (a) Perfect complements
  - (b) Perfect substitutes
  - (c) Inferior goods
  - (d) Giffen good
111. Indifference curves never intersect each other due to :
- (a) Different levels of satisfaction
  - (b) Same levels of satisfaction
  - (c) Convex to origin
  - (d) Concave to origin
112. A budget constraints line is a result of:
- (a) Market price of commodity X
  - (b) Market price of commodity Y
  - (c) Income of the consumer
  - (d) All of these
113. The slope of IC can be:
- (a) Downward
  - (b) Upward
  - (c) Straight line
  - (d) Can be all above
114. Indifference Curves are
- (a) Convex to Origin
  - (b) Concave
  - (c) Neither 'a' nor 'b'

- (d) None
115. When indifference curve is L- shaped then two goods will be \_\_\_\_\_  
(a) Complementary goods.  
(b) Substitute goods  
(c) Perfect substitute goods  
(d) Perfect complimentary goods
116. On which approach, indifference curve analysis is based?  
(a) Cardinal approach  
(b) Ordinal approach  
(c) Cardinal and ordinal both  
(d) None of the above
117. Indifference curves are convex to the origin because they are based on:  
(a) Increasing marginal rate of substitution  
(b) Diminishing marginal rate of substitution  
(c) Constant marginal rate of substitution  
(d) Zero marginal rate of substitution
118. The consumer is in equilibrium at a point where the budget line:  
(a) is above an indifference curve.  
(b) is below an indifference curve.  
(c) is tangent to an indifference curve.  
(d) cuts an indifference curve.
119. An indifference curve slopes down towards right since more of one commodity and less of another results in:  
(a) same level of satisfaction.  
(b) greater satisfaction.  
(c) maximum satisfaction.  
(d) any of the above.
120. Which of the following is a property of an indifference curve?  
(a) it is convex to the origin.  
(b) the marginal rate of substitution is constant as you move along an indifference curve.  
(c) marginal utility is constant as you move along an indifference curve.  
(d) total utility is greatest where the 45 degree line cuts the indifference curve.
121. A point below the budget line of a consumer  
(a) Represents a combination of goods which costs the whole of consumer's income.  
(b) Represents a combination of goods which costs less than the consumer's income.  
(c) Represents a combination of goods which is unattainable to the consumer given his/her money income.  
(d) Represents a combination of goods which costs more than the consumers' income.
122. An indifference curve is always:  
(a) Concave to the origin  
(b) Convex to the origin  
(c) L-shaped  
(d) A vertical straight line
123. In a case of a right angle indifference curve the goods are:  
(a) Perfect complements  
(b) Perfect substitutes  
(c) inferior goods

NAHTA PROFESSIONAL CLASSES  
(d) Giffen good

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124. Indifference curves never intersect each other due to:

- (a) Different levels of satisfaction
- (b) Same levels of satisfaction
- (c) Convex to origin
- (d) Concave to origin



125. When Marginal rate of Substitution is increasing, the shape of indifference curve is
- (a) Horizontal
  - (b) Vertical
  - (c) Concave
  - (d) Convex
126. In the case of complimentary goods the shape of indifference of will be:
- (a) Convex to the origin.
  - (b) Straight line.
  - (c) L Shaped
  - (d) Circular
127. The price line or budget line of a consumer is:
- (a) Parallel to x-axis
  - (b) Parallel to y-axis
  - (c) Straight line joining the two axis
  - (d) None of the above.
128. In which approach is Utility ranked in order of preferences but not measured and quantified?
- (a) Cardinal
  - (b) Ordinal
  - (c) Independent Variables Approach
  - (d) Both Cardinal and Ordinal
129. As per the Ordinal Approach —
- (a) Measurement of Utility is not possible through money
  - (b) Measurement of Utility is possible but it cannot be ranked
  - (c) Measurement of Utility is not possible in Cardinal Numbers but it can be ranked
  - (d) Measurement and ranking of Utility is possible
130. 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
131. Ordinal Utility Approach is also called —
- (a) Cardinal Utility Analysis
  - (b) Hicks and Allen Approach
  - (c) Marshallian Approach
  - (d) All of the above
132. Which of the following Economists is not concerned with Ordinal Utility Approach?
- (a) Marshall
  - (b) Hicks
  - (c) Allen
  - (d) All the above
133. 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)

134. 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)
135. A higher indifference curve shows:  
(a) A higher level of satisfaction  
(b) A higher level of production  
(c) A higher level of Income  
(d) None of the above.
136. An indifference curve is a curve which represents all those combinations of two goods which give \_\_\_\_ satisfaction to the consumer.  
(a) greater  
(b) increasing  
(c) decreasing  
(d) equal
137. The marginal rate of substitution \_\_\_\_\_ as a consumer moves down the indifference curve.  
(a) Increases  
(b) diminishes  
(c) remains unchanged  
(d) becomes zero
138. An indifference curve slopes down towards the right since more of one commodity and less of another, yields:  
(a) Same satisfaction  
(b) Greater satisfaction  
(c) Maximum satisfaction  
(d) Decreasing satisfaction
139. Which one of the following statements about, an indifference curve is not correct?  
(a) An indifference curve has negative slope  
(b) An indifference curve always touches X-axis  
(c) An indifference curve is convex to origin  
(d) An Indifference curve never intersects another indifference curve
140. \_\_\_\_\_ shows how much of one commodity is substituted for how much of another commodity.  
(a) Marginal Utility  
(b) Marginal Returns  
(c) Marginal rate of Substitution  
(d) Marginal Income
141. MRS indicates movement -  
(a) From lower IC to higher IC  
(b) From higher IC to lower IC  
(c) Along an IC  
(d) Any of the above

142. The substitution effect of fall in the price of the commodity will lead to :
- (a) Upward movement in indifference curve
  - (b) Downward movement in indifference curve
  - (c) Movement from lower IC to a higher one
  - (d) None

## MISCELLANEOUS

143. Which of the following statements is incorrect?
- (a) An indifference curve must be downward-sloping to the right.
  - (b) Convexity of a curve implies that the slope of the curve diminishes as one moves from left to right.
  - (c) The income elasticity for inferior goods to a consumer is positive.
  - (d) The total effect of a change in the price of a good on its quantity demanded is called the price effect.
144. When economists speak of the utility of a certain good, they are referring to
- (a) the demand for the good.
  - (b) the usefulness of the good in consumption.
  - (c) the expected satisfaction derived from consuming the good.
  - (d) the rate at which consumers are willing to exchange one good for another.
145. Which of the following theories explain consumer behaviour?
- (a) Marginal utility analysis
  - (b) Indifference curve analysis
  - (c) Returns to scale
  - (d) Both a & b
146. Alfred Marshall was a \_\_\_\_\_ economist.
- (a) British
  - (b) American
  - (c) European
  - (d) Asian
147. When  $MU_a$  is divided by  $MU_b$  then it is the marginal rate of substitution of
- (a) A for B
  - (b) B for A
  - (c) A & B for other product
  - (d) None of these
148. When the consumers have more & more unit of food, he is prepared to give up less & less units of clothing. It is due to \_\_\_\_\_ -
- (a) Falling MRS
  - (b) Rising MRS
  - (c) Constant MRS
  - (d) None of these

**ANSWERS TO CONSUMER BEHAVIOUR**

1	D	26	A	51	C	76	C	101	C	126	B
2	D	27	A	52	A	77	D	102	C	127	C
3	D	28	A	53	C	78	A	103	B	128	B
4	B	29	A	54	B	79	B	104	A	129	C
5	C	30	D	55	B	80	A	105	A	130	D
6	C	31	B	56	A	81	C	106	A	131	B
7	A	32	B	57	D	82	A	107	B	132	A
8	D	33	A	58	A	83	B	108	A	133	B
9	C	34	B	59	C	84	D	109	D	134	B
10	A	35	D	60	A	85	C	110	A	135	A
11	D	36	D	61	C	86	B	111	A	136	D
12	A	37	B	62	D	87	C	112	D	137	B
13	C	38	C	63	D	88	A	113	D	138	A
14	B	39	A	64	A	89	C	114	A	139	B
15	A	40	C	65	C	90	B	115	D	140	C
16	D	41	A	66	B	91	C	116	B	141	C
17	B	42	D	67	A	92	B	117	B	142	C
18	A	43	A	68	C	93	A	118	C	143	C
19	A	44	B	69	A	94	A	119	A	144	C
20	A	45	C	70	C	95	B	120	A	145	D
21	B	46	D	71	B	96	C	121	B	146	A
22	B	47	D	72	B	97	D	122	B	147	A
23	C	48	A	73	C	98	D	123	A	148	A
24	A	49	A	74	A	99	D	124	A		
25	D	50	C	75	A	100	C	125	C		

# CH 5 -THEORY OF PRODUCTION

## INTRODUCTION TO PRODUCTION

1. What is Production in Economics:-
  - (a) Creation / Addition of Utility
  - (b) Production of food grains
  - (c) Creation of services
  - (d) Manufacturing of goods
2. \_\_\_\_\_ shows the overall output generated at a given level of input:
  - (a) Cost function
  - (b) Production function
  - (c) Iso cost
  - (d) Marginal rate of technical substitution
3. Who gave the concept of innovative Entrepreneurship?
  - (a) Robbins
  - (b) Adam Smith
  - (c) Schumpeter
  - (d) Sweezy
4. Functions of the entrepreneur are:
  - (a) Risk bearing
  - (b) Initiating a business enterprise and resource co-ordination
  - (c) Introduction of new innovations
  - (d) All of the these
5. Labour force wants more \_\_\_\_\_.
  - (a) Facility
  - (b) Leisure
  - (c) Benefit
  - (d) All of the above
6. Which function shows relationship between input and output?
  - (a) Consumption function
  - (b) Investment function
  - (c) Production function
  - (d) cost function
7. Which of the following is considered production in Economics?
  - (a) Tilling of soil.
  - (b) Singing a song before friends.
  - (c) Preventing a child from falling into a manhole on the road.
  - (d) Painting a picture for pleasure.
8. 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.
9. Which of the following statements is true?  
(a) The services of a doctor are considered production.  
(b) Man can create matter.  
(c) The services of a housewife are considered production.  
(d) When a man creates a table, he creates matter.
10. Which of the following is a function of an entrepreneur?  
(a) Initiating a business enterprise.  
(b) Risk bearing.  
(c) Innovating.  
(d) All of the above.
11. The production function is a relationship between a given combination of inputs and:  
(a) another combination that yields the same output.  
(b) the highest resulting output.  
(c) the increase in output generated by one-unit increase in one output.  
(d) all levels of output that can be generated by those inputs.
12. What is a production function?  
(a) Technical relationship between physical inputs and physical output.  
(b) Relationship between fixed factors of production and variable factors of production.  
(c) Relationship between a factor of production and the utility created by it.  
(d) Relationship between quantity of output produced and time taken to produce the output.
13. Laws of production does not include .....  
(a) returns to scale.  
(b) law of diminishing returns to a factor.  
(c) law of variable proportions.  
(d) least cost combination of factors.
14. The production function:  
(a) Is the relationship between the quantity of inputs used and the resulting quantity of output.  
(b) Tells us the maximum attainable output from a given combination of inputs.  
(c) Expresses the technological relationship between inputs and output of a product.  
(d) All the above.
15. The most important function of an entrepreneur is to \_\_\_\_\_.  
(a) Innovate  
(b) Bear the sense of responsibility  
(c) Finance  
(d) Earn profit
16. Economic costs of production differ from accounting costs of production because  
(a) Economic costs include expenditures for hired resources while accounting costs do not.  
(b) Accounting costs include opportunity costs which are deducted later to and paid out costs.  
(c) Accounting costs include expenditures for hired resources while economic costs do not.  
(d) Economic costs add the opportunity cost of a firm which uses its own resources.
17. Production does not consist 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
18. Which of the following statements regarding Service Industry is true?  
(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
19. Production refers to —  
(a) Capital Goods only  
(b) Consumer Goods only  
(c) Both (a) and (b)  
(d) Neither (a) nor (b)
20. Production includes —  
(a) Mining  
(b) Manufacturing  
(c) Service providing  
(d) All of above
21. Production of Cellphones by a Manufacturing Company is an example of Production Activity. This statement is —  
(a) True  
(b) False  
(c) Partially True  
(d) None of the above
22. Hawking of Fruits and Vegetables by a Street Vendor is an example of Production Activity. This statement  
(a) True  
(b) False  
(c) Partially True  
(d) None of the above
23. Work of a Professional (like Chartered Accountant) does not result in any tangible output. Hence, it is not a Production Activity in Economics. This statement is —  
(a) True  
(b) False  
(c) Partially True  
(d) None of the above
24. 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
25. In Economics, Production Activity should involve —  
(a) Creation of new matter  
(b) Addition of value to existing matter  
(c) Both (a) and (b)  
(d) Neither (a) nor (b)

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26. Production Activity involves creation of Utility. Such Utility can be created as —
- (a) Form Utility
  - (b) Place Utility
  - (c) Time Utility
  - (d) All of the above
27. Production Activity involves creation of Utility. Such Utility can be created as
- (a) Personal Utility
  - (b) Form Utility
  - (c) Time Utility
  - (d) All of the above
28. In Production Activity one of the ways of creating Utility is —
- (a) Form Utility
  - (b) Marginal Utility
  - (c) Total Utility
  - (d) All of the above
29. \_\_\_\_\_Utility refers to changing the place of the resources, from place of lesser use to place of greater use.
- (a) Form Utility
  - (b) Place Utility
  - (c) Time Utility
  - (d) Personal Utility
30. \_\_\_\_\_Utility is created by making goods and services available at times when they are not normally available.
- (a) Form Utility
  - (b) Place Utility
  - (c) Time Utility
  - (d) Personal Utility
31. \_\_\_\_\_Utility involves making use of personal skills in the form of services.
- (a) Form Utility
  - (b) Place Utility
  - (c) Time Utility
  - (d) Personal Utility
32. Making Furniture from raw Wood is an example of creation of —
- (a) Form Utility
  - (b) Place Utility
  - (c) Time Utility
  - (d) Personal Utility
33. When Bangles and Ear—Rings are made from Gold, we refer to creation of —
- (a) Form Utility
  - (b) Place Utility
  - (c) Time Utility
  - (d) Personal Utility
34. Raw Material converted into Finished Product manufacturing process, refers to creation of
- (a) Form Utility
  - (b) Place Utility
  - (c) Time Utility
  - (d) Personal Utility

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35. If Apples from Kashmir are available for Sale in Chennai, it refers to creation of —  
(a) Form Utility  
(b) Place Utility  
(c) Time Utility  
(d) Personal Utility
36. If Oranges from Nagpur are made available for Sale in a Department Store in Kolkata, it refers to creation of —  
(a) Form Utility  
(b) Place Utility  
(c) Time Utility  
(d) Personal Utility
37. If Garments from Tirupur are available for Sale in a Store in USA, it refers to creation of  
(a) Form Utility  
(b) Place Utility  
(c) Time Utility  
(d) Personal Utility
38. Moving or distributing goods from places of production (Origin Centres) to Markets (destination centres) refers to creation of —  
(a) Form Utility  
(b) Place Utility  
(c) Time Utility  
(d) Personal Utility
39. Extraction from coal, minerals, gold, etc. from Earth, refers to creation of —  
(a) Form Utility  
(b) Place Utility  
(c) Time Utility  
(d) Personal Utility
40. Storing harvested foodgrains for use till next harvest is an example of creation of —  
(a) Form Utility  
(b) Place Utility  
(c) Time Utility  
(d) Personal Utility
41. Work of Professionals like Doctors, Chartered Accountants, etc. can be considered under —  
(a) Form Utility  
(b) Place Utility  
(c) Time Utility  
(d) Personal Utility
42. To complete production, all four types of utilities, i.e. Form, Place, Time and Personal Utility, should be created. This statement is —  
(a) True  
(b) False  
(c) Partially True  
(d) None of the above
43. Land is a \_\_\_\_\_ Factor of Production.  
(a) Natural  
(b) Man Made  
(c) Both (a) and (b)  
(d) Neither (a) nor (b)

44. Which of these is not a basic Factor of Production in Economics?  
(a) Land  
(b) Enterprise  
(c) Capital  
(d) Money
45. The demand for a Factor of Production is said to be a Derived Demand because—  
(a) It is a function of the profitability of an enterprise  
(b) It depends on the supply of complementary factors  
(c) Its stems from the demand for the final product  
(d) It arises out of means being scarce in relation to wants.
46. Gold Mines is an example of \_\_\_\_\_, as a Factor of Production.  
(a) Land  
(b) Labour  
(c) Capital  
(d) Entrepreneurial Skills
47. Anything available above the earth's surface is called "Land". This statement is —  
(a) True  
(b) False  
(c) Partially True  
(d) None of the above
48. As a Factor of Production, the Supply of Land is \_\_\_\_\_ from the viewpoint of the entire economy.  
(a) Perfectly elastic  
(b) Relatively elastic  
(c) Relatively inelastic  
(d) Perfectly inelastic
49. As a Factor of Production, Land is permanent. This means that Land —  
(a) Remains before and after cultivation  
(b) Cannot be destroyed or lost  
(c) Cannot be used for production at all  
(d) None of the above
50. The basic minimum objective of all kinds of enterprises is to survive & stay alive. It may be regarded as \_\_\_\_\_ objective of the enterprise.  
(a) Organic  
(b) Economic  
(c) Social  
(d) National
51. \_\_\_\_\_ objective implies the profit maximizing behavior of the firm.  
(a) Organic  
(b) Economic  
(c) Social  
(d) National
52. According to \_\_\_\_\_, the true function of an entrepreneur is to introduce innovations.  
(a) Schumpeter  
(b) Peter Ducker  
(c) Paul Samuelson  
(d) None of the above

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53. Which one of the following is the assumption underlying any production function?  
(a) Relationship between inputs & outputs exists for a period of time  
(b) There is a given state-of-the-art in the production technology  
(c) Whatever input combinations one included in the particular function, the output resulting from their utilization is at the maximum level  
(d) All of the above
54. Paul Douglas & Cobb studies the production function of the \_\_\_\_\_ manufacturing industries.  
(a) American  
(b) Japanese  
(c) British  
(d) Asian
55. In its original form, the Cobb Douglas production function applies  
(a) To individual firms  
(b) To selected firms  
(c) To whole manufacturing industry in USA  
(d) None of the above
56. The 2 inputs in Cobb Douglas production function are  
(a) Land & Labour  
(b) Labour & capital  
(c) Capital & Entrepreneur  
(d) Entrepreneur & Land
57. According to Cobb Douglas production function, \_\_\_\_\_ returns to scale is obtained.  
(a) Constant  
(b) Diminishing  
(c) Increasing  
(d) Any of the above
58. \_\_\_\_\_ means a sustained increase in the stock of real capital of a country.  
(a) Capital formation  
(b) Savings  
(c) Mobilization of savings  
(d) Mobilization of capital
59. Which of the following are regarded as a part of social capital?  
(a) Roads  
(b) Bridges  
(c) Machinery  
(d) Both a & b
60. \_\_\_\_\_ capital performs its function in production in a single use & not available for future use.  
(a) Circulating  
(b) Fixed  
(c) Tangible  
(d) Human
61. Labour is highly perishable in nature in the sense that \_\_\_\_\_  
(a) A labourer cannot store his labour  
(b) The life of labour is short  
(c) The labourer sells his labour against wages but retains the capacity to work  
(d) The labour is always low priced

## **SHORT – RUN PRODUCTION FUNCTION**

62. The marginal product curve is above the average product curve when the average product is:

- (a) Increasing
- (b) Decreasing
- (c) Constant
- (d) None

63. At the point of inflexion, the marginal product is:

- (a) Increasing
- (b) Decreasing
- (c) Maximum
- (d) Negative

64. If the marginal product of labor is below the average product of labour. It must be true that:

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

65. Law of variable proportion is valid when:

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

66. During IInd stage of law of Diminishing returns:

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

67. TP is increasing till

- (a) MP is +ve
- (b) MP is zero
- (c) MP is -ve
- (d) All of the above

68. Production activity in the short run is analysed by

- (a) Returns to scale
- (b) Economies of scale
- (c) Law of variable proportion
- (d) None of these

69. Law of diminishing returns is applicable in \_\_\_\_\_

- (a) Only manufacturing industries
- (b) Only agriculture
- (c) Neither in agriculture nor in industries.
- (d) In all economic activities at a point of time
- (e)

70. In the first stage of law of variable proportion, total product increases at the \_\_\_\_\_

- (a) Decreasing rate
- (b) Increasing rate
- (c) Constant rate
- (d) Both A and B

71. In the production of wheat, all of the following are variable factors that are used by the farmer except:
- the seed and fertilizer used when the crop is planted.
  - the field that has been cleared of trees and in which the crop is planted.
  - the tractor used by the farmer in planting and cultivating not only wheat but also corn and barley.
  - the number of hours that the farmer spends in cultivating the wheat fields.
72. The marginal product of a variable input is best described as:
- total product divided by the number of units of variable input.
  - the additional output resulting from a one unit increase in the variable input.
  - the additional output resulting from a one unit increase in both the variable and fixed inputs.
  - the ratio of the amount of the variable input that is being used to the amount of the fixed input that is being used.
73. Diminishing marginal returns implies:
- decreasing average variable costs.
  - decreasing marginal costs.
  - increasing marginal costs.
  - decreasing average fixed costs.
74. The short run, as economists use the phrase, is characterized by:
- at least one fixed factor of production and firms neither leaving nor entering the industry.
  - generally a period which is shorter than one year.
  - all factors of production are fixed and no variable inputs.
  - all inputs are variable and production is done in less than one year.
75. The marginal, average, and total product curves encountered by the firm producing in the short run exhibit all of the following relationships except:
- when total product is rising, average and marginal product may be either rising or falling.
  - when marginal product is negative, total product and average product are falling.
  - when average product is at a maximum, marginal product equals average product, and total product is rising.
  - when marginal product is at a maximum, average product equals marginal product, and total product is rising.
76. Diminishing returns occur:
- when units of a variable input are added to a fixed input and total product falls.
  - when units of a variable input are added to a fixed input and marginal product falls.
  - when the size of the plant is increased in the long run.
  - when the quantity of the fixed input is increased and returns to the variable input falls.

**Use the following information to answer following 3 questions**

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

77. What is the total output when 2 hours of labour are employed?
- 80
  - 100
  - 180
  - 200
78. What is the marginal product of the third hour of labour?
- 60

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

79. What is the average product of the first three hours of labour?
- (a) 60
  - (b) 80
  - (c) 100
  - (d) 240
80. In describing a given production technology, the short run is best described as lasting:
- (a) up to six months from now.
  - (b) up to five years from now.
  - (c) as long as all inputs are fixed
  - (d) as long as at least one input is fixed
81. The average product of labour is maximized when marginal product of labour:
- (a) equals the average product of labour.
  - (b) equals zero.
  - (c) is maximized.
  - (d) none of the above.
82. The law of variable proportions is drawn under all of the assumptions mentioned below except the assumption that:
- (a) the technology is changing.
  - (b) there must be some inputs whose quantity is kept fixed
  - (c) we consider only physical inputs and not economically portability in monetary terms.
  - (d) the technology is given and stable.
83. In the short run, the firm's product curves show that
- (a) Total product begins to decrease when average product begins to decrease but continues to increase at a decreasing rate.
  - (b) When marginal product is equal to average product, average product is decreasing but at its highest.
  - (c) When the marginal product curve cuts the average product curve from below, the average product is equal to marginal product.
  - (d) In stage two, total product increases at a diminishing rate and reaches maximum at the end of this stage.
84. A fixed input is defined as
- (a) That input whose quantity can be quickly changed in the short run, in response to the desire of the company to change its production.
  - (b) That input whose quantity cannot be quickly changed in the short run, in response to the desire of the company to change its production.
  - (c) That input whose quantities can be easily changed in response to the desire to increase or reduce the level of production.
  - (d) That input whose demand can be easily changed in response to the desire to increase or reduce the level of production.
85. Average product is defined as
- (a) total product divided by the total cost.
  - (b) total product divided by marginal product.
  - (c) total product divided by the number of units of variable input.
  - (d) marginal product divided by the number of units of variable input.
86. Which of the following statements is true?
- (a) After the inflexion point of the production function, a greater use of the variable input induces a reduction in the marginal product.

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- (b) Before reaching the inevitable point of decreasing marginal returns, the quantity of output obtained can increase at an increasing rate.
- (c) The first stage corresponds to the range in which the AP is increasing as a result of utilizing increasing quantities of variable inputs.
- (d) All the above.

87. Marginal product, mathematically, is the slope of the

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

88. Suppose the first four units of a variable input generate corresponding total outputs of 200, 350, 450, 500. The marginal product of the third unit of input is:

- (a) 50
- (b) 100
- (c) 150
- (d) 200

89. Diminishing marginal returns for the first four units of a variable input is exhibited by the total product sequence of \_\_\_\_\_

- (a) 50, 50, 50, 50
- (b) 50, 110, 180, 260
- (c) 50, 100, 150, 200
- (d) 50, 90, 120, 140

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90. In the third of the three stages of production:
- (a) the marginal product curve has a positive slope.
  - (b) the marginal product curve lies completely below the average product curve.
  - (c) total product increases.
  - (d) marginal product is positive.
91. A rational producer will produce in the stage in which marginal product is positive & \_\_\_\_\_
- (a)  $MP > AP$
  - (b)  $MP = AP$
  - (c)  $MP < AP$
  - (d) MP is zero

## **LONG – RUN PRODUCTION FUNCTION**

92. Increasing returns to scale can be explained in terms of:
- (a) External and internal economies
  - (b) External and internal diseconomies
  - (c) External economics and internal diseconomies
  - (d) All of these
93. If distance between Isoquant increases
- (a) Increasing returns of scale
  - (b) Diminishing returns to scale
  - (c) Constant returns of scale
  - (d) Increasing returns initially, following by decreasing returns to scale.
94. External Economies of Scale are obtained by
- (a) a firm
  - (b) a group of firm
  - (c) small production
  - (d) Society
95. Increasing returns to scale occurs due to :
- (a) Economies of scale
  - (b) Specialization
  - (c) Indivisibility of factors
  - (d) All of these
96. Law of increasing returns is applicable because of \_\_\_\_\_
- (a) Indivisibility of factors
  - (b) Specialization
  - (c) Economics of scale
  - (d) Both (a) and (b) above.
97. External economics are enjoyed:
- (a) By large producers only
  - (b) As firm expands
  - (c) Both (a) and (b)
  - (d) None of above
98. External economies accrue due to \_\_\_\_\_ :
- (a) Increasing returns to scale
  - (b) Increasing returns of factor
  - (c) Law of variable proportion
  - (d) Low cost

99. In the long run all factors -
- (a) Are Fixed
  - (b) Are Variable
  - (c) Remain unchanged
  - (d) None

100. If a firm moves from one point on a production Isoquant to another, which of the following will not happen.
- (a) A change in the ratio in which the inputs are combined to produce output.
  - (b) A change in the ratio of marginal products of the inputs.
  - (c) A change in the marginal rate of technical substitution.
  - (d) A change in the level of output.

101. 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%

102. Economies of scale exist because as a firm increases its size in the long run:
- (a) Labour and management can specialize in their activities more.
  - (b) As a larger input buyer, the firm can get finance at lower cost and purchase inputs at a lower per unit cost.
  - (c) The firm can afford to employ more sophisticated technology in production.
  - (d) All of these.
103. In the long run, if a very small factory were to expand its scale of operations, it is likely that it would initially experience
- (a) an increase in pollution level
  - (b) diseconomies of scale
  - (c) economies of scale
  - (d) constant returns to scale
104. The conclusion drawn from Cobb-Douglas production function is that labour contributed \_\_\_\_\_ & capital about \_\_\_\_\_ of the increase in the manufacturing production.
- (a)  $3/4^{\text{th}}$ ,  $1/4^{\text{th}}$
  - (b)  $1/2$ ,  $1/2$
  - (c)  $1/4^{\text{th}}$ ,  $3/4^{\text{th}}$
  - (d) None of the above
105. Which of the following statements describes increasing returns to scale?
- (a) Doubling of all inputs used leads to doubling of the output.
  - (b) Increasing the inputs by 50% leads to a 25% increase in output.
  - (c) Increasing inputs by  $1/4$  leads to an increase in output of  $1/3$ .
  - (d) None of the above.
106. Long-period production function is related to \_\_\_\_\_
- (a) Law of variable proportions
  - (b) Law of returns to scale
  - (c) Law of diminishing marginal utility
  - (d) None of these
107. The Law of Returns to Scale deals with —
- (a) Output Quantities
  - (b) Monetary Values
  - (c) Both (a) and (b)
  - (d) Neither (a) nor (b)
108. Under the Law of Returns to Scale \_\_\_\_\_ is constant.
- (a) Output Quantities
  - (b) Quantities of Variable Factors of Production
  - (c) Quantities of Variable and Fixed Factors of Production
  - (d) Proportion between different Factors of Production
109. Law of Returns to Scale indicates the responsiveness of total product when all inputs
- (a) Remain same
  - (b) Are changed drastically
  - (c) Are changed marginally
  - (d) Are changed proportionately

110. Returns to Scale will be said to be in operation when quantity of —
- (a) All inputs are changed
  - (b) All inputs are changed in already established proportion
  - (c) All inputs are not changed
  - (d) One input is changed while quantity of all other inputs remains the same
111. 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
112. When there is an increase in all factors of production together in the same ratio \_\_\_\_\_
- (a) increases at first
  - (b) becomes constant thereafter, and
  - (c) starts decreasing beyond a certain level
- (a) Total Product
  - (b) Average Product
  - (c) Marginal Product
  - (d) All of the above
113. 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
114. In the initial stages, there will be increasing returns to scale, due to —
- (a) Indivisibility of Factors
  - (b) Specialisation in Factors
  - (c) Both (a) and (b)
  - (d) Neither (a) nor (b)
115. 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)
116. In the very beginning of production, generally the Increasing Returns to scale is found because—
- (a) Input is increased
  - (b) Plant and Machinery will be new
  - (c) Production Problems are less
  - (d) Economies of Scale
117. Linear Homogeneous Production function is based on
- (a) Increasing Returns to Scale
  - (b) Decreasing Returns to Scale

- (c) Constant Returns to Scale
- (d) None.

118. Beyond a certain extent, the Firm will start experiencing decreasing returns to scale, due to

- (a) Economies in operations
- (b) Diseconomies in operations
- (c) Both (a) and (b)
- (d) Neither (a) nor (b)

119. 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

120. Diseconomies of Scale refer to —

- (a) Forces which reduce the Average Cost of producing a product as the Firm expands the Size of its Plant
- (b) Forces which reduce the Marginal Cost of producing a product as the Firm expands the Size of its Plant
- (c) Forces which increase the Average Cost of producing a product as the Firm expands the Size of its Plant
- (d) Forces which increase the Marginal Cost of producing a product as the Firm the Size of its Plant

121. Economies and Diseconomies in operations can be

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

122. Internal Economies and Diseconomies dependent on —

- (a) Output level of individual Firms
- (b) Output level of the entire industry
- (c) Both (a) and (b)
- (d) Neither (a) nor (b)

123. 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)

124. External Economies and Diseconomies are dependent on —

- (a) Output level of individual Firms
- (b) Output level of the entire industry
- (c) Both (a) and (b)
- (d) Neither (a) nor (b)

125. External 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)

126. External economies can be achieved through—

- (a) Foreign trade only
- (b) Extension of transport & transport credit facility
- (c) Superior managerial skills
- (d) External assistance

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

- (a) Decrease in cost of technology
- (b) External Assistance
- (c) Increase in the price of factors of production
- (d) None of the above

128. Inventory Economies are a part of which of the following type of economies of scale?

- (a) Production
- (b) Selling
- (c) Labour
- (d) Storage and Transport

129. Which of the following is an important ingredient of Selling Economies?

- (a) Advertising Economies
- (b) Inventory Economies
- (c) Transportation Economies
- (d) Storage Economies

130. \_\_\_\_\_ economies are associated with distribution of the product of a Firm.

- (a) Manufacturing
- (b) Inventory
- (c) Production
- (d) Selling

131. ISOquants are negatively sloped & \_\_\_\_\_ to the origin due to \_\_\_\_\_ MRTS.

- (a) Convex, increasing
- (b) Convex, decreasing
- (c) Concave, increasing
- (d) Concave, decreasing

132. Constant returns to scale are also called as \_\_\_\_\_

- (a) Linear
- (b) Curvilinear
- (c) Linear homogeneous
- (d) Curvilinear homogeneous

133. A change in scale means that \_\_\_\_\_ factors of production are increased or decreased in the same proportion

- (a) Two
- (b) Three
- (c) No
- (d) All

## MISCELLANEOUS

134. When output decreases by 20% due to increase in inputs by 20% this stage is called the law of \_\_\_\_\_.

- (a) Increasing returns to scale
- (b) Decreasing returns scale
- (c) Constant returns to scale
- (d) None of these

135. Identify the correct statement:

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

136. Which of the following statements is not true?

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

137. To economists, the main difference between the short run and the long run is that:

- (a) In the short run all inputs are fixed, while in the long run all inputs are variable.
- (b) In the short run the firm varies all of its inputs to and the least-cost combination of inputs.
- (c) In the short run, at least one of the firm's input levels is fixed.
- (d) In the long run, the firm is making a constrained decision about how to use existing plant and equipment efficiently.

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

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

139. The "law of diminishing returns" applies to:

- (a) the short run, but not the long run
- (b) the long run, but not the short run
- (c) both the short run and the long run
- (d) neither the short run nor the long run

140. Diminishing marginal returns start to occur between units:

Output	0	1	2	3	4	5	6
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Total Cost	Rs.240	Rs.330	Rs.410	Rs.480	Rs.540	Rs.610	Rs.690
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- (a) 2 and 3.  
 (b) 3 and 4.  
 (c) 4 and 5.  
 (d) 5 and 6.

141. The production process described below exhibits.

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

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

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

- (a) average fixed cost  
 (b) average total cost  
 (c) average variable cost  
 (d) marginal cost

143. The concept 'Returns to scale' is related with\_\_\_\_\_

- (a) Very short period  
 (b) Short period  
 (c) Long period  
 (d) None of the above

144. 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) All of the above

145. 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) Constant Returns to Scale  
 (b) Decreasing Returns to Scale  
 (c) Increasing Returns to Scale  
 (d) Increasing as well as decreasing

146. According to \_\_\_\_\_, Production is the organized activity of transforming resources into finished products in the form of goods & services with the objective to satisfy the want of such transformed resources.

- (a) James Bates

- (b) J R Parkinson  
 (c) Marshall  
 (d) Both a & b

147. Consider the following combination of inputs & output. The production technology satisfies

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

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

#### ANSWERS TO CHAPTER - THEORY OF PRODUCTION

1	A	26	D	51	B	76	B	101	C	126	D
2	B	27	D	52	A	77	C	102	D	127	C
3	C	28	A	53	D	78	A	103	C	128	A
4	D	29	B	54	A	79	B	104	A	129	A
5	D	30	C	55	C	80	D	105	C	130	D
6	C	31	D	56	B	81	A	106	B	131	B
7	A	32	A	57	A	82	A	107	A	132	B
8	D	33	A	58	A	83	D	108	D	133	D
9	A	34	A	59	D	84	B	109	D	134	D
10	D	35	B	60	A	85	C	110	B	135	A
11	B	36	B	61	A	86	D	111	B	136	A
12	A	37	B	62	A	87	A	112	C	137	C
13	D	38	B	63	C	88	B	113	D	138	C
14	D	39	B	64	C	89	D	114	C	139	A
15	A	40	C	65	A	90	B	115	A	140	C
16	D	41	D	66	B	91	C	116	D	141	B
17	D	42	B	67	A	92	A	117	C	142	B
18	A	43	A	68	C	93	A	118	B	143	C
19	C	44	D	69	D	94	B	119	D	144	C
20	D	45	C	70	A	95	A	120	C	145	C
21	A	46	A	71	B	96	C	121	C	146	A
22	A	47	B	72	B	97	C	122	A	147	B
23	B	48	D	73	C	98	A	123	B	148	
24	D	49	B	74	A	99	B	124	B	149	
25	B	50	A	75	D	100	D	125	A	150	



# CH 6 - THEORY OF COST

## **BASICS OF COST**

- Which of the following is an example of “explicit cost”?
  - The wages a proprietor could have made by working as an employee of a large firm.
  - The income that could have been earned in alternative uses by the resources owned by the enterprise.
  - The payment of wages by the firm.
  - The normal profit earned by a firm.
- Which of the following is an example of an “implicit cost”?
  - Interest that could have been earned on retained earnings used by the firm to finance expansion.
  - The payment of rent by the firm for the building in which it is housed.
  - The interest payment made by the firm for funds borrowed from a bank.
  - The payment of wages by the firm.
- Marginal cost is defined as:
  - the change in total cost due to a one unit change in output
  - total cost divided by output
  - the change in output due to a one unit change in an input
  - total product divided by the quantity of input
- Which of the following is not a determinant of the firm’s cost function?
  - The production function.
  - The price of labour.
  - Taxes.
  - The price of the firm’s output.
- Which of the following statements is correct concerning the relationships among the firm’s cost functions?
  - $TC = TFC - TVC$ .
  - $TVC = TFC - TC$ .
  - $TFC = TC - TVC$ .
  - $TC = TVC - TFC$ .
- Implicit cost can be defined as
  - Money payments made to the non-owners of the firm for the self-owned factors employed in the business and therefore not entered into books of accounts.
  - Money not paid out to the owners of the firm for the self owned factors employed in a business and therefore not entered into books of accounts.
  - Money payments which the self owned and employed resources could have earned in their next best alternative employment and therefore entered into books of accounts.
  - Money payments which the self owned and employed resources earn in their best use and therefore entered into book of accounts.
- Cost Analysis is the study of behaviour of \_\_\_\_\_ in relation to one or more production criteria.
  - Prices and Revenue
  - Profits

- (c) Costs
- (d) Output Quantity

8. Cost Analysis is the study of behaviour of Cost, in relation to —

- (a) Selling Prices
- (b) Profits
- (c) Total Revenue
- (d) One or more Production Criteria

9. For Cost Analysis purposes, the Production Criteria may be —

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

10. For Cost Analysis purposes, the Production Criteria may be —

- (a) Prices of factors of production
- (b) Quantity of output
- (c) Either (a) or (b)
- (d) Neither (a) nor (b)

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

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

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

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

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

- (a) Efficiency
- (b) Level of Capacity utilisation
- (c) Technology
- (d) Cost per unit

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

- (a) Time Period under study
- (b) Cost per unit
- (c) Total Cost
- (d) None of the above

15. Cost Functions are Derived Functions. They are derived from —

- (a) Demand Function
- (b) Supply Function
- (c) Isoquant Function
- (d) Production Function

16. Costs which involve payment made by the Entrepreneur to providers of other factors of production are called —

- (a) Explicit Cost
- (b) Implicit Cost
- (c) Variable Cost
- (d) Fixed Cost

17. The Cost that a Firm incurs in hiring or purchasing any Factor of Production is referred to as —

- (a) Explicit Cost
- (b) Implicit Cost
- (c) Variable Cost
- (d) Fixed Cost

18. \_\_\_\_\_ can be defined as the Cost that involve actual payment to other parties.

- (a) Implicit Costs
- (b) Explicit Costs
- (c) Hidden Costs
- (d) Opportunity Costs

19. Which of the following is an example of an “Explicit Cost”-

- (a) Wages a Proprietor could have made by working as an employee of a large Firm
- (b) Income that could have been earned in alternative uses by the resources owned by the Firm
- (c) Payment of Wages by the Firm
- (d) Normal Profit earned by a Firm

20. Explicit Costs are also known as

- (a) Out—of—Pocket Costs
- (b) Outlay Costs
- (c) Accounting Costs
- (d) All of the above

21. Fixed Costs are a function of—

- (a) Output
- (b) Time
- (c) Both (a) and (b)
- (d) Neither (a) nor (b)

22. \_\_\_\_\_ Cost must be paid even if the Firm’s level of output is zero.

- (a) Variable
- (b) Direct
- (c) Incremental
- (d) Fixed

23. Some portion of Fixed Costs need not be incurred when operations are suspended. These are called —

- (a) Avoidable Fixed Costs
- (b) Committed Fixed Costs
- (c) Variable Costs
- (d) Semi—Variable Costs

24. Some portion of Fixed Costs cannot be avoided even when operations are suspended. These are called —

- (a) Discretionary Fixed Costs
- (b) Committed Fixed Costs

- (c) Variable Costs
- (d) Semi—Variable Costs

25. Which of the following is not a Fixed Cost –

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

26. Of the following which one corresponds to Fixed Cost.

- (a) Payments for Raw Material
- (b) Labour Costs
- (c) Transportation Charges
- (d) Insurance Premium on Property

27. 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

28. \_\_\_\_\_ are costs the changes of which based on the level of output.

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

29. Variable Costs are —

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

30. Variable Costs are a function of —

- (a) Output
- (b) Time
- (c) Both (a) and (b)
- (d) Neither (a) nor (b)

31. \_\_\_\_\_ 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)

32. Variable Costs are incurred only when production takes place. So, they are in the nature of —

- (a) Discretionary Costs
- (b) Committed Costs
- (c) Fixed Costs
- (d) Semi—Variable Costs

33. All Variable Costs are avoidable or discretionary in nature. This statement is —

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

34. Additional cost incurred by a Firm as a result of a business decision —

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

35. Costs which are already incurred once and for all and cannot be recovered.

- (a) Historical cost
- (b) Sunk Cost
- (c) Private Cost
- (d) None of the above

36. 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

37. The cost incurred during the acquisition of an asset

- (a) Sunk Cost
- (b) Replacement cost
- (c) Historical cost
- (d) None of the above

38. Cost of Production incurred by an Individual firm is —

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

39. Social Cost =

- (a) Explicit Cost + Implicit Cost
- (b) Private Cost + External Cost
- (c) Private Cost + Internal Cost
- (d) None of the above

40. Costs in terms of pain, discomfort, disability involved in supplying the various factors of production by their owners are termed as \_\_\_\_\_

- (a) Social cost
- (b) Explicit cost
- (c) Real cost
- (d) Implicit cost

41. Outlay costs involve \_\_\_\_\_ expenditure of funds on wages, material, returns interest, etc.

- (a) Actual
- (b) Expected
- (c) Fixed

(d) Planned

42. If the market price of goods is more than its opportunity cost of producing it, then –
- (a) The market price of the product will increase in the long-run
  - (b) Producers will increase supply in long-run
  - (c) Resources will flow away from production of the good, causing supply to decline with the passage of time
  - (d) The situation will remain unchanged as long as supply & demand remain in balance
43. Direct cost is also known as \_\_\_\_\_
- (a) Indirect cost
  - (b) Traceable cost
  - (c) Opportunity cost
  - (d) Accounting cost
44. Identify the indirect cost
- (a) Common cost incurred for general operations
  - (b) Wages paid to workers
  - (c) Material purchased
  - (d) Commission paid
45. Usually in the case of continuous decrease in price of an asset, which one of the following is the highest?
- (a) Replacement cost
  - (b) Historical cost
  - (c) Realizable cost
  - (d) Variable cost
46. \_\_\_\_\_ costs normally figure in business decisions as they form part of total cost & are internalized by the firm.
- (a) Fixed
  - (b) Private
  - (c) Social
  - (d) Welfare
47. Cost functions are derived from \_\_\_\_\_ cost data of the firm.
- (a) Actual
  - (b) Expected
  - (c) Desired
  - (d) Standard

## **SHORT – RUN COST**

48. Diminishing marginal returns implies:

- (a) decreasing average variable costs.
- (b) decreasing marginal costs.
- (c) increasing marginal costs.
- (d) decreasing average fixed costs.

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

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

50. 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.

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

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

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

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

53. With which of the following is the concept of marginal cost closely related?

- (a) Variable cost
- (b) Fixed cost
- (c) Opportunity cost
- (d) Economic cost

54. Which of the following statements is correct?

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

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

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

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

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

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

- (a) increase due to an increase in fixed costs only.
- (b) increase due to an increase in variable costs only.
- (c) increase due to an increase in both fixed and variable costs.

(d) decrease if the firm is in the region of diminishing returns.

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

- (a) Rs.20
- (b) Rs.120
- (c) Rs.320
- (d) Rs. 420

59. A firm producing 7 units of output has an average total cost of Rs.150 and has to pay Rs.350 to its fixed factors of production whether it produces or not. How much of the average total cost is made up of variable costs?

- (a) Rs. 200
- (b) Rs.50
- (c) Rs.300
- (d) Rs.100

60. A firm has a variable cost of Rs.1000 at 5 units of output. If fixed costs are Rs.400, what will be the average total cost at 5 units of output?

- (a) Rs.280
- (b) Rs. 60
- (c) Rs.120
- (d) Rs.1400

61. A firm's average fixed cost is Rs. 20 at 6 units of output. What will it be at 4 units of output?

- (a) Rs.60
- (b) Rs.30
- (c) Rs.40
- (d) Rs. 20

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

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

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

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

64. When marginal costs are below average total costs,

- (a) average fixed costs are rising.
- (b) average total costs are falling.
- (c) average total costs are rising.
- (d) average total costs are minimized.

65. The marginal cost for a firm of producing the 9th unit of output is Rs.20. Average cost at the same level of output is Rs.15. Which of the following must be true?
- (a) marginal cost and average cost are both falling
  - (b) marginal cost and average cost are both rising
  - (c) marginal cost is rising and average cost is falling
  - (d) it is impossible to tell if either of the curves are rising or falling
66. Possible reason why the average variable cost curve approaches the average total cost curve as output rises is:
- (a) Fixed costs are falling while total costs are rising at rising output.
  - (b) Total costs are rising and average costs are also rising.
  - (c) Marginal costs are above average variable costs as output rises.
  - (d) Average fixed costs are falling as output rises.
67. Marginal cost changes due to changes in \_\_\_\_\_
- (a) Total cost
  - (b) Average cost
  - (c) Variable cost
  - (d) Quantity of output
68. Which of the following statements is correct?
- (a) Fixed costs vary with change in output.
  - (b) If we add total variable cost and total fixed cost we get the average cost.
  - (c) Marginal cost is the result of total cost divided by number of units produced.
  - (d) Total cost is obtained by adding up the fixed cost and total variable cost.
69. If a Firm produces zero output in the short period —
- (a) Its Total Cost will be zero
  - (b) Its Variable Cost will be positive
  - (c) Its Fixed Cost will be positive
  - (d) Its Average Cost will be zero
70. \_\_\_\_\_ Cost will be incurred even when the Firm's produces Nil output.
- (a) Variable
  - (b) Fixed
  - (c) Both (a) and (b)
  - (d) Neither (a) nor (b)
71. As output increases, Total Fixed Cost —
- (a) Decreases
  - (b) Increases
  - (c) Remains constant
  - (d) Becomes zero
72. As output increases, Total Variable Cost —
- (a) Decreases
  - (b) Increases
  - (c) Remains constant
  - (d) Becomes zero
73. Which Cost increases continuously with the increase in production.
- (a) Average Cost
  - (b) Marginal Cost

- (c) Fixed Cost
- (d) Variable Cost

74. 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

75. Marginal Costs are applicable in —

- (a) Short—Run
- (b) Long—Run
- (c) Both (a) and (b)
- (d) Neither (a) nor (b)

76. 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.

77. The AFC Curve passes through the Origin. This statement is —

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

78. Which statement among below is correct in reference to AFCs.

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

79. AFC curve is always \_\_\_\_\_

- (a) U-shaped if there is decreasing returns to scale
- (b) U-shaped if there is increasing returns to scale
- (c) Declining when output increases.
- (d) Intersected by MC at its minimum point refer back

80. 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) 30
- (c) 20
- (d) 5

81. Average Variable Cost (AVC) equals —

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

82. AVC decreases as output increases —

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

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

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

84. AVC decreases as output increases, upto normal capacity output, due to —

- (a) Law of constant returns
- (b) Law of diminishing returns
- (c) Law of increasing returns
- (d) Law of negative returns

85. 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

86. Beyond Normal Capacity of output, as output increases, AVC will —

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

87. AVC increases as output increases, beyond normal capacity output, due to —

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

88. Average Variable Cost Curve —

- (a) Slopes downwards at first and then upwards
- (b) Slopes upwards, remains constant and then falls
- (c) Slopes downwards always
- (d) Remains a straight line parallel to X Axis

89. Average Variable Cost Curve slopes downwards —

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

90. Average Variable Cost Curve has a negative slope —

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

91. Average Variable Cost Curve slopes upwards —

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

92. Average Variable Cost Curve has a positive slope —

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

93. Average Variable Cost Curve is —

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

94. The AVC Curve passes through the Origin. This statement is —

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

95. A firm produces 10 units of commodity at an average total cost of 200 and with a fixed cost of Rs. 500. Find out component of average variable cost in total cost.

- (a) Rs. 300
- (b) Rs. 200
- (c) Rs.150
- (d) Rs. 100

96. Average Cost (AC) equals —

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

97. 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

98. Initially, even when there is an increase in Average Variable Cost (AVC), Average Cost (AC) may still decline due to the reason that —

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

99. 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) None of the above

100. Average Cost Curve —

- (a) Slopes downwards at first and then upwards
- (b) Slopes upwards, remains constant and then falls
- (c) Slopes downwards always
- (d) Remains a straight line parallel to X Axis

101. 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) Nothing can be said

102. The AC Curve passes through the Origin. This statement is —

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

103. Average Cost Curve is a —

- (a) U Shaped Curve
- (b) J Shaped Curve
- (c) L Shaped Curve
- (d) Straight Line

104. Average total cost to firm is Rs.600 when it produces 10 units of output and it is Rs.640 when the output is 11 units. The MC of the 11th unit is

- (a) 40
- (b) 540
- (c) 840
- (d) 1040

105. 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

106. When \_\_\_\_\_, we know that the Firms must be producing at the minimum point of the Average Cost Curve and so there will be productive efficiency.

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

107. 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

108. 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)

109. When AC falls as a result of an increase in output -

- (a) MC = AC
- (b) MC < AC
- (c) MC > AC
- (d) Nothing can be said

110. For producing 100 units, TVC is Rs.500 and TFC is Rs.1000. Compute AC.

- (a) 10
- (b) 15
- (c) 5
- (d) 20

111. A Firm's ATC is Rs.300 at 5 units of output and Rs.320 at 6 units of output. The MC of producing the 6<sup>th</sup> unit is -

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

112. A firm producing 7 units of output has an ATC of R.150 and has to pay Rs.350 to its fixed factors of production whether it produces or not. How much of the ATC is made up of VC?

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

113. The ATC of producing 50 units is Rs.250 and TFC is Rs.1000. What is the AFC of producing 100 units?

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

114. What will be AFC of 2 units according to the table given below:

Units	0	1	2
Total costs (Rs.)	580	689	850

- (a) 105
- (b) 135
- (c) 235
- (d) 290

115. Calculate AVC for an output of 4 units from the following data:

Units	0	1	2	3	4
Total costs (Rs.)	25	45	60	85	105

- (a) 20

- (b) 35
- (c) 25
- (d) 26

## LONG – RUN COST

116. 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.

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

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

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

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

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

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

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

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

121. Which of the following statements regarding the Long Run Cost Function is not true?

- (a) The Firm adjusts Factors of Production to meet the market demand
- (b) Firms identify a combination that gives maximum output at the lowest Cost
- (c) Inputs are chosen for producing a desired level of output
- (d) All the inputs in the long—run are fixed

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

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

123. LAC = Least Cost combination for an appropriate output level. This statement is —  
(a) True  
(b) False  
(c) Partially True  
(d) Nothing can be said
124. In the long—run, the Firm will operate at the \_\_\_\_\_ for any output level, by choosing the appropriate Plant Size.  
(a) Optimum cost  
(b) Minimum cost  
(c) Maximum cost  
(d) Nothing can be said
125. 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) AC is maximum  
(c) MC is minimum  
(d) MC is maximum
126. In the long—run, the Firm will try to select —  
(a) Lowest point of every SAC  
(b) SAC with the lowest cost for a particular level of output  
(c) Both (a) and (b)  
(d) Neither (a) nor (b)
127. 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
128. LAC Curve is tangent to each of the infinite SAC Curves. This statement is —  
(a) True  
(b) False  
(c) Partially True  
(d) Nothing can be said
129. 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
130. When LAC Curve is declining, it will be tangent to the  
(a) Falling portions of the SAC Curves  
(b) Rising portions of the SAC Curves  
(c) Both (a) and (b)  
(d) Neither (a) nor (b)

131. 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)

132. When LAC Curve is rising, it will be tangent to the —

- (a) Falling portions of the SAC Curves
- (b) Rising portions of the SAC Curves
- (c) Both (a) and (b)
- (d) Neither (a) nor (b)

133. 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)

134. If the AC Curve falls as output expands, this falls is due to —

- (a) Economies of Scale
- (b) Law of Diminishing Returns
- (c) Diseconomies of Scale
- (d) Any of the above

135. If the AC Curve rises as output expands, this rise is due to —

- (a) Economies of Scale
- (b) Law of Diminishing Returns
- (c) Diseconomies of Scale
- (d) Any of the above

136. Long Run Average Cost Curves are broadly—

- (a) U — shaped
- (b) Inverted U — shaped
- (c) V—shaped
- (d) L— shaped

137. The LAC Curve —

- (a) Falls when the LMC Curve falls
- (b) Rises when the LMC Curve rises
- (c) Goes through the lowest point of the LMC Curve
- (d) Falls when  $LMC < LAC$  and rises when  $LMC > LAC$

138. 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) Increasing Returns to Scale
- (c) Diseconomies of Scale
- (d) Economics of Scale

## MISCELLANEOUS

139. An Isoquant shows

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

140. Which of the following statements is incorrect?

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

141. Which of the following statements regarding Short and Long Run Cost Functions is not true

- (a) A Variable Input varies according to the quantity of output to be produced
- (b) In the Short Run, one or more of the inputs of the production process is fixed
- (c) In the Long Run, all the inputs are fixed
- (d) In the Long Run there are no restrictions on the resource allocation in the production process.

142. A Product can be produced using two input combinations A and B. Combination A takes 2 units of Labour and 8 units of Capital. Combination B takes 3 units of Labour and 5 units of Capital, what is the Marginal Rate of Technical Substitution of Labour for Capital.

- (a) 0
- (b) 2
- (c) 3
- (d) 5

**ANSWERS TO CHAPTER - THEORY OF COST**

1	C	26	D	51	A	76	D	101	B	126	B
2	A	27	C	52	B	77	B	102	B	127	C
3	C	28	A	53	A	78	D	103	A	128	A
4	D	29	B	54	C	79	C	104	D	129	B
5	C	30	A	55	C	80	A	105	B	130	A
6	B	31	A	56	D	81	C	106	B	131	A
7	C	32	A	57	B	82	A	107	C	132	B
8	D	33	A	58	D	83	B	108	C	133	B
9	D	34	C	59	D	84	C	109	B	134	A
10	C	35	B	60	A	85	B	110	B	135	C
11	A	36	A	61	B	86	C	111	D	136	A
12	C	37	C	62	B	87	B	112	D	137	D
13	D	38	A	63	B	88	A	113	A	138	C
14	A	39	B	64	B	89	A	114	D	139	C
15	D	40	C	65	B	90	A	115	A	140	D
16	A	41	B	66	D	91	B	116	A	141	C
17	A	42	B	67	C	92	B	117	C	142	C
18	B	43	B	68	D	93	B	118	D		
19	C	44	A	69	C	94	B	119	A		
20	D	45	B	70	B	95	C	120	D		
21	B	46	B	71	C	96	B	121	D		
22	D	47	A	72	B	97	B	122	A		
23	A	48	C	73	D	98	B	123	A		
24	B	49	D	74	B	99	A	124	B		
25	B	50	D	75	C	100	A	125	A		

# CH 7 - CONCEPT OF REVENUE

## BASICS

1. Assume that when price is 20, the quantity demanded is 9 units, and when price is 19, the quantity demanded is 10 units. Based on this information, what is the marginal revenue resulting from an increase in output from 9 units to 10 units.
  - (a) 20
  - (b) 19
  - (c) 10
  - (d) 1
2. Assume that when price is 20, the quantity demanded is 15 units and when price is 18, the quantity demanded is 16 units. Based on this information, what is the marginal revenue resulting from an increase in output from 15 units to 16 units?
  - (a) 18
  - (b) 16
  - (c) - 12
  - (d) +12
3. Marginal Revenue is equal to:
  - (a) The change in price divided by the change in output.
  - (b) The change in quantity divided by the change in price.
  - (c) The change in  $P \times Q$  due to a one unit change in output.
  - (d) Price, but only if the firm is a price searcher.
4. Suppose that a sole proprietorship is earning total revenues of Rs.1,00,000 and is incurring explicit costs of Rs. 75,000. If the owner could work for another company for Rs. 30,000 a year, we would conclude that
  - (a) The firm is incurring an economic loss.
  - (b) Implicit costs are Rs.25,000.
  - (c) The total economic costs are Rs.1,00,000.
  - (d) The individual is earning an economic profit of Rs.25,000.
5. Which of the following statements is false?
  - (a) Economic costs include the opportunity costs of the resources owned by the firm.
  - (b) Accounting costs include only explicit costs.
  - (c) Economic profit will always be less than accounting profit if resources owned and used by the firm have any opportunity costs.
  - (d) Accounting profit is equal to total revenue less implicit costs.

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6. Average revenue curve is also known as:
  - (a) Product Curve
  - (b) Demand Curve
  - (c) Average Cost Curve
  - (d) Indifference Curve
  
7. Total revenue =
  - (a) price  $\times$  quantity
  - (b) price  $\times$  income
  - (c) income  $\times$  quantity
  - (d) none of the above
  
8. Average revenue is the revenue earned
  - (a) per unit of input
  - (b) per unit of output
  - (c) different units of input
  - (d) different units of output
  
9. AR can be symbolically written as:
  - (a)  $MR / Q$
  - (b) Price  $\times$  quantity
  - (c)  $TR / Q$
  - (d) none of the above
  
10. AR is also known as:
  - (a) price
  - (b) income
  - (c) revenue
  - (d) none of the above
  
11. Marginal revenue can be defined as the change in total revenue resulting from the:
  - (a) purchase of an additional unit of a commodity
  - (b) sales of an additional unit of a commodity
  - (c) sale of subsequent units of a product
  - (d) none of the above
  
12. Total Revenue =
  - (a) Money which a Firm realizes 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) None of the above
  
13. Average 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) None of the above
  
14. 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) None of the above

15. Price =

- (a) Total Revenue
- (b) Average Revenue
- (c) Marginal Revenue
- (d) Zero Revenue

16. Price X Quantity =

- (a) Total Revenue
- (b) Average Revenue
- (c) Marginal Revenue
- (d) Zero Revenue

17. If P = Price, and Q = Quantity sold, which of the following statements are correct.

- (a) Total Revenue = P x Q
- (b) Average Revenue = P x Q
- (c) Marginal Revenue = P x Q
- (d) Zero Revenue = P x Q

18. If TR = Total Revenue, and Q = Quantity sold, then TR / Q refers to —

- (a) Total Revenue
- (b) Average Revenue
- (c) Marginal Revenue
- (d) Zero Revenue

19. If TR = Total Revenue, Q = Quantity sold, and  $\Delta$  is the rate of change, then  $\Delta TR/\Delta Q$  refers to —

- (a) Total Revenue
- (b) Average Revenue
- (c) Marginal Revenue
- (d) Zero Revenue

20. If Price is Rs. 50 and Quantity is 1,200 units, then Total Revenue =

- (a) 1,250
- (b) 1,150
- (c) 60,000
- (d) 50,000.

21. If Total Revenue = Rs.1,00,000 when 20,000 units are sold, then Average Revenue =

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

22. If Total Revenue = Rs.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

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23. If a seller obtains Rs.3,000 after selling 50 units and 3,100 after selling 52 units then MR will be—  
(a) 59.62  
(b) 50.00  
(c) 60.00  
(d) 59.80
24. When Price is Rs.10, 5 units can be sold. When price is reduced to Rs.9, 6 units can be sold. Here, Marginal Revenue will be —  
(a) 10  
(b) 9  
(c) 1  
(d) 4
25. When Price is Rs.20, 5 units can be sold. When price is reduced to Rs.19, 6 units can be sold. Here, Marginal Revenue will be —  
(a) 14  
(b) 27  
(c) 20  
(d) 19
26. When Price is Rs. 50, 12 units can be sold. When price is reduced to Rs. 48, 15 units can be sold. Here, Marginal Revenue will be —  
(a) Rs. 120  
(b) Rs.40  
(c) Rs. 60  
(d) Rs. 2
27. When Price is Rs. 5, 40 units can be sold. When price is reduced to Rs. 4, 60 units can be sold. Here, Marginal Revenue will be —  
(a) Rs. 120  
(b) Rs. 40  
(c) Rs.60  
(d) Rs. 2
28. If a Seller gets Rs. 10,000 by selling 100 units and Rs. 14,000 by selling 120 units, his Marginal Revenue is  
(a) Rs. 4,000  
(b) Rs. 450  
(c) Rs. 200  
(d) Rs. 100
29. When Price = Rs. 20, quantity demanded is 9 units, and when Price = Rs. 19, quantity demanded is 10 units. What is the Marginal Revenue resulting from an increase in output from 9 units to 10 units Rs.  
(a) Rs. 20  
(b) Rs. 19  
(c) Rs. 10  
(d) Rs. 1
30. As quantity increases, Total Revenue (TR) Curve —  
(a) Always increases

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- (b) Always decreases
- (c) First increases, reaches a maximum, and then decreases.
- (d) First decreases, reaches a minimum, and then increases.

31. If Total Revenue (TR) increases, Marginal Revenue (MR) will be —
- (a) Positive
  - (b) Negative
  - (c) Zero
  - (d) Infinity
32. If Total Revenue (TR) decreases, Marginal Revenue (MR) will be—
- (a) Positive
  - (b) Negative
  - (c) Zero
  - (d) Infinity
33. If Total Revenue (TR) is maximum, Marginal Revenue (MR) will be —
- (a) Positive
  - (b) Negative
  - (c) Zero
  - (d) Infinity
34. Average Revenue (AR) Curve denotes—
- (a) Demand
  - (b) Supply
  - (c) Both (a) and (b)
  - (d) Neither (a) nor (b)

## REVENUE CURVES & MARKET

35. The demand curve of a monopoly firm will be \_\_\_\_\_
- (a) Upward sloping
  - (b) Downward sloping
  - (c) Horizontal
  - (d) Vertical
36. Generally, as quantity sold increases, Marginal Revenue (MR) and Average Revenue (AR) Curve —
- (a) MR and AR increase
  - (b) MR and AR decrease
  - (c) MR increases but AR decreases
  - (d) MR decreases but MR increases
37. Generally, as quantity sold increases, Marginal Revenue (MR) Curve —
- (a) Increases
  - (b) Decreases
  - (c) Remains constant
  - (d) Cannot be ascertained
38. Generally, as quantity sold increases, Average Revenue (AR) Curve —

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- (a) Increases
- (b) Decreases
- (c) Remains constant
- (d) Cannot be ascertained

39. Let, Marginal Revenue = MR and Average Revenue = AR. Generally, as quantity sold increases —
- (a) MR falls quickly than AR
  - (b) MR falls slowly than AR
  - (c) MR and AR fall at the same rate
  - (d) MR and AR do not change
40. Let, Marginal Revenue = MR and Average Revenue = AR. Generally, as quantity sold increases —
- (a) AR falls quickly than MR
  - (b) AR falls slowly than MR
  - (c) AR and MR fall at the same rate
  - (d) AR and MR do not change
41. Marginal Revenue (MR) —
- (a) Will have positive values only
  - (b) Will have negative values only
  - (c) Can be positive or zero, but not negative.
  - (d) Can be positive or zero or even negative.
42. If Marginal Revenue (MR) Curve is depicted on a graph with Quantity on X axis —
- (a) MR will not go below the X axis.
  - (b) MR may go below the X axis.
  - (c) MR cannot be depicted on the graph at all.
  - (d) None of the above
43. Average Revenue (AR) —
- (a) Will have positive values only
  - (b) Will have negative values only
  - (c) Can be positive or zero, but not negative.
  - (d) Can be positive or zero or even negative.
44. What is the relationship between AR and MR.
- (a) AR and MR both are negatively sloped
  - (b) MR Curves always lies half—way between AR Curve and Origin
  - (c) AR and MR both can be zero or negative
  - (d) All of these
45. Generally, Marginal Revenue (MR) Curve —
- (a) Is parallel to X Axis
  - (b) Is parallel to Y Axis
  - (c) Slopes upward from left to right
  - (d) Slopes downward from left to right
46. Generally, Average Revenue (AR) Curve —
- (a) Is parallel to X Axis
  - (b) Is parallel to Y Axis

- (c) Slopes upward from left to right
- (d) Slopes downward from left to right

47. If Average Revenue (AR) Curve is depicted on a graph with Quantity on X axis —
- (a) AR will not go below the X axis.
  - (b) AR may go below the X axis.
  - (c) AR cannot be depicted on the graph at all.
  - (d) None of the above
48. Which of the following is correct?
- (a) If Marginal Revenue is positive and falling, Total Revenue will rise at a decreasing rate.
  - (b) Total Revenue is equal to price times the quantity sold.
  - (c) Marginal Revenue and Average Revenue can be calculated from Total Revenue.
  - (d) All of the above.
49. Demand curve is equal to M. R. curve in which market?
- (a) Oligopoly
  - (b) Monopoly
  - (c) Monopolistic Competition
  - (d) Perfect Competition

## REVENUE & ELASTICITY

50. When  $e > 1$  then MR is
- (a) zero
  - (b) negative
  - (c) positive
  - (d) one
51. When  $e = 1$  then MR is
- (a) positive
  - (b) zero
  - (c) one
  - (d) negative
52. When  $e < 1$  then MR is
- (a) negative
  - (b) zero
  - (c) positive
  - (d) one
53. If Marginal Revenue = MR, Average Revenue = AR, and Price Elasticity of Demand = 'e' which of the following is correct.
- (a)  $MR = AR \times \frac{e-1}{e}$
  - (b)  $AR = MR \times \frac{e-1}{e}$
  - (c)  $MR = AR \times \frac{e}{e-1}$
  - (d)  $AR = MR \times \frac{e}{e-1}$

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54. If Marginal Revenue = MR, Price Elasticity of Demand = 'e', and  $e < 1$ , then MR will be —
- (a) Positive
  - (b) Negative
  - (c) Zero
  - (d) Infinity
55. Marginal Revenue will be negative if Elasticity of Demand is —
- (a) Less than one.
  - (b) More than one.
  - (c) Equal to one.
  - (d) Equal to zero.
56. If Marginal Revenue = MR, Price Elasticity of Demand = 'e', and  $e > 1$ , then MR will be —
- (a) Positive
  - (b) Negative
  - (c) Zero
  - (d) Infinity
57. If Marginal Revenue = MR, Price Elasticity of Demand = 'e', and  $e = 1$ , then MR will be —
- (a) Positive
  - (b) Negative
  - (c) Zero
  - (d) Infinity
58. If Marginal Revenue = MR. Price Elasticity of Demand = 'e', and MR is positive (i.e.  $MR > 0$ ), e will be
- (a)  $e > 1$
  - (b)  $e < 1$
  - (c)  $e = 1$
  - (d)  $e = \text{zero}$
59. If Marginal Revenue = MR, Price Elasticity of Demand = 'e', and MR is negative (i.e.  $MR < 0$ ), e will be
- (a)  $e > 1$
  - (b)  $e < 1$
  - (c)  $e = 1$
  - (d)  $e = \text{zero}$
60. If Marginal Revenue = MR, Price Elasticity of Demand = 'e', and  $MR = 0$ , e will be
- (a)  $e > 1$
  - (b)  $e < 1$
  - (c)  $e = 1$
  - (d)  $e = \text{zero}$
61. If Average Revenue (AR) = 30, Price Elasticity of Demand (e) = 1.5, then MR will be
- (a) 10
  - (b) 20
  - (c) 30
  - (d) Nil

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62. If Average Revenue (AR) = 30, Price Elasticity of Demand (e) = 1, then MR will be —  
(a) Positive  
(b) Negative  
(c) Zero  
(d) Infinity
63. If Average Revenue (AR) = 30, Price Elasticity of Demand (e) = 0.5, then MR will be —  
(a) 30 positive  
(b) 30 negative  
(c) Nil  
(d) Infinity
64. If Average Revenue (AR) = 300, Price Elasticity of Demand (e) = 2.5, then MR will be  
(a) 180  
(b) 120  
(c) 300  
(d) Nil
65. If Average Revenue (AR) = 300, Price Elasticity of Demand (e) = 4, then MR will be —  
(a) 105  
(b) 225  
(c) 300  
(d) Nil
66. Given AR=5, Elasticity of demand =2 find MR—  
(a) 2.5  
(b) -2.5  
(c) 1.5  
(d) 2.0
67. The Average Profit is the difference between—  
(a) AC and TC  
(b) AC and VC  
(c) AC and AR  
(d) AC and TR
68. When AR=Rs. 10 and AC=Rs. 8, the Firm makes—  
(a) Normal Profit  
(b) Net Profit  
(c) Gross Profit  
(d) Super—Normal Profit

## EQUILIBRIUM & PROFIT/LOSS SITUATION

69. Which is the first order condition for the profit of a firm to be maximum?  
(a) AC = MR  
(b) MC = MR  
(c) MR = AR  
(d) AC = AR

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

Price (Rs.)	Demand (tonnes p.a)	Supply (tonnes p.a)
1	1000	400
2	900	500
3	800	600
4	700	700
5	600	800
6	500	900
7	400	1000
8	300	1100

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

71. If the average cost is higher than the average revenue then the firm incurs \_\_\_\_\_

- (a) Normal profit
- (b) Abnormal profit
- (c) Loss
- (d) No profit, no loss

72. The firm will attain equilibrium at a point where MC curve cuts \_\_\_\_\_ curve from below

- (a) AR
- (b) MR
- (c) AC
- (d) AVC

73. In the short run, as the prices are fixed, Firms can maximize their profit when they operate at

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

74. If Marginal Cost = MC, and Marginal Revenue = MR, then, for achieving equilibrium output —

- (a) MC Curve should cut MR Curve from above.
- (b) MC Curve should cut MR Curve from below.
- (c) MC Curve should not cut MR Curve at all.
- (d) MC Curve should be tangent to MR Curve.

75. If Marginal Cost = MC, and Marginal Revenue = MR, and  $MC < MR$ , the Firm should —

- (a) Increase its output.
- (b) Reduce its output
- (c) Operate at the present level itself.
- (d) Should shut down.

76. Suppose a Firm is producing a level of output such that  $MR > MC$ . What should be Firm do to maximize its profit.

- (a) The Firm should do nothing
- (b) The Firm should hire less labour
- (c) The Firm should increase price
- (d) The Firm should increase output

77. What should Firm do when Marginal Revenue is greater than Marginal Cost.
- (a) Firm should expand output
  - (b) Efforts should be made to make them equal
  - (c) Prices of the products should be lowered down
  - (d) All of the above
78. If Marginal Cost = MC, and Marginal Revenue = MR. and  $MC > MR$ , the Firm should —
- (a) Increase its output
  - (b) Reduce its output
  - (c) Operate at the present level itself
  - (d) Should shut down
79. Let Marginal Cost = MC, and Marginal Revenue = MR. If MC Curve cuts MR from below, it means —
- (a) MC Curve has a negative slope
  - (b) MC Curve has a positive slope
  - (c) MC Curve is parallel to X Axis
  - (d) MC Curve is parallel to Y Axis
80. Let Marginal Cost = MC, and Marginal Revenue = MR. If MC Curve cuts MR from above, it means —
- (a) MC Curve is parallel to X Axis
  - (b) MC Curve is parallel to Y Axis
  - (c) MC Curve has a negative slope
  - (d) MC Curve has a positive slope
81. Let Marginal Cost = MC, and Marginal Revenue = MR. If MC Curve cuts MR from above, it means —
- (a) Firm is at equilibrium output level.
  - (b) Firm is below equilibrium output level.
  - (c) Firm is above equilibrium output level.
  - (d) Firm does not operate at all.
82. If any unit of production adds more to revenue than to cost it will result into —
- (a) Increase in Profit
  - (b) Decrease in Profit
  - (c) No change
  - (d) Loss
83. If any unit of production adds more to cost than to revenue it will result into —
- (a) Increase in Profit
  - (b) Decrease in Profit
  - (c) No change
  - (d) Loss
84. When the Firm is said to be in equilibrium
- (a) When it maximizes its Profit
  - (b) When it maximizes its Losses
  - (c) When Revenue is equal to Cost

(d) None of these

85. When a Market is in equilibrium —

- (a) No shortages exist.
- (b) Quantity demanded equals quantity supplied.
- (c) A price is established that clears the market.
- (d) All of the above are correct.

86. Profits of the Firm will be more at —

- (a)  $MR = MC$
- (b)  $AR > AC$
- (c) Both of the above
- (d) None of these

87. Let Average Cost = AC, and Average Revenue = AR. If  $AR > AC$ , it means that the Firm —

- (a) Is earning Super—Normal Profits
- (b) Is earning Normal Profits
- (c) Is making Losses
- (d) Has to shut—down

88. Let Average Cost = AC, and Average Revenue = AR. If  $AR = AC$ , it means that the Firm —

- (a) Is earning Super—Normal Profits
- (b) Is earning Normal Profits
- (c) Is making Losses
- (d) Has to shut—down

89. Let Average Cost = AC, and Average Revenue = AR. If  $AR < AC$ , it means that the Firm —

- (a) Is earning Super—Normal Profits
- (b) Is earning Normal Profits
- (c) Is making Losses in the economic sense
- (d) Has to shut—down.

90. Let Average Cost = AC, and Average Revenue = AR. If  $AC < AR$ , it means that the Firm —

- (a) Is earning Super—Normal Profits.
- (b) Is earning Normal Profits.
- (c) Is making Losses.
- (d) Has to shut-down.

91. Let Average Cost = AC, and Average Revenue = AR. If  $AC = AR$ , it means that the Firm —

- (a) Is earning Super—Normal Profits
- (b) Is earning Normal Profits
- (c) Is making Losses
- (d) Has to shut-down

92. Let Average Cost = AC, and Average Revenue = AR. If  $AC > AR$ , it means that the Firm —

- (a) Is earning Super—Normal Profits
- (b) Is earning Normal Profits
- (c) Is making Losses in the economic sense
- (d) Has to shut-down

93. When \_\_\_\_\_, the Firm will be earning just Normal Profits.
- (a)  $AC = AR$
  - (b)  $MC = MR$
  - (c)  $MC = AC$
  - (d)  $AR = MR$
94. When does a Firm earn Normal Profits?
- (a) When  $MR = MC$
  - (b) When  $AR = AC$
  - (c) When  $MR = AR = AC = MC$
  - (d) None of these
95. What are conditions when the Firm earns Super Normal Profit?
- (a) Average Revenue is more than Average Cost
  - (b) Average Cost is more than Average Revenue
  - (c) MC Curve has negative slope
  - (d) MR Curve has positive slope
96. For earning super—normal profits, the condition is at the point when  $MC = MR$  (MC cutting from below)
- (a)  $AR > AC$
  - (b)  $AR = AC$
  - (c)  $AR < AC$
  - (d) None of the above.
97. For earning normal profits, the condition is at the point when  $MC = MR$  (MC cutting from below)
- (a)  $AR > AC$
  - (b)  $AR = AC$
  - (c)  $AR < AC$
  - (d) None of the above.
98. For having economic losses, the condition is at the point when  $MC = MR$  (MC cutting from below)
- (a)  $AR > AC$
  - (b)  $AR = AC$
  - (c)  $AR < AC$
  - (d) None of the above.
99. When we know that the Firms are earning just Normal Profits.
- (a)  $AC = AR$
  - (b)  $MC = MR$
  - (c)  $MC = AC$
  - (d)  $AR = MR$
100. Let Average Variable Cost = AVC, and Average Revenue = AR. If  $AR < AVC$ , it means that the Firm
- (a) Is earning Super—Normal Profits
  - (b) Is earning Normal Profits
  - (c) Is making Losses but need not shut—down
  - (d) Has to shut—down

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101. Which of these is a condition for shut—down of a Firm?  
(a)  $AR > AVC$   
(b)  $AR > AC$   
(c)  $AR < AC$   
(d)  $AR < AVC$
102. A firm will close down in the short period, if AR is less than  
(a) AVC  
(b) AC  
(c) MC  
(d) None
103. If  $AR < AVC$  then the Firm —  
(a) Will continue and make profits  
(b) Will shut-down  
(c) Will have losses but will not shut down  
(d) Will increase the output
104. If  $AR < AVC$  and the Firm continues production, then  
(a) Losses will be reduced  
(b) Profits will be reduced  
(c) Losses will increase  
(d) Profits will increase
105. If  $AR < AVC$  and the Firm stops production, then —  
(a) There is no profit no loss  
(b) There is a Loss equivalent to Fixed Costs  
(c) There is a Profit  
(d) None of the above
106. 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) None of these
107. In the short run, if the Firm cannot cover its Total Variable Cost —  
(a) It continues its operations  
(b) It shuts down its operations temporarily  
(c) It shuts down its operations forever  
(d) It makes more investments to make the operations viable
108. A Firm encounters its “Shut—Down Point” when—  
(a) Average Total Cost equals price at the profit— maximizing level of output.  
(b) Average Variable Cost equals Price at the profit— maximizing level of output.  
(c) Average Fixed Cost equals price at the profit— maximizing level of output.  
(d) Marginal Cost equals Price at the profit— maximizing level of output.
109. At which of the following points, does the Marginal Cost Curve meet the Average Variable Cost Curve?  
(a) Shut Down Point

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- (b) Break Even Point
- (c) Equilibrium Point
- (d) Profit Maximization Point

110. "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.
111. At Shut—Down Point —
- (a) Price is equal to AVC
  - (b) Total Revenue is equal to TVC
  - (c) Total Loss of the Firm is equal to TFC
  - (d) All of the above
112. In the long—run, if the Firm is unable to cover the Average Total Cost then it —
- (a) Decreases the Selling Price
  - (b) Increases the Labour to increase production
  - (c) Decreases the Labour to decrease production
  - (d) Moves out of the business
113. 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
114. In the long—run, Firms will exit the market if the price of the good offered for sale is less than —
- (a) Marginal Revenue
  - (b) Marginal Cost
  - (c) Average Total Cost
  - (d) Average Revenue
115. 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) Identical
  - (b) Homogenous
  - (c) Variable
  - (d) Fixed

## MISCELLANEOUS

116. When \_\_\_\_\_, there will be allocative efficiency meaning thereby that the cost of the last unit is exactly equal to the price consumers are willing to pay for it and so that the right goods are being sold to the right people at the right price.
- (a)  $MC = MR$
  - (b)  $MC = AC$
  - (c)  $MC = AR$

(d)  $AR = MR$

117. Time element was conceived by

- (a) Adam Smith
- (b) Alfred Marshall
- (c) Pigou
- (d) Lionel Robinson

118. Which of the following statements is incorrect

- (a) If Marginal Revenue exceeds Marginal Cost, the Firm should increase output.
- (b) If Marginal Cost exceeds Marginal Revenue the Firm should decrease output.
- (c) Economic Profits are maximized when Total Costs are equal to Total Revenue.
- (d) Profits are maximized when Marginal Revenue equals Marginal Cost.

119. Suppose that a Sole Proprietorship Firm is earning Total Revenues of Rs. 120,000 and is incurring Explicit Costs of Rs. 90,000. If the Owner could work for another Company for Rs. 50,000 a year, we would conclude that

- (a) The Firm is incurring an Economic Loss
- (b) Implicit Costs are Rs. 90,000
- (c) The total Economic Costs are Rs. 100,000
- (d) The Individual is earning an Economic Profit of Rs. 25,000

120. Suppose that a Sole Proprietorship is earning Total Revenue of Rs. 1,50,000 and is incurring Explicit Costs of Rs. 75,000. If the Owner could work for another Company for Rs. 30,000 a year, it can be concluded that

- (a) The Firm is incurring an Economic Loss
- (b) Implicit Costs are Rs. 25,000
- (c) Total Economic Costs are Rs. 1,00,000
- (d) The individual is earning an economic profit of Rs.45,000

121. Suppose the Total Cost of Production of Commodity X is Rs. 1,25,000. Out of this Cost, Implicit Cost is Rs.35,000 and Normal Profit is Rs. 25,000. What will be the Explicit Cost of Commodity X.

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

122. If the Total Product Cost for manufacturing of a commodity Is Rs. 1,50,000. Out of this, Implicit Cost is Rs. 55,000 and Normal Profit is Rs. 25,000, what will be Explicit Cost Rs.

- (a) Rs. 95,000
- (b) Rs. 1,25,000
- (c) Rs. 80,000
- (d) Rs. 70,000

123. 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

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 14 questions.

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						

124. When Production is 10 units, AVC will be —

- (a) 50.00
- (b) 47.00
- (c) 46.67
- (d) 49.00

125. When Production is 10 units, AC will be —

- (a) 50.00
- (b) 97.00
- (c) 77.00
- (d) 110.00

126. When Production is 20 units, AVC will be —

- (a) 50.00
- (b) 47.00
- (c) 46.67
- (d) 49.00

127. When Production is 20 units, AC will be —

- (a) 50.00
- (b) 64.00
- (c) 77.00
- (d) 88.00

128. When Production is 30 units, AC will be —

- (a) 56.67
- (b) 61.67
- (c) 46.67
- (d) 66.67

129. When Production is 30 units, AVC will be —

- (a) 66.67
- (b) 71.67
- (c) 56.67
- (d) 76.67

130. When Production is 40 units, AVC will be —

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- (a) 85.00
- (b) 82.50
- (c) 92.50
- (d) 95.00

131. When Production is 40 units, AC will be —

- (a) 85.00
- (b) 82.50
- (c) 92.50
- (d) 95.00

132. When Production is 50 units, AVC will be —

- (a) 100.00
- (b) 110.00
- (c) 119.00
- (d) 125.00

133. When Production is 50 units, AC will be —.

- (a) 100.00
- (b) 110.00
- (c) 119.00
- (d) 125.00

134. AC is minimum when output is —

- (a) 10 units
- (b) 20 units
- (c) 30 units
- (d) 40 units

135. MC Curve will cut AC Curve when output is —

- (a) 10 units
- (b) 20 units
- (c) 30 units
- (d) 40 units

136. To maximize Profit, the Firm should produce —

- (a) 15 units
- (b) 30 units
- (c) 35 units
- (d) 50 units

137. If the Market Price drops from 100 to 56, the Firm's short run response should be —

- (a) Shut down
- (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 burger is a small restaurant and a price taker. The table below provides the data of Bozzo's output and costs in Rupees.

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Qty	TC	FC	AVC	AC	MC
0	100	-	-	-	-
10	210				
20	300				
30	400				
40	540				
50	790				
60	1060				

138. If burgers sell for Rs14 each, what is Bozzo's profit maximizing level of output
- 10 burgers
  - 40 burgers
  - 50 burgers
  - 60 burgers
139. What is the total variable cost when 50 burgers are produced?
- 690
  - 960
  - 110
  - 440
140. What is average fixed cost when 20 burgers are produced?
- 5
  - 3.33
  - 10
  - 2.5
141. Between 10 to 20 burgers, what is the marginal cost (per burger)?
- 11
  - 13
  - 14
  - 9

Use Table to answer the following 5 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				

142. When production equals 4 units, the firm's:
- Fixed cost is 100 and its variable cost is 93.
  - Fixed cost is 193 and its variable cost is 0.
  - Fixed cost is 0 and its variable cost is 193.

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(d) Fixed cost is 45 and its variable cost is 148.

143. When production equals 5 units, the firm's Total Revenue is:

- (a) 100
- (b) 270
- (c) 324
- (d) 500

144. When production equals 6 units, the firm's marginal revenue is:

- (a) 384
- (b) 94
- (c) 64
- (d) 2.

145. When production equals 7 units, the firm's profit is:

- (a) 6 0
- (b) 41.57
- (c) 291
- (d) 336

146. To maximize its profit, the firm should produce:

- (a) 0 units.
- (b) 3 units.
- (c) 5 units.
- (d) 7 units.

ANSWERS TO CHAPTER - CONCEPT OF REVENUE

1	C	26	A	51	B	76	D	101	D	126	D
2	C	27	B	52	A	77	A	102	A	127	B
3	C	28	C	53	A	78	B	103	B	128	B
4	A	29	C	54	B	79	B	104	C	129	B
5	D	30	C	55	A	80	C	105	B	130	A
6	B	31	A	56	A	81	B	106	B	131	C
7	A	32	B	57	C	82	A	107	C	132	C
8	B	33	C	58	A	83	B	108	B	133	D
9	C	34	A	59	B	84	A	109	B	134	B
10	A	35	B	60	C	85	D	110	A	135	B
11	B	36	B	61	A	86	C	111	A	136	B
12	A	37	B	62	C	87	A	112	D	137	C
13	B	38	B	63	B	88	B	113	A	138	B
14	C	39	A	64	A	89	C	114	C	139	A
15	B	40	B	65	B	90	A	115	C	140	A
16	A	41	D	66	A	91	B	116	C	141	D
17	A	42	B	67	C	92	C	117	B	142	D
18	B	43	A	68	D	93	A	118	C	143	D
19	C	44	B	69	B	94	B	119	A	144	C
20	C	45	D	70	C	95	A	120	D	145	C
21	C	46	D	71	C	96	A	121	B	146	D
22	C	47	A	72	B	97	B	122	D		
23	B	48	D	73	A	98	C	123	D		
24	D	49	D	74	B	99	A	124	B		
25	A	50	C	75	B	100	D	125	C		

# CH 8 - MARKET

## BASICS OF MARKET

1. It is assumed in economic theory that
  - (a) decision making within the firm is usually undertaken by managers, but never by the owners
  - (b) the ultimate goal of the firm is to maximize profits, regardless of firm size or type of business organization
  - (c) as the firm's size increases, so do its goals
  - (d) the basic decision making unit of any firm is its owners
  
2. In a very short period market :
  - (a) the supply is fixed
  - (b) the demand is fixed
  - (c) demand and supply are fixed
  - (d) none of the above
  
3. In Economics, the term 'market' refers to a:
  - (a) place where buyer and seller bargain a product or service for a price
  - (b) place where buyer does not bargain
  - (c) place where seller does not bargain
  - (d) none of the above
  
4. When \_\_\_\_\_, we know that the firms are earning just normal profits.
  - (a)  $AC = AR$
  - (b)  $MC = MR$
  - (c)  $MC = AC$
  - (d)  $AR = MR$
  
5. When \_\_\_\_\_, we know that the firms must be producing at the minimum point of the average cost curve and so there will be productive efficiency.
  - (a)  $AC = AR$
  - (b)  $MC = AC$
  - (c)  $MC = MR$
  - (d)  $AR = MR$
  
6. Secular period is also known as
  - (a) very short period
  - (b) short period
  - (c) very long period
  - (d) long period
  
7. Stock exchange market is an example of
  - (a) unregulated market
  - (b) regulated market
  - (c) spot market
  - (d) none of the above
  
8. The market for the ultimate consumers is known as

- (a) whole sale market  
(b) regulated market  
(c) unregulated market  
(d) retail market
9. Given the relation  $MR=P(1-\frac{1}{e})$ . If  $e < 1$ , then  
(a)  $MR < 0$   
(b)  $MR > 0$   
(c)  $MR = 0$   
(d) None of these
10. Kinked demand curve hypothesis is given by:  
(a) Alfred Marshall  
(b) A.C Pigou  
(c) Sweezy  
(d) Hicks & Allen
11. Supernormal profits occur, when :  
(a) Total revenue is equal to total cost  
(b) Total revenue is equal to variable cost  
(c) Average revenue is more than average cost  
(d) Average revenue is equal to average cost
12. When  $AR=Rs.10$  and  $AC = Rs.8$  the firm makes \_\_\_\_\_  
(a) normal profit  
(b) net profit  
(c) gross profit  
(d) supernormal profit
13. \_\_\_\_\_ is the price at which demand for a commodity is equal to its supply:  
(a) Normal Price  
(b) Equilibrium Price  
(c) Short run Price  
(d) Secular Price
14. OPEC is an example of:  
(a) Monopolistic competition  
(b) Monopoly -  
(c) Oligopoly  
(d) Duopoly
15. Which of the following is not the feature of an imperfect competition?  
(a) Product differentiation.  
(b) Few sellers.  
(c) Homogeneous products  
(d) Price wars.
16. "I am making a loss, but with the rent I have to pay, I can't afford to shut down at this point of time."  
If this entrepreneur is attempting to maximize profits or minimize losses.  
(a) Rational, if the firm is covering its variable cost  
(b) Rational, if the firm is covering its fixed cost  
(c) Irrational, since plant closing is necessary to eliminate losses  
(d) Irrational, since fixed costs are eliminated if a firm shut down.

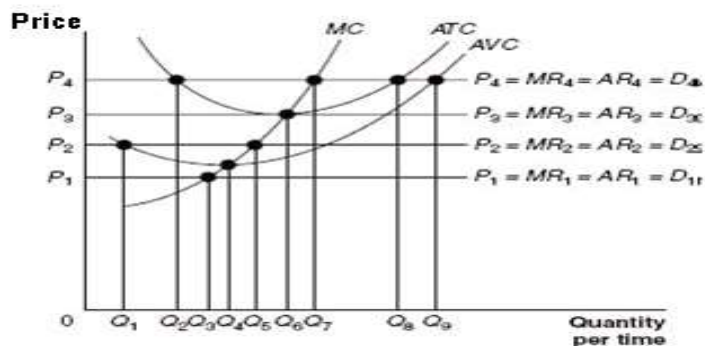
17. Average revenue curve is also known as:
- Profit Curve
  - Demand Curve
  - Average Cost Curve
  - Indifference Curve

## **EFFECT ON EQUILIBRIUM**

18. With a given supply curve, a decrease in demand causes
- an overall decrease in price but an increase in equilibrium quantity.
  - an overall increase in price but a decrease in equilibrium quantity.
  - an overall decrease in price and a decrease in equilibrium quantity.
  - no change in overall price but a reduction in equilibrium quantity.
19. If supply increases in a greater proportion than demand
- The new equilibrium price and quantity will be greater than the original equilibrium price and quantity.
  - The new equilibrium price will be greater than the original equilibrium price but equilibrium quantity will be higher.
  - The new equilibrium price and quantity will be lower than the original equilibrium price and quantity.
  - The new equilibrium price will be lower than the original equilibrium and the new equilibrium quantity will be higher.
20. Assume that in the market for good Z there is a simultaneous increase in demand and the quantity supplied. The result will be :
- an increase in equilibrium price and quantity.
  - a decrease in equilibrium price and quantity.
  - an increase in equilibrium quantity and uncertain effect on equilibrium price.
  - a decrease in equilibrium price and increase in equilibrium quantity.
21. Suppose the technology for producing personal computers improves and, at the same time, individuals discover new uses for personal computers so that there is greater utilization of personal computers. Which of the following will happen to equilibrium price and equilibrium quantity?
- Price will increase; quantity cannot be determined.
  - Price will decrease; quantity cannot be determined.
  - Quantity will increase; price cannot be determined.
  - Quantity will decrease; price cannot be determined.
22. Suppose a firm is producing a level of output such that  $MR > MC$ , what should be firm do to maximize its profits?
- The firm should do nothing.
  - The firm should hire less labour.
  - The firm should increase price.
  - The firm should increase output
23. Assume that consumers' incomes and the number of sellers in the market for good A both decrease. Based upon this information, we can conclude, with certainty, that the equilibrium:
- price will increase.
  - price will decrease.
  - quantity will increase.

(d) quantity will decrease

24. At price  $P_1$ , the firm in the figure would produce



- (a) Zero output
- (b)  $Q_3$
- (c)  $Q_5$
- (d)  $Q_6$ .

25. Profits of the firm will be more at:

- (a)  $MR = MC$
- (b) Additional revenue from extra unit equals its additional cost
- (c) Both of above
- (d) None

26. What should firm do when Marginal revenue is greater than marginal cost?

- (a) Firm should expand output
- (b) Effect should be made to make them equal
- (c) Prices should be lowered down
- (d) All of these

27. For maximum profit, the condition is:

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

28. An increase in supply with unchanged demand lead to :

- (a) Rise in price and fall in quantity
- (b) Fall in both price and quantity
- (c) Rise in both price and quantity
- (d) Fall in price and rise in quantity

29. In the long run:

- (a) Only demand can change
- (b) Only supply can change
- (c) Both demand and supply can change
- (d) None of these

30. What are the conditions for the long run equilibrium of the competitive firm?

- (a)  $LMC = LAC = P$
- (b)  $SMC = SAC = LMC$
- (c)  $P = MR$

- (d) All of these

## PERFECT COMPETITION

31. Which of the following is not an essential condition of pure competition?
- (a) Large number of buyers and sellers
  - (b) Homogeneous product
  - (c) Freedom of entry
  - (d) Absence of transport cost
32. What is the shape of the demand curve faced by a firm under perfect competition?
- (a) Horizontal
  - (b) Vertical
  - (c) Positively sloped
  - (d) Negatively sloped
33. Which of the following is not a characteristic of a “price-taker”?
- (a)  $TR = P \times Q$
  - (b)  $AR = \text{Price}$
  - (c) Negatively – sloped demand curve
  - (d) Marginal Revenue = Price
34. Which of the following is not a condition of perfect competition?
- (a) A large number of firms.
  - (b) Perfect mobility of factors.
  - (c) Informative advertising to ensure that consumers have good information.
  - (d) Freedom of entry and exit into and out of the market.
35. Which of the following is not a characteristic of a perfectly competitive market?
- (a) Large number of firms in the industry.
  - (b) Outputs of the firms are perfect substitutes for one another.
  - (c) Firms face downward-sloping demand curves.
  - (d) Resources are very mobile.
36. Price-taking firms, i.e., firms that operate in a perfectly competitive market, are said to be “small” relative to the market. Which of the following best describes this smallness?
- (a) The individual firm must have fewer than 10 employees.
  - (b) The individual firm faces a downward-sloping demand curve.
  - (c) The individual firm has assets of less than Rs.20 lakhs.
  - (d) The individual firm is unable to affect market price through its output decisions.
37. For a price-taking firm :
- (a) marginal revenue is less than price.
  - (b) marginal revenue is equal to price.
  - (c) marginal revenue is greater than price.
  - (d) the relationship between marginal revenue and price is indeterminate.
38. The firm in a perfectly competitive market is a price-taker. This designation as a price-taker is based on the assumption that
- (a) the firm has some, but not complete, control over its product price.
  - (b) there are so many buyers and sellers in the market that any individual firm cannot affect the market.

- (c) each firm produces a homogeneous product.
  - (d) there is easy entry into or exit from the market place.
39. Which of the following is not a characteristic of a competitive market?
- (a) There are many buyers and sellers in the market.
  - (b) The goods offered for sales are largely the same.
  - (c) Firms generate small but positive supernormal profits in the long run.
  - (d) Firms can freely enter or exit the market.
40. Which of the following markets would most closely satisfy the requirements for a perfectly competitive market?
- (a) Electricity
  - (b) Cable television
  - (c) Cola
  - (d) Milk
41. Which of the following statements is accurate regarding a perfectly competitive firm?
- (a) Demand curve is downward sloping
  - (b) The demand curve always lies above the marginal revenue curve
  - (c) Average revenue need not be equal to price
  - (d) Price is given and is determined by the equilibrium in the entire market
42. Under perfect competition a firm is the \_\_\_\_\_
- (a) price-maker and not price-taker
  - (b) price-taker and not price-maker
  - (c) neither price-maker nor price-taker
  - (d) none of the above
43. The condition for pure competition is
- (a) large number of buyer and seller, free entry and exist
  - (b) homogeneous product
  - (c) both (a) and (b)
  - (d) large number of buyer and seller, homogeneous product, perfect knowledge about the product
44. A purely competitive firm's supply schedule in the short run is determined by
- (a) its average revenue.
  - (b) its marginal revenue.
  - (c) its marginal utility for money curve.
  - (d) its marginal cost curve.
45. Under perfect competition, in the long run, there will be no \_\_\_\_\_ .
- (a) normal profits
  - (b) supernormal profits.
  - (c) production
  - (d) costs.
46. In the long-run equilibrium of a competitive market, firms operate at
- (a) the intersection of the marginal cost and marginal revenue
  - (b) their efficient scale
  - (c) zero economic profit
  - (d) all of these answers are correct

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47. In the perfect competition, the price line lies below the average cost curve, the firm would:
- (a) Make only Normal profits
  - (b) Incur losses
  - (c) Make abnormal profit
  - (d) Profit cannot be determined
48. Competitive firm in the long run earn:
- (a) Super normal profit
  - (b) Normal profit
  - (c) Losses
  - (d) None
49. A competitive firm in the short run incurs losses. The firm continues production, if:
- (a)  $P > AVC$
  - (b)  $P = AVC$
  - (c)  $P < AVC$
  - (d)  $P \geq AVC$
50. Which of these are characteristics of Perfect Competition?
- (a) Many Sellers & Buyers
  - (b) Homogeneous Product.
  - (c) Free Entry and Exit
  - (d) All of the above
51. Price taker firms\_\_\_\_\_
- (a) do not advertise their product because it misleads the customers.
  - (b) advertise their products to boost the level of demand.
  - (c) do not advertise but give gifts along with the sold items to attract customers.
  - (d) do not advertise because they can sell as much as they wish at the prevailing price.
52. Perfectly competitive firm faces:
- (a) Perfectly elastic demand curve
  - (b) Perfectly inelastic demand curve
  - (c) Zero
  - (d) Negative
53. In perfect Competition when the firm is a price taker, which curve among the following, will be a straight line?
- (a) Marginal Cost
  - (b) Average Cost
  - (c) Total Cost
  - (d) Marginal Revenue
54. A perfect market is characterised by:-
- (a) Existence of large number of buyers and sellers
  - (b) Homogenous products
  - (c) Perfect knowledge of the market
  - (d) All of the above.
55. In a perfectly competitive market, the demand curve of a firm is:
- (a) Elastic
  - (b) Perfectly elastic
  - (c) Inelastic

(d) Perfectly inelastic

56. In a competitive market, if price exceeds Average Variable Cost (AVC) but remains less than Average Cost (AC) at the equilibrium, the firm is:

- (a) Making a profit
- (b) Planning to quit
- (c) Experiencing loss but should continue production
- (d) Experiencing loss but should discontinue production.

57. Price under perfect competition is determined by the \_\_\_\_\_

- (a) firm
- (b) industry
- (c) government
- (d) society

58. Equilibrium price for an industry in perfect competition is fixed through.

- (a) Input and Output
- (b) Market demand and market Supply
- (c) Market demand and firms supply
- (d) None of the above

59. In a perfectly Competitive market, if MR is greater than MC, then a firm should—

- (a) Increase its production
- (b) Decrease its production
- (c) Decrease its sales
- (d) Increase its sales

60. One of the essential conditions of Perfect Competition is:

- (a) Product differentiation
- (b) Many sellers and few buyers
- (c) Only one price for identical goods at any one time
- (d) Multiplicity of prices for identical product at any one time

61. The firm in a perfectly competitive market is a price taker. 'This designation as a price taker is based on the assumption that:

- (a) The firm has some but not complete control over its product price
- (b) There are so many buyers and sellers in the market that any one buyer or seller cannot affect the market
- (c) Each firm produces a homogeneous product
- (d) There is easy entry into or exit from the market place.

62. In the long run, which of the following statement is true for a firm in a perfectly competitive industry?

- (a) It operates at its minimum average cost
- (b) The price is more than the average fixed cost
- (c) The marginal Cost is greater than marginal revenue
- (d) The fixed cost is lower than the total variable cost

63. One of the following is not correct about perfect competition:

- (a) Purchase and Sale of homogeneous goods
- (b) Existence of marketing costs
- (c) Absence of transportation costs
- (d) Perfect mobility of factors of production.

64. Who sets the price of the product under perfect competition?
- (a) Government
  - (b) Consumers
  - (c) Sellers
  - (d) Both buyers and sellers
65. Under perfect competition, firm is described as:
- (a) price taker and not price maker
  - (b) price maker and not price taker
  - (c) neither price maker nor price taker
  - (d) none of the above.

## **MONOPOLY**

66. Monopoly may arise in a product market because
- (a) A significantly important resource for the production of the commodity is owned by a single firm.
  - (b) The government has given the firm patent right to produce the commodity.
  - (c) The costs of production and economies of scale make production by a single producer more efficient.
  - (d) All the above.
67. Discriminating monopoly implies that the monopolist charges different prices for his commodity:
- (a) from different groups of consumers
  - (b) for different uses
  - (c) at different places
  - (d) any of the above.
68. Price discrimination will be profitable only if the elasticity of demand in different sub-markets is:
- (a) uniform
  - (b) different
  - (c) less
  - (d) zero
69. A Monopolist is a
- (a) price-maker
  - (b) price-taker
  - (c) price-adjuster
  - (d) none of the above
70. Under monopoly, the degree of control over price is:
- (a) none
  - (b) some
  - (c) very considerable
  - (d) none of the above
71. When the monopolist divides the consumers into separate sub markets and charges different prices in different sub-markets it is known as
- (a) First degree of price discrimination
  - (b) second degree of price discrimination
  - (c) third degree of price discrimination
  - (d) none of the above.

72. Under \_\_\_\_\_ the monopolist will charge a price which will take away the entire consumers' surplus.
- (a) second degree of price discrimination
  - (b) First degree of price discrimination
  - (c) third degree of price discrimination
  - (d) none of the above.
73. Price discrimination is related to
- (a) time
  - (b) size of the purchase
  - (c) income
  - (d) any of the above
74. Under monopoly price discrimination depends upon:
- (a) Elasticity of demand for commodity
  - (b) Elasticity of supply for commodity
  - (c) Size of market
  - (d) All of above
75. A monopolist is able to maximize his profits when:
- (a) His output is maximum
  - (b) He charges a high price
  - (c) His average cost is minimum
  - (d) His marginal cost is equal to marginal revenue
76. For a monopolist, the necessary condition for equilibrium is:
- (a)  $P=MC$
  - (b)  $P=MR=AR$
  - (c)  $MR=MC$
  - (d) None
77. In the long-run monopolist can:
- (a) Incur losses
  - (b) Must earn super normal profits
  - (c) Wants to shut-down
  - (d) Earns only normal profits.
78. Price Discrimination is possible only when
- (a) Seller is alone.
  - (b) Goods are homogeneous.
  - (c) Market is controlled by the government.
  - (d) None of the above.
79. When elasticity of demand is Equal to one, in monopoly, marginal Revenue will be \_\_\_\_\_
- (a) equal to one.
  - (b) greater than one.
  - (c) less than one.
  - (d) zero
80. The price discrimination under monopoly will be possible under which of the following conditions?
- (a) The seller has no control over the supply of his product
  - (b) The market has the same condition all over

- (c) The price elasticity of demand is different in different markets
  - (d) The price elasticity of demand is uniform
81. A monopolist can fix:
- (a) Both price and output
  - (b) Either price or output
  - (c) Neither price nor output
  - (d) None of the above.
82. Under monopoly, which of the following is correct:
- (a) AR and MR both are downward sloping
  - (b) MR lies halfway between AR and Y-axis
  - (c) MR can be zero or even negative
  - (d) All of the above.
83. For price discrimination to be successful, the elasticity of demand for the commodity in the two markets should be:
- (a) Same
  - (b) Different
  - (c) Constant
  - (d) Zero
84. In a monopoly market, a producer has control only over:
- (a) Price of the commodity
  - (b) Demand of the commodity
  - (c) Both (a) and (b)
  - (d) Utility of the product.
85. A discriminating monopolist will charge a higher price in the market in which the demand for its product is \_\_\_\_\_
- (a) highly elastic
  - (b) relatively elastic
  - (c) relatively inelastic
  - (d) perfectly elastic.
86. If a firm under monopoly wants to sell more, its average revenue curve will be a \_\_\_\_\_ line.
- (a) horizontal
  - (b) vertical
  - (c) downward sloping
  - (d) upward sloping
87. Which is not a characteristic of monopoly?
- (a) The firm is a price taker
  - (b) There is a single firm
  - (c) The firm produces a unique product
  - (d) The existence of some advertising.
88. Price discrimination is profitable only when:
- (a) Different markets are kept separate
  - (b) Distance between the consumer and the market is more
  - (c) Elasticity of demand in different markets is different
  - (d) The consumers are segregated on the basis of their purpose of use of the commodity.

89. Which amongst the following is not an objective of price discrimination?
- (a) To hold the extra stocks
  - (b) To earn maximum profits
  - (c) To enjoy economies of scale
  - (d) To secure equity through pricing.
90. A monopoly market would usually generate \_\_\_\_\_ in comparison to perfect competition
- (a) lower output at lower price
  - (b) higher output at lower price.
  - (c) higher output at higher price
  - (d) lower output at higher price
91. Which is the characteristic feature of a Monopoly market?
- (a) Homogeneous goods
  - (b) Strong barriers to entry
  - (c) Perfect competition
  - (d) Perfectly elastic demand curve
92. The Electricity companies sells electricity at a cheaper rate for home consumption in rural areas than for industrial use. It is an example of -
- (a) Price discrimination
  - (b) Price adjustment
  - (c) Price variability
  - (d) Price biased attitude

## MONOPOLISTIC COMPETITION

93. Which of the following is not a characteristic of monopolistic competition?
- (a) Ease of entry into the industry.
  - (b) Product differentiation.
  - (c) A relatively large number of sellers.
  - (d) A homogeneous product.
94. The long-run equilibrium outcomes in monopolistic competition and perfect competition are similar, because in both market structures
- (a) the efficient output level will be produced in the long run.
  - (b) firms will be producing at minimum average cost.
  - (c) firms will only earn a normal profit.
  - (d) firms realize all economies of scale.
95. Which of the following is not a characteristic of a monopolistically competitive market?
- (a) Free entry and exit
  - (b) Abnormal profits in the long run
  - (c) Many sellers
  - (d) Differentiated products
96. In Monopolistic competitive excess capacity in the firm \_\_\_\_\_.
- (a) Always Exists
  - (b) Sometimes Exists
  - (c) Never Exists
  - (d) None of the above

97. Under Monopolistic competition the cross elasticity of demand for the product of a single firm would be:
- (a) Infinite
  - (b) Highly elastic
  - (c) Highly inelastic
  - (d) Zero
98. Monopolistic Competitive firm \_\_\_\_\_
- (a) are small in size
  - (b) have small share in total market
  - (c) are very large in size
  - (d) both (A) and (B)
99. Firms in a monopolistic market are \_\_\_\_\_
- (a) Takers
  - (b) Givers
  - (c) Makers
  - (d) Acceptors

## OLIGOPOLY

100. Oligopolistic industries are characterized by :
- (a) a few dominant firms and substantial barriers to entry.
  - (b) a few large firms and no entry barriers.
  - (c) a large number of small firms and no entry barriers.
  - (d) one dominant firm and low entry barriers.
101. Which of the following is the distinguishing characteristic of oligopolies?
- (a) A standardized product
  - (b) The goal of profit maximization
  - (c) The interdependence among firms
  - (d) Downward-sloping demand curves faced by firms.
102. In the context of oligopoly, the kinked demand hypothesis is designed to explain
- (a) Price and output determination
  - (b) Price rigidity
  - (c) Price leadership
  - (d) Collusion among rivals.
103. Pure oligopoly is based on the \_\_\_\_\_ products
- (a) differentiated
  - (b) homogeneous
  - (c) unrelated
  - (d) none of the above
104. In oligopoly, when the industry is dominated by one large firm which is considered as leader of the group then it is called:
- (a) full oligopoly
  - (b) collusive oligopoly
  - (c) partial oligopoly
  - (d) syndicated oligopoly

105. The kinked demand curve model of oligopoly assumes that
- (a) the response (of consumers) to a price increase is less than the response to a price decrease.
  - (b) the response (of consumers) to a price increase is more than the response to a price decrease.
  - (c) the elasticity of demand is constant regardless of whether price increases or decreases.
  - (d) the elasticity of demand is perfectly elastic if price increases and perfectly inelastic if price decreases.
106. One characteristic not typical of oligopolistic industry is
- (a) horizontal demand curve.
  - (b) too much importance to non-price competition.
  - (c) price leadership
  - (d) a small number of firms in the industry.
107. When an oligopolistic individually chooses its level of production to maximize its profits, it charges a price that is
- (a) more than the price charged by either monopoly or a competitive market
  - (b) less than the price charged by either monopoly or a competitive market
  - (c) more than the price charged by a monopoly and less than the price charged by a competitive market
  - (d) less than the price charged by a monopoly and more than the price charged by a competitive market.
108. When the products are sold through a centralized body, oligopoly is known as
- (a) organized oligopoly
  - (b) partial oligopoly
  - (c) competitive oligopoly
  - (d) syndicated oligopoly
109. Oligopoly having identical products is:
- (a) Pure oligopoly
  - (b) Imperfect oligopoly
  - (c) Price leadership
  - (d) Collusion
110. Kinked demand hypothesis is designed to explain \_\_\_\_\_ in context to oligopoly.
- (a) Price and Output Determination
  - (b) Price Rigidity
  - (c) Collusion between Firm
  - (d) All of the above
111. Kinked demand curve hypothesis is given by:
- (a) Alfred marshal
  - (b) A.C Pigou
  - (c) Sweezy
  - (d) Hicks & allen
112. The demand curve of oligopoly is:
- (a) Horizontal
  - (b) Vertical
  - (c) Kinked
  - (d) Rising left to right

113. In oligopoly, the kink on the demand curve is more due to \_\_\_\_
- (a) discontinuity in MR.
  - (b) discontinuity in AR
  - (c) Fulfillment of the assumption that a price cut is followed by others and a price increase by a firm is not followed by others.
  - (d) price war amongst the firms.
114. Which of these is the best example of oligopoly?
- (a) OPEC
  - (b) SAARC
  - (c) WTO
  - (d) GATT
115. Which of the following is not a feature of oligopoly market?
- (a) Interdependence of the firms in decision making
  - (b) Price rigidity
  - (c) Group behavior
  - (d) Existence of large number of firms.
116. In the kinked-demand' curve model, the upper portion of the demand curve is:
- (a) Elastic
  - (b) Inelastic
  - (c) Perfectly Elastic
  - (d) Unitary Elastic
117. The demand curve of an Oligopolist is:
- (a) Determinate
  - (b) Indeterminate
  - (c) Circular
  - (d) Vertical
118. When the industry is dominated by one large firm which is considered as the leader 'of the group, the market is described as:
- (a) Open oligopoly
  - (b) Perfect oligopoly
  - (c) Full oligopoly
  - (d) Partial oligopoly.

## **MISCELLANEOUS**

119. Monopolistic competition differs from perfect competition primarily because
- (a) in monopolistic competition, firms can differentiate their products.
  - (b) in perfect competition, firms can differentiate their products.
  - (c) in monopolistic competition, entry into the industry is blocked.
  - (d) in monopolistic competition, there are relatively few barriers to entry.
120. In which form of the market structure is the degree of control over the price of its product by a firm very large?
- (a) Monopoly
  - (b) Imperfect Competition
  - (c) Oligopoly
  - (d) Perfect competition

121. Under which of the following forms of market structure does a firm have no control over the price of its product?
- (a) Monopoly
  - (b) Monopolistic competition
  - (c) Oligopoly
  - (d) Perfect competition
122. Suppose that the demand curve for the XYZ Co. slopes downward and to the right. We can conclude that
- (a) the firm operates in a perfectly competitive market.
  - (b) the firm can sell all that it wants to at the established market price.
  - (c) the XYZ Co. is not a price-taker in the market because it must lower price to sell additional units of output.
  - (d) the XYZ Co. will not be able to maximise profits because price and revenue are subject to change.
123. Which of the following statements is incorrect?
- (a) Even a monopolistic firm can have losses.
  - (b) Firms in a perfectly competitive market are price takers.
  - (c) It is always beneficial for a firm in a perfectly competitive market to discriminate prices.
  - (d) Kinked demand curve is related to an oligopolistic market.
124. Agricultural goods markets depict characteristics close to
- (a) perfect competition.
  - (b) oligopoly.
  - (c) monopoly.
  - (d) monopolistic competition.
125. The market for hand tools (such as hammers and screwdrivers) is dominated by Draper, Stanley, and Craftsman. This market is best described as
- (a) Monopolistically competitive
  - (b) a monopoly
  - (c) an oligopoly
  - (d) perfectly competitive
126. A market structure in which many firms sell products that are similar but not identical is known as
- (a) monopolistic competition
  - (b) monopoly
  - (c) perfect competition
  - (d) oligopoly
127. Price discrimination is one of the features of \_\_\_\_\_
- (a) monopolistic competition
  - (b) monopoly
  - (c) perfect competition
  - (d) oligopoly
128. Generally, perishable goods like butter, eggs, milk, vegetables etc., will have
- (a) regional market
  - (b) local market
  - (c) national market
  - (d) none of the above

129. Which of the following statements is correct?
- Price rigidity is an important feature of monopoly.
  - Selling costs are possible under perfect competition.
  - Under perfect competition factors of production do not move freely as there are legal restrictions.
  - An industry consists of many firms.
130. Which of the following statements is incorrect?
- Under monopoly there is no difference between a firm and an industry.
  - A monopolist may restrict the output and raise the price.
  - Commodities offered for sale under a perfect competition will be heterogeneous.
  - Product differentiation is peculiar to monopolistic competition.
131. If firms in the toothpaste industry have the following market shares, which market structure would best describe the industry?

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

- Perfect competition.
  - Monopolistic competition.
  - Oligopoly.
  - Monopoly.
132. A firm encounters its "shutdown point" when:
- average total cost equals price at the profit-maximizing level of output.
  - average variable cost equals price at the profit-maximizing level of output.
  - average fixed cost equals price at the profit-maximizing level of output.
  - marginal cost equals price at the profit-maximizing level of output.
133. Suppose that, at the profit-maximizing level of output, a firm finds that market price is less than average total cost, but greater than average variable cost. Which of the following statements is correct?
- The firm should shutdown in order to minimize its losses.
  - The firm should raise its price enough to cover its losses.
  - The firm should move its resources to another industry.
  - The firm should continue to operate in the short run in order to minimize its losses.
134. When price is less than average variable cost at the profit-maximizing level of output, a firm should:
- produce where marginal revenue equals marginal cost if it is operating in the short run.
  - produce where marginal revenue equals marginal cost if it is operating in the long run.
  - shutdown, since it will lose nothing in that case.
  - shutdown, since it cannot even cover its variable costs if it stays in business.
135. The structure of the toothpaste industry in India is best described as
- perfectly competitive.
  - monopoly
  - monopolistically competitive.
  - oligopolistic.

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

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

137. The firm and the industry are one and the same in \_\_\_\_\_

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

138. A competitive firm in the short run incurs losses. The firm continues production, if:

- (a)  $P > AVC$
- (b)  $P = AVC$
- (c)  $P < AVC$
- (d)  $P \geq AVC$

139. Under \_\_\_ market condition, firm make normal profits in the long run:

- (a) Perfect competition
- (b) Monopoly
- (c) Oligopoly
- (d) None

140. \_\_\_\_\_ is an ideal Market.

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

141. Under which Market Situation demand curve is linear and parallel to X axis:

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

142. Which market have characteristic of product differentiation?

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

143. Selling costs have to be incurred in case of:

- (a) Perfect Competition
- (b) Monopolistic Competition
- (c) Monopoly
- (d) None of these

144. In market, the price and output equilibrium is determined on the basis of:

- (a) Total revenue and total cost
- (b) Total cost and marginal cost
- (c) Marginal revenue and marginal cost

(d) Only marginal cost

145. Non-price competition is very popular in:

- (a) Monopoly market
- (b) Monopolistic competition
- (c) Oligopolistic market
- (d) Perfect competition.

146. Abnormal profits exist in the long run only under \_\_\_\_

- (a) perfect competition
- (b) monopoly
- (c) monopolistic competition
- (d) oligopoly

147. A market structure in which many firms sell products that are similar and identical is known as

- (a) monopolistic competition
- (b) monopoly
- (c) perfect competition
- (d) oligopoly

148. A firm having kinked demand curve indicates that:

- (i) If the firm reduces the price, competitive firms also reduce the price
- (ii) If the firm increases the price, competitive firms also increases the price
- (iii) If the firm reduces the price, competitive firms do not reduce the price
- (iv) If the firm increases the price, competitive firms do not increase the price
- (a) Only (i) above
- (b) Both (i) and (iv) above
- (c) Both (ii) and (iv) above
- (d) Both (ii) and (iii) above

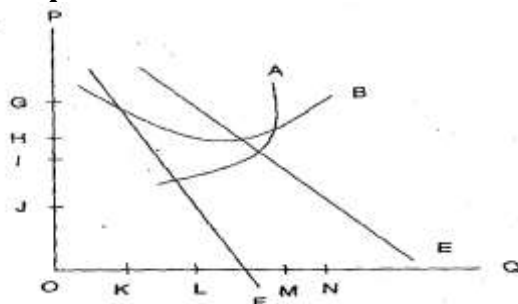
149. Price discrimination will not be profitable, if the elasticity of demand is \_\_\_\_\_ in different markets

- (a) uniform
- (b) different
- (c) less
- (d) zero

150. \_\_\_\_\_ is that situation in which a firm changes its market policy, in part on the expected behaviour of a few close rivals.

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

Solve 3 questions below on the basis of following figure:



151. In the above figure, curve E is the firm's
- (a) Marginal Cost Curve
  - (b) Average Cost Curve
  - (c) Demand Curve
  - (d) Marginal revenue Curve.
152. Above figure represents a
- (a) Monopolist
  - (b) Perfectly competition industry
  - (c) Perfectly competitive firm
  - (d) None of the above.
153. In above figure, firms marginal revenue curve is curve
- (a) E
  - (b) A
  - (c) F
  - (d) B
154. The price elasticity of demand for a product is infinite under:
- (a) Perfect competition
  - (b) Monopolistic competition
  - (c) Monopoly
  - (d) Oligopoly
155. Comparing a Monopoly and Competitive firm the Monopolist will:
- (a) Produce less at a lower price
  - (b) Produce more at a lower price
  - (c) Produce less at a higher price
  - (d) Produce zero at a lower price
156. Which market has the concept of 'group equilibrium in the long run'?
- (a) Oligopoly
  - (b) Monopoly
  - (c) Monopolistic competition
  - (d) Perfect competition
157. Which of the following is incorrect?
- (a) Even monopolistic can earn losses.
  - (b) Firms in perfect competitive market is price taker.
  - (c) It is always beneficial for a firm in a perfectly competitive market to discriminative prices.
  - (d) Kinked demand curve is related to an oligopolistic market.
158. Which of the following statement is not correct?
- (a) Under monopoly there is no difference between a firm and industry.
  - (b) A monopolist may restrict the output and raise the price.
  - (c) Commodities offered for sale under a perfect competition will be heterogeneous.
  - (d) Product differentiation is peculiar to monopolistic competition.
159. Under which of the following forms of market structure does a firm have no control over the price, of its product?
- (a) Monopoly
  - (b) Monopolistic Competition

- (c) Oligopoly  
(d) Perfect Competition.

160. In which of the following market structure is the degree of control over the price of its product by a firm very large?  
(a) Imperfect competition  
(b) Perfect competition  
(c) Monopoly  
(d) (a) and (b) both

**ANSWERS TO CHAPTER -MARKET**

1	B	27		54	D	81	B	108	D	135	C
2	A	28	D	55	B	82	D	109	A	136	C
3	A	29	C	56	C	83	B	110	B	137	D
4	A	30	D	57	B	84	C	111	C	138	D
5	B	31	D	58	B	85	C	112	C	139	A
6	A	32	A	59	A	86	C	113	C	140	C
7	A	33	C	60	C	87	A	114	A	141	A
8	D	34	C	61	B	88	C	115	D	142	C
9	B	35	C	62	A	89	A	116	A	143	B
10	C	36	D	63	B	90	D	117	B	144	C
11	C	37	B	64	D	91	B	118	D	145	B
12	D	38	B	65	A	92	A	119	A	146	B
13	B	39	C	66	D	93	D	120	A	147	C
14	C	40	D	67	D	94	C	121	D	148	B
15	C	41	D	68	B	95	B	122	C	149	A
16	A	42	B	69	A	96	A	123	C	150	A
17	B	43	C	70	C	97	B	124	A	151	C
18	C	44	D	71	A	98	D	125	C	152	A
19	D	45	B	72	B	99	C	126	A	153	C
20	C	46	D	73	D	100	A	127	B	154	A
21	C	47	B	74	A	101	C	128	B	155	C
22	D	48	B	75	D	102	B	129	D	156	C
23	D	49	D	76	C	103	B	130	C	157	C
24	A	50	D	77	B	104	C	131	B	158	C
25	C	51	D	78	A	105	B	132	B	159	D
26	A	52	A	79	D	106	A	133	D	160	C
27	B	53	D	80	C	107	D	134	D		

# CH 9- BUSINESS CYCLE

## INTRODUCTION TO BUSINESS CYCLE

1. The term business cycle refers to
  - (a) The ups and downs in production of commodities
  - (b) The fluctuating levels of economic activity over a period of time
  - (c) Decline in economic activities over pro longer period of time
  - (d) Increasing in employment rate and diminishing rate of savings
  
2. Which of the following statements is true?
  - (a) An Economy grow endlessly
  - (b) An Economy Contract endlessly
  - (c) It is easy to predict turning points of Business Cycle
  - (d) None of the above
  
3. Which of the following statement is not correct?
  - (a) Business Cycles are periodical
  - (b) Business Cycles are regular
  - (c) Business Cycles vary in intensity
  - (d) Business Cycles vary in length
  
4. Industries that are extremely sensitive to the business cycle are the
  - (a) Durable goods and service sectors.
  - (b) Non-durable goods and service sectors.
  - (c) Capital goods and non-durable goods sectors.
  - (d) Capital goods and durable goods sectors.
  
5. A decrease in government spending would cause
  - (a) the aggregate demand curve to shift to the right.
  - (b) The aggregate demand curve to shift to the left.
  - (c) a movement down and to the right along the aggregate demand curve.
  - (d) a movement up and to the left along the aggregate demand curve.
  
6. Which of the following is not a characteristic of business cycles
  - (a) Business cycles have serious consequences on the well being of the society.
  - (b) Business cycles occur periodically, although they do not exhibit the same regularity.
  - (c) Business cycles have uniform characteristics and causes.
  - (d) Business cycles are contagious and unpredictable.
  
7. According to \_\_\_\_\_ trade cycles occur due to onset of innovations.
  - (a) Haw trey
  - (b) ADAM Smith
  - (c) JM Keynes
  - (d) Schumpeter
  
8. According to Keynes, Fluctuations in economic activity are due to fluctuations in
  - (a) Aggregate effective demand
  - (b) Price
  - (c) Supply of resources
  - (d) None of the above
  
9. What is the cause for rise in investments?
  - (a) New inventions

- (b) Profit expectations
  - (c) Low interest rate in the economy
  - (d) All of the above
10. Internal cause for Business Cycle include
- (a) Money Supply
  - (b) Wars
  - (c) Weather Cycles
  - (d) Changing Technology
11. The most probable outcome of an increase in the money supply is
- (a) interest rates to rise, investment spending to rise, and aggregate demand to rise
  - (b) interest rates to rise, investment spending to fall, and aggregate demand to fall
  - (c) interest rates to fall, investment spending to rise, and aggregate demand to rise
  - (d) interest rates to fall, investment spending to fall, and aggregate demand to fall
12. What are the two main components of business cycle theories?
- (a) A description of shocks and a model of how the economy responds, to them
  - (b) A model of how people decide to spend and a description of the government's role in the economy
  - (c) A model of how equilibrium is reached and a description of the government's role in the economy
  - (d) A description of shocks and a description of the government's role in the economy
13. Economists use the term shocks to mean
- (a) unexpected government actions that affect the economy.
  - (b) typically unpredictable forces that have major impacts on the economy.
  - (c) sudden rises in oil prices.
  - (d) the business cycle.
14. Wars, new inventions, harvest failures, and changes in government policy are examples of
- (a) the business cycle.
  - (b) economic models.
  - (c) shocks.
  - (d) opportunity costs.
15. In the short run, an increase in export sales would cause output to \_\_\_\_ and the price level to \_\_\_\_
- (a) rise; rise
  - (b) rise; stay constant
  - (c) fall; stay constant
  - (d) fall; rise
16. In the long run, an increase in consumer spending would cause output to \_\_\_\_ and the price level to \_\_\_\_
- (a) rise; rise
  - (b) rise; stay constant
  - (c) stay constant; stay constant
  - (d) stay constant; rise
17. In the long run, an increase in government purchases of military equipment would cause output to \_\_\_\_ and the aggregate price level to \_\_\_\_
- (a) stay constant; fall
  - (b) fall; fall
  - (c) fall; stay constant
  - (d) stay constant; rise

18. According to classical macroeconomists, prices adjust \_\_\_\_ to shocks, so the government should \_\_\_\_
- (a) slowly; do little
  - (b) rapidly; do little
  - (c) rapidly; fight recessions
  - (d) slowly; fight recessions
19. According to Keynesian macroeconomists, prices adjust to shocks \_\_\_\_\_ so the government should \_\_\_\_
- (a) slowly; do little
  - (b) rapidly; do little
  - (c) rapidly; fight recessions
  - (d) slowly; fight recessions
20. In the long run, an increase in productivity would cause output to \_\_\_\_ and the aggregate price level to \_\_\_\_
- (a) fall; rise
  - (b) fall; fall
  - (c) rise; fall
  - (d) rise; rise
21. In the long run, a reduction in labor supply would cause output to \_\_\_\_ and the aggregate price level to \_\_\_\_
- (a) fall; rise
  - (b) fall; fall
  - (c) rise; fall
  - (d) rise; rise
22. According to some economists, \_\_\_\_\_ are the prime causes of business cycles.
- (a) Fluctuations in effective demand
  - (b) Fluctuations in investments
  - (c) Macroeconomic policies
  - (d) All of the above
23. Which internal/economic factor affects the Business cycle?
- (a) Fluctuations in investment
  - (b) Natural factors
  - (c) Technology shocks
  - (d) Population growth
24. Modern business activities are based on the anticipations of business community & are affected by waves of optimism or pessimism, according to \_\_\_\_\_.
- (a) Pigou
  - (b) Keynes
  - (c) Hawtrey
  - (d) Schumpeter
25. According to \_\_\_\_\_, trade cycles occur due to onset of innovations.
- (a) Hawtrey
  - (b) Adam Smith
  - (c) J M Keynes
  - (d) Schumpeter
26. Which among the following statements is false?
- (a) Hawtrey - trade cycle is purely monetary phenomenon
  - (b) Keynes - fluctuations in Aggregate Demand

- (c) Pigou – fluctuations in investment
- (d) Schumpeter – innovations

27. How many phases are there in Business cycle?

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

28. Business cycles affect \_\_\_\_\_ of an economy.

- (a) Social aspect
- (b) Economic aspect
- (c) All aspects
- (d) No aspects

29. The period of prosperity opens up new & superior opportunities for \_\_\_\_\_ thereby promoting business.

- (a) Investment & unemployment
- (b) Employment & production
- (c) Production, Unemployment & saving
- (d) Investment, Employment & production

## **PHASES**

30. When does an economic expansion occur in the business cycle?
- (a) At the peak of the business cycle
  - (b) At the trough of the business cycle
  - (c) Between the peak and trough
  - (d) Between the trough and peak
31. Increasing Prosperity and High standards of living are the characteristics of
- (a) Peak
  - (b) Contraction
  - (c) Expansion
  - (d) Trough
32. The end of expansion is termed as-
- (a) Peak
  - (b) Contraction
  - (c) Trough
  - (d) None of the above
33. The beginning of recession is
- (a) Peak
  - (b) Trough
  - (c) Contraction
  - (d) Expansion
34. A significant decline in general economic activity extend in a period of time is
- (a) Business cycle
  - (b) Contraction phase
  - (c) recession
  - (d) recovery
35. Severe form of recession is
- (a) Contraction
  - (b) Depression
  - (c) Expansion
  - (d) Peak
36. The trough of a business cycle occurs when \_\_\_\_\_ hits its lowest point.
- (a) Inflation in the economy
  - (b) the money supply
  - (c) aggregate economic activity
  - (d) the unemployment rate
37. The lowest point in the business cycle is
- (a) Expansion.
  - (b) Boom.
  - (c) Peak.
  - (d) Trough.
38. Even with lower rate of interest, demand for credit declines in \_\_\_\_\_
- (a) Expansion Phase
  - (b) Peak
  - (c) Contraction Phase
  - (d) Depression

39. Which of the following does not occur during an expansion?
- (a) Consumer purchases of all types of goods tend to increase.
  - (b) Employment increases as demand for labour rises.
  - (c) Business profits and business confidence tend to increase
  - (d) None of the above.
40. During recession, the unemployment rate \_\_\_\_ And output \_\_\_\_\_
- (a) Rises ; falls
  - (b) Rises; rises
  - (c) Falls ; rises
  - (d) Falls ; falls
41. The four phases of the business cycle are
- (a) Peak , recession , trough , and boom
  - (b) Peak , depression , trough , and boom
  - (c) Peak , recession , trough , and recovery
  - (d) Peak , depression , bust , and boom
42. When aggregate economic activity is declining , the economy is said to be in
- (a) Contraction.
  - (b) An expansion.
  - (c) A trough.
  - (d) A turning point.
43. Peaks and troughs of the business cycle are known collectively as
- (a) Volatility.
  - (b) Turning points.
  - (c) Equilibrium points.
  - (d) Real business cycle events.
44. Economic recession shares all of these characteristics except.
- (a) Fall in the levels of investment and employment
  - (b) Income of wage and interest earners gradually decline resulting in decreased demand for goods and services
  - (c) Investor confidence is adversely affected and new investments may not be forthcoming
  - (d) Increase in the price of inputs due to increased demand for inputs
45. The different phases of a business cycle
- (a) Do not have the same length and severity
  - (b) expansion phase always last more than ten years
  - (c) last many years and are difficult to get over in short periods
  - (d) None of the above
46. A significant decline in general economic activity extending over a period of time is
- (a) business cycle
  - (b) contraction phase
  - (c) recession
  - (d) recovery
47. The trough of a business cycle occurs when \_\_\_\_ hits its lowest point.
- (a) inflation in the economy
  - (b) the money supply
  - (c) aggregate economic activity
  - (d) the unemployment rate

48. The lowest point in the business cycle is referred to as the
- (a) Expansion.
  - (b) Boom.
  - (c) Peak.
  - (d) Trough.
49. Research on the effects of recessions on the real level of GDP shows that
- (a) recessions cause only temporary reductions in real GDP, which are offset by growth during the expansion phase.
  - (b) recessions cause large, permanent reductions in the real level of GDP.
  - (c) recessions cause both temporary and permanent declines in real GDP, but most of the decline is temporary.
  - (d) recessions cause both temporary and permanent declines in real GDP, but most of the decline is permanent.
50. Last stage of recession is called:
- (a) Depression
  - (b) Recovery
  - (c) Slowdown
  - (d) All of these.
51. In the later stages of expansion, inputs are difficult to find as they are \_\_\_\_\_ of their demand & therefore input prices \_\_\_\_\_.
- (a) Short, increase
  - (b) Excess, increases
  - (c) Short, decrease
  - (d) Excess, decrease
52. \_\_\_\_\_ is the severe form of \_\_\_\_\_.
- (a) Depression, Recovery
  - (b) Depression, Recession
  - (c) Recession, Depreciation
  - (d) Recession, Recovery
53. Period of \_\_\_\_\_ reduces business opportunities & profits.
- (a) Recession
  - (b) Depression
  - (c) Either a or b
  - (d) None of these

## **INDICATORS**

54. A leading indicator is -
- (a) A variable that tends to move along with the level of economic activity
  - (b) a variable that tends to move in advance of aggregate economic activity
  - (c) a variable that tends to move consequent on the level of aggregate economic activity
  - (d) None of the above
55. A variables that tends to move later than aggregate economic activity is called \_\_\_\_\_
- (a) a leading variable.
  - (b) A coincident variable.
  - (c) A lagging variable.
  - (d) A cyclical variable.
56. Changes in housing interest rate is a
- (a) A leading indicator
  - (b) A coincident indicator
  - (c) A lagging indicator
  - (d) a cyclical indicator
57. Unemployment is a
- (a) A leading indicator
  - (b) A coincident indicator
  - (c) Lagging indicator
  - (d) a cyclical indicator
58. GDP is a
- (a) A leading indicator
  - (b) a coincident indicator
  - (c) lagging indicator
  - (d) a cyclical indicator
59. Leading economic indicators
- (a) Are used to forecast probable shifts in economic policies
  - (b) are generally used to forecast economic fluctuations
  - (c) are indicators of stock prices existing in an economy
  - (d) are indicators of probable recession and depression
60. Which of the following is not an example of coincident indicator?
- (a) Industrial production
  - (b) inflation
  - (c) Retail sales
  - (d) New orders for plant and equipment
61. A variable that tends to move in advance of aggregate economic activity is called
- (a) a leading variable.
  - (b) a coincident variable.
  - (c) a lagging variable.
  - (d) an acyclical variable
62. A variable that tends to move at the same time as aggregate economic activity is called
- (a) a leading variable.
  - (b) a coincident variable.
  - (c) a lagging variable.
  - (d) an acyclical variable.

63. Which among the following is true about leading indicators?

- (a) Measurable economic factors
- (b) Changes after real output
- (c) Both a & b
- (d) None

**MPSC**

## **MISCELLANEOUS**

64. Which of the following best describes a typical business cycle?
- (a) Economic expansions are followed by economic contractions.
  - (b) Inflation is followed by rising income and an employment.
  - (c) Economic expansions are followed by economic growth and development.
  - (d) Stagflation is followed by inflation are economic growth.
65. The most probable outcome of an increase in the money supply is
- (a) interest rates to rise, investment spending to rise, and aggregate demand to rise
  - (b) interest rates to rise, investment spending to fall , and aggregate demand to fall
  - (c) interest rates to fall, investment spending to rise , and aggregate demand to rise
  - (d) interest rate of all investment spending to fall and aggregate demand to fall
66. The tendency of many different economic variables to have regular and predictable patterns across industries over the business cycle is called
- (a) persistence.
  - (b) comóvement.
  - (c) periodicity.
  - (d) recurrence.
67. The tendency for decline in economic activity to be followed by further declines, and for growth in economic activity to be followed by more growth is called .
- (a) persistence.
  - (b) comovement
  - (c) periodicity.
  - (d) recurrence.
68. An economic variable that moves in the same direction as aggregate economic activity (up in expansions, down in contractions) is called
- (a) procyclical.
  - (b) countercyclical.
  - (c) acyclical.
  - (d) a leading variable.
69. An economic variable that moves in the opposite direction as aggregate economic activity (down in expansions, up in contractions) is called
- (a) pro cyclical.
  - (b) countercyclical.
  - (c) a cyclical.
  - (d) a leading variable.
70. An economic variable that doesn't move in a consistent pattern with aggregate economic activity is called
- (a) pro cyclical.
  - (b) countercyclical.
  - (c) a cyclical.
  - (d) a leading variable.

71. Which of the following macroeconomic variables is procyclical and coincident with the business cycle?
- (a) Residential investment
  - (b) Nominal interest rates
  - (c) Industrial production
  - (d) Unemployment
72. Which of the following macroeconomic variables is procyclical and leads the business cycle?
- (a) Business fixed investment
  - (b) Residential investment
  - (c) Nominal interest rates
  - (d) Unemployment
73. Which of the following macroeconomic variables is acyclical?
- (a) Real interest rates
  - (b) Unemployment
  - (c) Money supply
  - (d) Consumption
74. Which of the following macroeconomic variables is procyclical and lags in the business cycle?
- (a) Business fixed investment
  - (b) Employment
  - (c) Stock prices
  - (d) Nominal interest rates
75. Which of the following macroeconomic variables would you include in an index of leading economic indicators?
- (a) Employment
  - (b) Inflation
  - (c) Real interest rates
  - (d) Residential investment
76. Which of the following macroeconomic variables would you exclude from an index of leading economic indicators?
- (a) Money supply
  - (b) Industrial production
  - (c) Inventory investment
  - (d) Residential investment
77. You want to invest in a firm but the profits shows large fluctuations throughout the business cycle. Which of the following would you invest in?
- (a) A corporation that depends heavily on business fixed investment
  - (b) A corporation that depends heavily on consumer services
  - (c) A corporation that depends heavily on consumer non durables
  - (d) A corporation that depends heavily on government purchases
78. Which of the following statements is true?
- (a) Employment and unemployment are both coincident with the business cycle.
  - (b) Employment and unemployment are both procyclical.
  - (c) Employment is procyclical and unemployment is coincident with the business cycle.
  - (d) Employment is procyclical and unemployment is countercyclical.
79. Which of the following statements is true?
- (a) Both nominal and real interest rate are procyclical and leading.
  - (b) Both nominal and real interest rates a procyclical and lagging.

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- (c) Nominal interest rates are procyclical and real interest rates are countercyclical.
- (d) Nominal interest rates are procyclical and real interest rates are acyclical.

80. Which of the following macroeconomic variables is the most seasonally procyclical?
- (a) Expenditure on services
  - (b) The unemployment rate
  - (c) Expenditure on durable goods
  - (d) The real wage

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81. Which of the following macroeconomic variables doesn't vary much over the seasons?
- (a) The nominal money stock
  - (b) The unemployment rate
  - (c) The real wage
  - (d) Average labor productivity
82. Fashion Retailer is business of -
- (a) Cyclical nature
  - (b) Sunrise nature
  - (c) Sluggish nature
  - (d) None of these
83. Rampant unemployment is found in \_\_\_\_\_
- (a) Boom
  - (b) Recovery
  - (c) Contraction
  - (d) Depression
84. The great depression of \_\_\_\_\_ is still cited for the enormous misery & human sufferings it caused.
- (a) 1929 - 1930
  - (b) 1929 - 1931
  - (c) 1929 - 1932
  - (d) 1929 - 1933
85. Which of the following statements is false?
- (a) No economy follows a perfectly timed cycle
  - (b) Business cycle varies in intensity & length
  - (c) There is no set pattern which business cycle follow
  - (d) Every business cycle has relatively longer period
86. Repercussions of Business cycle are simultaneously felt in \_\_\_\_\_ economic variables.
- (a) Output & employment
  - (b) Investment & consumption
  - (c) Interest, trade & price levels
  - (d) All of the above
87. What is incorrect about Business cycle?
- (a) They occur periodically
  - (b) They exhibit same regularity
  - (c) The duration of cycles vary
  - (d) The intensity of fluctuations also vary
88. Which external factor affect the business cycle?
- (a) Population growth
  - (b) Variation in government spending
  - (c) Money supply
  - (d) Macro economic policies
89. Economy-wide trends can have significant impact on \_\_\_\_\_.
- (a) Capital goods industries
  - (b) FMCG industries
  - (c) Social activities
  - (d) All types of businesses

90. Business cycle is contagious & \_\_\_\_\_ in character.
- (a) Local
  - (b) Regional
  - (c) National
  - (d) International
91. Businesses whose fortunes are closely linked to the rate of economic growth are referred to as \_\_\_\_\_
- (a) FMCG
  - (b) Durable goods
  - (c) Fluctuating
  - (d) Cyclical
92. The world economy suffered the longest, deepest & most widespread depreciation of the 20<sup>th</sup> century during \_\_\_\_\_
- (a) 1934
  - (b) 1928
  - (c) 1930
  - (d) 1932
93. The stage/phase of business cycle is important for -
- (a) Making managerial decisions regarding expansion or downfall
  - (b) A business to decide about the entry into the market
  - (c) The success of a new product
  - (d) All of the above
94. Due to recession, unemployment rate & output \_\_\_\_\_ respectively.
- (a) Rises & rises
  - (b) Falls & falls
  - (c) Rises & falls
  - (d) Falls & rises
95. Endogenous factors refer to \_\_\_\_\_ causes.
- (a) Internal
  - (b) External
  - (c) Economic
  - (d) Ecological
96. Which is not related to great depression of 1930?
- (a) It started in USA
  - (b) John Maynard Keynes regarded lower aggregate expenditure as the cause
  - (c) Excess Money supply
  - (d) Both a & b
97. Select the odd out:
- (a) Expansion
  - (b) Boom
  - (c) Upswing
  - (d) Trough
98. The disturbances in one or more sectors \_\_\_\_\_ other sectors.
- (a) Do not affect
  - (b) Equally affect
  - (c) Gets easily transmitted to all
  - (d) None of the above

99. Business cycle may occur due to

- (a) External causes
- (b) Internal causes
- (c) Both a & b
- (d) Either a or b

100. Macroeconomic policies which cause business cycle may be

- (a) Monetary policies
- (b) Fiscal policies
- (c) Both a & b
- (d) None of these

### ANSWERS TO CHAPTER - BUSINESS CYCLE

1	B	26	C	51	A	76	B
2	D	27	A	52	B	77	A
3	B	28	C	53	C	78	D
4	B	29	D	54	B	79	D
5	B	30	D	55	C	80	C
6	C	31	C	56	A	81	C
7	D	32	A	57	C	82	A
8	A	33	A	58	B	83	D
9	D	34	C	59	B	84	D
10	D	35	B	60	D	85	D
11	C	36	C	61	A	86	D
12	A	37	D	62	B	87	B
13	B	38	D	63	A	88	A
14	C	39	D	64	A	89	D
15	D	40	A	65	C	90	D
16	D	41	C	66	C	91	D
17	D	42	A	67	A	92	C
18	B	43	B	68	A	93	D
19	D	44	D	69	B	94	B
20	C	45	A	70	C	95	A
21	A	46	C	71	C	96	C
22	D	47	C	72	A	97	D
23	A	48	D	73	A	98	C
24	A	49	C	74	B	99	C
25	D	50	A	75	D	100	C