

**Question Bank - Multiple Choice Questions (MCQs)**

Unit 1: Introduction and basic concepts

1. Who is the father of Economics?
  - a) Alfred Marshall
  - b) Adam Smith
  - c) Lionel Robbins
  - d) Samuelson
  
2. What is the factor price available to Capital?
  - a) Rent
  - b) Interest
  - c) Commission
  - d) Profit
  
3. Rent, wages, interest and profit is known as
  - a) Factors of production
  - b) Factor prices
  - c) Factor stages
  - d) Factor phases
  
4. Study of Aggregate demand and aggregate supply is a concern of
  - a) Macro economics
  - b) Micro economics
  - c) International economics
  - d) None of the above
  
5. Which of the following is a microeconomic topic?
  - A) The reasons why Kathy buys less orange juice.
  - B) The reasons why total employment decreases.
  - C) The reasons for a decline in average prices.
  - D) The effect of the government budget deficit on inflation.

6. Economics is a \_\_\_\_\_.
- a) Positive science
  - b) Normative science
  - c) None
  - d) Both
7. Economics is a ----- science which deals with human wants and their satisfaction.
- a) Social
  - b) Political
  - c) Natural
  - d) Physical
8. The interaction of individuals and firms in a market can be described as a -----  
----- of money, goods and services and resources through product and factor markets.
- a) Constant flow
  - b) Stable flow
  - c) Circular Flow
  - d) Regular Flow
9. ----- focuses on the behaviour of the individual actors on the economic stage, that is, firms and individuals and their interaction in markets.
- a) Macroeconomics
  - b) Microeconomics
  - c) Managerial Economics
  - d) Economics
10. The simple circular flow model shows that:
- a) Households are on the buying side of both product and resource markets.
  - b) Businesses are on the selling side of both product and resource markets.
  - c) Households are on the selling side of the resource market and on the buying side of the product market.
  - d) Businesses are on the buying side of the product market and on the selling side of the resource market.

11. The two basic markets shown by the simple circular flow model are:

- a) Capital goods and consumer goods.
- b) Free and controlled.
- c) Product and resource.
- d) None of the above

12. In economics the central problem is:

- a) Money.
- b) Scarcity.
- c) distribution
- d) Production.

13. Goods and Services bought and sold in:

- a) Product Market.
- b) Factor Market.
- c) Capital Market.
- d) Money Market.

14. In Product market money flows from:

- a) Individual to firm.
- b) Business to households.
- c) Government to household.
- d) None of the above

15. In resource market money flows from:

- a) Individual to firm
- b) Firm to individual
- c) Government to household
- d) None of the above

16. In factor market suppliers are:

- a) Firms.
- b) Households.
- c) Government
- d) None of the above

---

17. Indian economy is:

- a) Capitalist Economy
- b) Socialist Economy
- c) Mixed Economy
- d) None

18. There are .....branches of economics.

- a) 2
- b) 3
- c) 4
- d) 6

19. It is the study of economics actions of individuals and small groups of individuals.

- a) Micro-Economics
- b) Macro-Economics
- c) Managerial Economics
- d) Business Economics

20. Economics includes the following economic activities:

- a) Production
- b) Consumption
- c) Exchange
- d) All of the above

21. Which among the following is the basic problems of economics?

- a) What to consume?
- b) What to produce?
- c) Why to produce?
- d) Not to produce?

22. The principle reasons behind economic problems

- a) human wants are Unlimited
- b) Limited or Scarce resources
- c) Alternatives Uses of the resources
- d) All of the above

23. Factors of production are :

- a) land, labour, capital and entrepreneurs.
- b) Weather, social, and political conditions that affect production.
- c) The physical relationships between economic inputs and outputs.
- d) The mathematical calculations firms make to determine production.

24. Scarcity is a condition that exists when

- a) There is a fixed supply of resources.
- b) There is a large demand for a product.
- c) Resources are not able to meet the entire demand for a product.
- d) All of the above.

25. The three basic problems of economics are:

- a) When to consume, for whom to consume, and how to consume.
- b) what to produce, how to produce and for whom to produce.
- c) Who, how, and when distribution of income occurs
- d) none of the above

26. An economy succeeds in producing resources efficiently when

- a) Goods and services are produced without resources being wasted.
- b) The total number of goods manufactured is high.
- c) The resources employee are the best
- d) The resources employed for highly valued uses.

27. Which branch of economic theory is associated with the difficulty of resources allocation

- A) Econometrics.
- B) Micro-economic theory
- C) Macro-economic theory
- D) None of the above

28. The creation of choice is done by

- A) Scarcity of resources
- B) Less choice option
- C) The urgency of needs
- D) Abundance of resources

29. The law of scarcity

- A) States that the want of a consumer will never be satisfied completely
- B) Indicates that the want of consumer will be satisfied in a socialistic system
- C) Is only for underdeveloped countries
- D) Is not for rich and developed countries

30. What do you mean by a mixed economy?

- a) Modern and traditional industries
- b) Public and private sectors
- c) Foreign and domestic investments
- d) Commercial and subsistence farming

31. Economics is best defined as the study of how people, businesses, governments, and societies

- A) use their infinite resources.
- B) choose abundance over scarcity.
- C) make choices to cope with scarcity.
- D) attain wealth

32. Scarcity requires that people must \_\_\_\_\_

- A) trade.
- B) cooperate.
- C) make choices.
- D) compete

33. As an economic concept, scarcity applies to

- A) money but not time.
- B) time but not money.
- C) both money and time.
- D) neither time nor money.

34) For economists, statements about the world are of two types:

- a) Assumptions and theories
- b) Positive statements and negative statements
- c) Positive statements and normative statements
- d) Specific statements and general statements

35) The opportunity cost of going to university is:

- a) The total spent on food, clothing, books, transportation, tuition, lodging and other expenses
- b) Zero for students who are fortunate enough to have all of their university expenses paid by someone else
- c) Zero, since a university education will allow a student to earn a higher income after graduation
- d) The value of the best opportunity a student gives up to attend university

36) In a market economy:

- a) Households decide which firms to work for and what to buy with their incomes

- b) Profit and self-interest guide the decisions of firms and households  
c) Firms decide whom to hire and what to produce.  
d) All of the above are true
- 37) Statistics such as GDP, the unemployment rate, the rate of inflation and the trade balance are:  
a) Macro, since they tell us something about the entire economy  
b) Neither macro nor micro, but properly in the realm of political science  
c) Both micro and macro  
d) Micro, since they affect individual households and firms
- 38) What do you mean by a mixed economy?  
a) Modern and traditional industries  
b) Public and private sectors  
c) Foreign and domestic investments  
d) Commercial and subsistence farming
- 39) "Capitalism" refers to?  
a) The use of market  
b) Government ownership of capital  
c) Private ownership of capital goods  
d) Private ownership of homes & cars
- 40) In Economics, a good is something which,  
a) Is a service  
b) Can be a service  
c) Appears appealing  
d) Satisfies wants and needs
- 41) The basic factors of production are land, labour, capital and,  
a) Enterprise  
b) Investment  
c) Machinery  
d) Resources
- 42) Macroeconomics became popular after-----  
a) Great depression of 1929- 33  
b) 1972-73  
c) 1996- 97

d) 2006- 07

43) The term 'macro' has been derived from-----

- a) Greek word 'makros' which means large
- b) English word 'makros' which means large
- c) Greek word 'makros' which means small
- d) French word 'makros' which means large

44) In macroeconomics, we study about -----

- a) Theory of National Income & Employment
- b) Theory of Money Supply & Price Level
- c) Theory of International Trade & Eco growth
- d) All of the above.

45) Which of the following is/are the goals of macroeconomics-----?

- a) To Achieve Higher Level of GDP
- b) To Achieve Higher Level of Employment
- c) Stability of Prices
- d) all the above

46) The study of groups and broad aggregates of the economy is known as-----

- a) Microeconomics
- b) Macroeconomics
- c) International Economics
- d) None of the above.

47) The term microeconomics and macroeconomics were first given by Ragner Frisch in 1933.

True / False

48) Prof. J.M. Keynes is known as father of modern macroeconomics.

True / False

49) Macroeconomics became popular after great depression of 1929- 33.

True / False

50. Prof. J. M. Keynes wrote the book General Theory of Employment, Interest and Money in 1936.  
True / False

### Unit 1 Answer Keys

1-b	2-b	3-a	4-a	5-a	6-d	7-a	8-c	9-b	10-c
11-c	12-b	13-a	14-a	15-b	16-b	17-c	18-a	19-a	20-d
21-b	22-d	23-a	24-d	25-b	26-a	27-b	28-a	29-a	30-b
31-c	32-c	33-c	34-c	35-d	36-d	37-a	38-b	39-c	40-d
41-a	42-a	43-a	44-d	45-d	46-b	47-T	48-T	49-T	50-T

### Unit 2: Consumer behaviour

1. Economists use the term utility to mean:
  - a. the value of a products before it is consumed.
  - b. the level of satisfaction that a consumer obtains from consuming a good or service.
  - c. the level of satisfaction a firm obtains from selling a good or service.
  - d. a measurable characteristic of a good or service that cannot be measured.
  
2. When utility is ranked it is known as:
  - a. Ranked utility
  - b. Ordinal utility
  - c. Cardinal utility
  - d. Conditional utility
  
3. The notion of measuring utility is referred to as:
  - a. Utility
  - b. Measured Utility
  - c. Ordinal utility
  - d. Cardinal utility

4. Modern microeconomics theory generally regards utility as:
- Cardinal
  - Ordinal
  - Independent
  - Democratic
5. Which of the following is not an assumption of ordinal utility analysis?
- Consumers tend to rank their preferences.
  - Consumers can measure the utility received from any given basket.
  - Consumers always seek to maximize their utility.
  - None of the above.
6. Cardinal utility theory assumes that consumers can
- rank baskets of goods as to their given preference
  - determine the number of utils that can be derived from consuming all goods.
  - avoid the law of diminishing marginal utility.
  - all of the above.
7. Marginal utility is the ..... satisfaction gained by consuming one more unit of a particular good:
- total
  - additional
  - negative
  - inelastic
8. Consuming a commodity based on its perceived value rather than its actual value is known as:
- Perceived Consumption
  - Conspicuous Consumption
  - Inconspicuous Consumption
  - Spicuous Consumption

9. Which of the following statements is the most correct:

- a. Consumers purchase a commodity solely on the basis that the advertisement provides information on the product.
- b. Consumers purchase a commodity solely on the basis that the advertisement shows that Beyonce uses the product
- c. Consumers purchase a commodity solely on the basis the feeling or achievement one received to obtain from using the product..
- d. Consumers purchase a commodity on the basis that the advertisement provides information on the product and the feeling or achievement one received to obtain from using the product.

10. Demonstration is a determinant of consumer preferences. This refers to a situation in which:

- a. The product is demonstrated to the consumer.
- b. Advertisements reveal and demonstrate the nature of the product to the consumer.
- c. Consumer A purchases a product. As a result, consumer B also purchases an updated/better version of the same product.
- d. Consumer A purchases a product. As a result, consumer B also purchases the same product.

11. Which one of the following is not a determinant of consumer preferences:

- a. advertising
- b. facebook
- c. experience
- d. peer pressure

12. Consumer preferences are complete in the sense that:

- a. the consumer is given the choice between all available goods.
- b. the consumer is shown good X and not good Y
- c. the consumer is not shown good X and good Y
- d. the consumer is shown good Y and not good

13. Assume that the only goods available in the market are good A, B and C. The consumer's preferences are said to be complete when the consumer is:

- a. presented with good A and good B, but not good C
- b. presented with good B and good C, but not good A
- c. presented with good A, good B and good C
- d. presented with good A and good C, but not good B

14. A consumer's preferences are said to be transitive if:
- a. the consumer prefers the good that has the highest level of utility
  - b. Good A is preferred to Good B; Good B is preferred to Good C and Good A is preferred to Good C
  - c. Good A is preferred to Good B; Good B is preferred to Good C and Good C is preferred to Good A
  - d. Good A is preferred to Good B; Good B is preferred to Good C and Good C is preferred to Good B
15. If Good E is preferred to Good F; Good F is preferred to Good G and Good G is preferred to Good E, the consumer preferences are said to be:
- a. complete
  - b. incomplete
  - c. intransitive
  - d. transitive
16. The axiom of non-satiation suggests that a consumer:
- a. will always prefer the consumption bundle that yields the lowest level of utility
  - b. will always prefer the consumption bundle that yields the highest level of utility
  - c. will always prefer the consumption bundle that yields the lowest level of consumption.
  - d. will always prefer the consumption bundle that yields the highest level of consumption
17. Which of the following is not a property of an indifference curve:
- a. transitivity
  - b. indifference curves always intersect each other
  - c. incomplete preferences
  - d. (b) and (c)
17. Which of the following is a property of an indifference curve:
- a. consumer will always prefer the lowest indifference curve
  - b. consumer will always prefer the highest indifference curve
  - c. consumer will always prefer the middle indifference curve
  - d. (b) and (c)

18. Which of the following is a property of indifference curves and not an axiom of consumer preferences:
- transitivity
  - indifference curves never cross
  - consumer always prefers the highest possible indifference curve
  - complete preferences
19. Which of the following statements is true:
- As one moves along an indifference curve, the slope of the indifference curve will increase.
  - As one moves along an indifference curve, the slope of the indifference curve will decrease.
  - As one moves along an indifference curve, the slope of the indifference curve will stay the same as all points on an indifference curve have the same level of utility.
  - As one moves along an indifference curve, the slope of the indifference curve will first increase and then decrease.
20. Which of the following statements is false (not true):
- As one moves along an indifference curve, one is more willing to give up good y
  - As one moves along an indifference curve, one is less willing to give up good y
  - As one moves along an indifference curve, one is less willing to give up good x
  - As one moves along an indifference curve, one is less willing to give up good x and good y
21. The reason that the diminishing marginal rate of substitution occurs is mainly because:
- The change in good Y is greater than the change in good X as one moves along an indifference curve.
  - The change in good X is greater than the change in good Y as one moves along an indifference curve.
  - The consumer consumes more of good X and the marginal utility of good X decreases
  - c and d

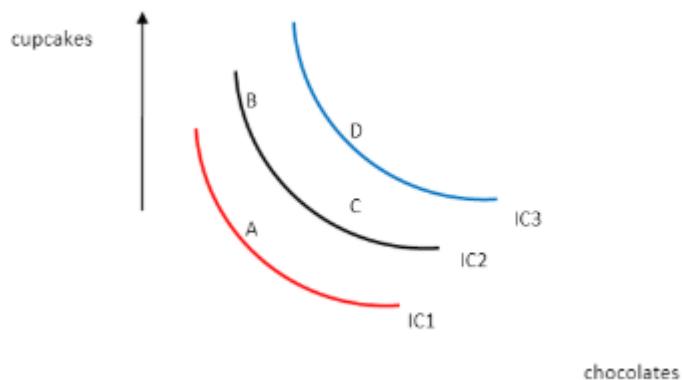
22. Assume that A and B are two different consumption bundles of good X and good Y. If A and B yield the same level of satisfaction, it can be concluded that:

- a. A is on a higher indifference curve to B
- b. B is on a higher indifference curve to A
- c. A and B are on the same indifference curve.
- d. The consumer is in disequilibrium.

23. The slope of an indifference curve is:

- a. The marginal rate of satisfaction
- b. The marginal rate of substitution
- c. The marginal rate of substitutes
- d. The marginal rate of consumer preferences.

Figure 1:

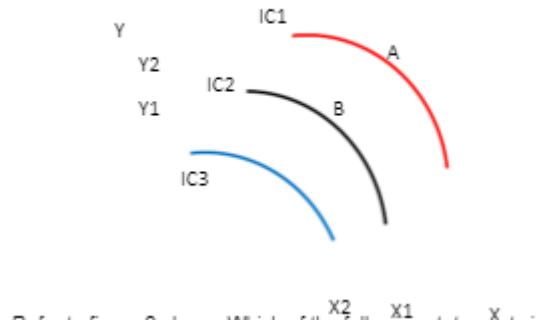


24. Refer to figure 1 above. Which of the following statements is correct:

- a. Consumption bundle B is preferred equally to consumption bundle D
- b. Consumption bundle B is preferred equally to consumption bundle C
- c. The consumption bundle associated with B contains more chocolates than that associated with C
- d. The consumption bundle associated with C contains more cupcakes than that associated with A

25. Refer to figure 1 above. Which of the following statements is incorrect:
- a. The bundles along indifference curve IC<sub>2</sub> are preferred to those along indifference curve IC<sub>1</sub>.
  - b. The bundles along indifference curve IC<sub>1</sub> are preferred to those along indifference curve IC<sub>2</sub>. The bundles along indifference curve IC<sub>1</sub> are preferred to those along indifference curve IC<sub>2</sub>.
  - c. The bundles along indifference curve IC<sub>3</sub> are preferred to those along indifference curve IC<sub>2</sub>.
  - d. The bundles along indifference curve IC<sub>3</sub> are preferred to those along indifference curve IC<sub>1</sub>
26. Refer to figure 1, which of the following statements is true?
- a. Point C is preferred to D
  - b. Point B is preferred to point C
  - c. Point B is preferred to all other points in figure 1
  - d. Point D is preferred to all other points in figure 1
27. If good X is a bad good, this means that:
- a. the consumer's utility will decrease if less of good X is consumed
  - b. the consumer's utility will stay the same as less of good X is consumed
  - c. the consumer's utility will increase if less of good X is consumed
  - d. the consumer's utility will decrease if none of good X is consumed
28. Assume that good X is on the horizontal axis and good Y is on the vertical axis. Which one of the following statements is true:
- a. since the indifference curves are vertical, good X is a neutral good
  - b. since the indifference curves are horizontal, good Y is a neutral good
  - c. since the indifference curves are vertical, good Y is the focus good.
  - d. since the indifference curves are horizontal, good X is the neutral good.

Figure 2



29. Refer to figure 2 above. Which of the following statements is correct:

- a. Consumption bundle B is preferred equally to consumption bundle A
- b. Consumption bundle A is preferred equally to consumption bundle B
- c. The consumer is indifferent between consumption bundle A and consumption bundle B.
- d. The indifference curves are negatively sloped.

30. Refer to figure 2 above. Which of the following statements is correct:

- a. IC2 is the lowest indifference curve and yields the lowest level of utility
- b. IC3 is the lowest indifference curve and yields the lowest level of utility
- c. IC1 is the lowest indifference curve and yields the lowest level of utility
- d. IC1 yields 50 utils.



31. Refer to figure 2 above. Which of the following statements is correct:

- a. good X is a bad good and good Y is a bad good
- b. good X is a good good and good Y is a bad good
- c. as the consumer consumes less of good X, the consumer's utility increases
- d. (a) and (c)

32. The Marginal Rate of Substitution of a Complement is:

- a. 1
- b. -1
- c. 0
- d. Either 0 or  $\infty$

33. A consumption point inside the budget line

- A) is unaffordable.
- B) shows that the consumer spends income on only one of the goods.
- C) shows that the consumer has chosen to spend all of his or her income on both products.
- D) is affordable and, because it is inside the budget line, means that all the person's budget has been spent.
- E) is possible to afford but has some unspent income.



34. A perfect substitute is best described by the following:

- a. Good X and y are substituted at the ratio 1:2
- b. Good x and y are consumed at a fixed ratio
- c. Good X and y are consumed together
- d. Good X and Y are substituted at the ratio 1:1

35.. A perfect substitute is best described by the following:

- a. Good X and y are substituted at the ratio 1:2
- b. Good x and y are consumed together at a fixed ratio
- c. Good X and y are consumed together
- d. Good X and Y are substituted at the ratio 1:1

36. Which statement is MOST correct? the A neutral good is a good that:

- a. You do not enjoy consuming
- b. You enjoy consuming
- c. You do not mind how much you consume of this commodity.
- d. You do not mind how much you consume of this commodity and prefer to consume the good good/ focus good.



37. Place eggs on the horizontal axis and chicken on the vertical axis. Assume that chicken is a

neutral good. Which statement best describes the shape of the indifference curves.

- a. S-shaped
- b. Vertical
- c. Horizontal
- d. A straight line.

38. Place beef on the horizontal axis and chicken on the vertical axis. Assume that beef is a neutral

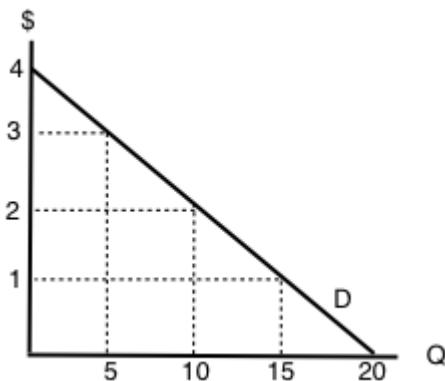
good. Which statement best describes the shape of the indifference curves.

- a. S-shaped
- b. Vertical
- c. Horizontal
- d. A straight line.

39. According to marginal analysis, optimal decision-making involves:

- a) Taking actions whenever the marginal benefit is positive.
- b) Taking actions only if the marginal cost is zero.
- c) Taking actions whenever the marginal benefit exceeds the marginal cost.
- d) All of the above.

The following TWO questions refer to an individual's demand curve diagram, illustrated below.

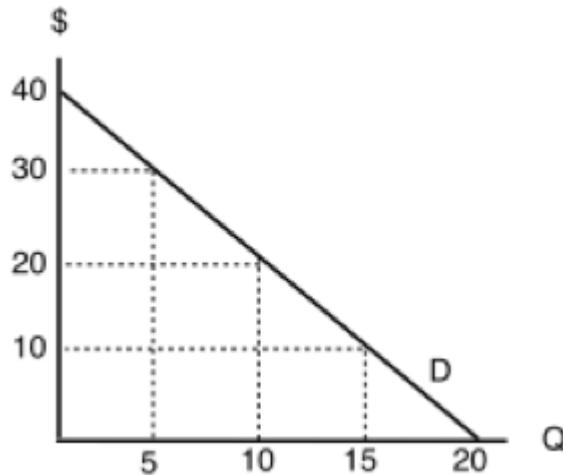


40. If the price of this good is \$1 per unit, what will be the quantity demanded?
- a) 5.
  - b) 10.
  - c) 15.
  - d) 20.
41. What are the TOTAL benefits to this individual if she consumes 10 units of the good?
- a) \$5.
  - b) \$10.
  - c) \$20.
  - d) \$30.
42. The demand curve for a good is derived from the:
- a) Marginal cost of the good.
  - b) Marginal benefit of the good.
  - c) Marginal benefits of the good minus marginal costs of the good.
  - d) Production Possibilities Frontier

43. Suppose a consumer has \$100 to spend on two goods, shoes and shirts. If the price of a pair of shoes is \$20 per pair and the price of a shirt is \$15 each, which of the following combinations is unaffordable to the consumer?

- A) 0 pairs of shoes and 0 shirts
- B) 2 pairs of shoes and 4 shirts
- C) 5 pairs of shoes and 0 shirts
- D) 0 pairs of shoes and 7 shirts
- E) 2 pairs of shoes and 3 shirts

The following TWO questions refer to the diagram below, which illustrates a consumer's demand curve for a good.

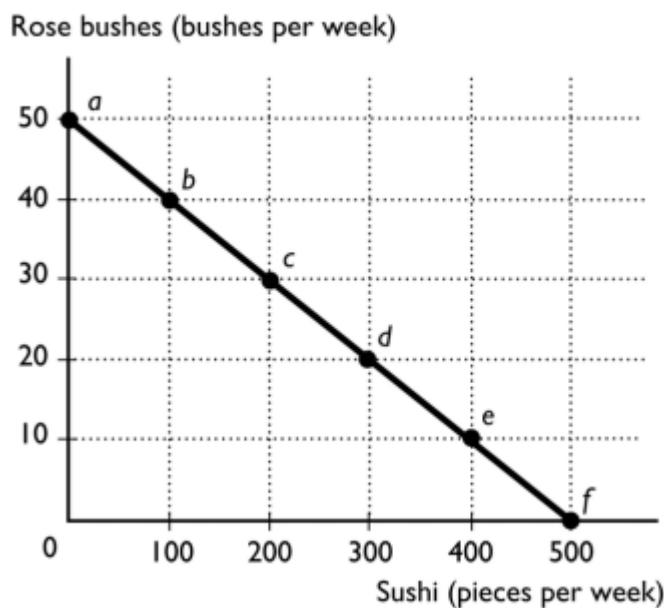


44. If the price of this good is \$30, what quantity will be demanded?

- a) 5 units.
- b) 10 units.
- c) 15 units.
- d) 20 units.

45. If the price of this good is \$20, what quantity will be demanded?

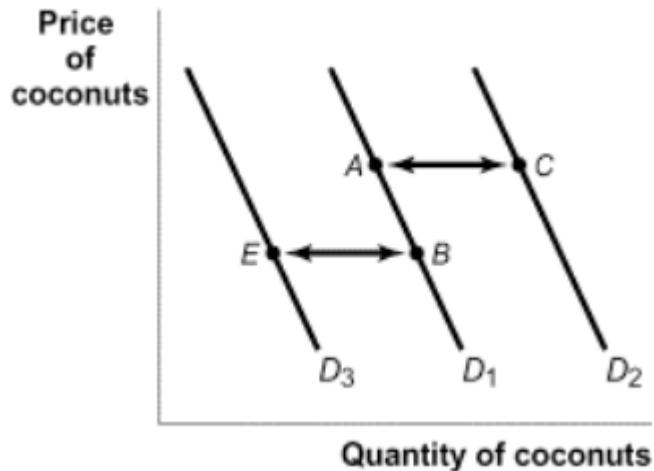
- a) 5 units.
- b) 10 units.
- c) 15 units.
- d) 20 units.



46. The figure above shows Sarah's budget line. Sarah earns \$500 per week selling baskets made out of tree vines. With this money she buys sushi and rose bushes. Each piece of sushi costs \$1 and each rose bush costs \$10. Sarah will be at what point on her budget line if she spends \$200 per week on sushi?

- A) Point b
- B) Point c
- C) Point d
- D) Point f
- E) Point a

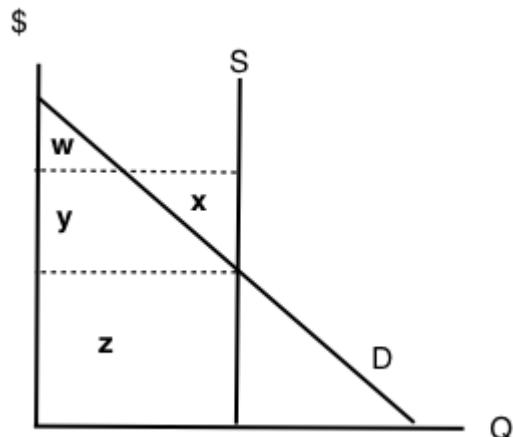
47. The diagram below illustrates 3 possible demand curves for coconuts.



Suppose that coconuts and pineapples are substitutes. If the price of pineapples increases, which of the following movements will represent the effect of this in the market for coconuts?

- a) A to C.
- b) A to B.
- c) B to A.
- d) B to E.

48. Consider the diagram below.



At the equilibrium in this market, which area represents CONSUMER surplus?

- a) There is no consumer surplus.
- b) Area w.
- c) Area  $x + y$ .
- d) Area  $w + y$ .

49. (Refer the schedule given below) Suppose that you consume only pizza and Diet Pepsi. The table above gives your utility from consuming these two goods. What is the marginal utility you get from the fourth slice of pizza?

- A) 18
- B) 12
- C) 4
- D) 36
- E) 72

Quantity of pizza	Total utility from pizza	Quantity of Diet Pepsi	Total utility from Diet Pepsi
0	0	0	0
1	24	1	14
2	44	2	26
3	60	3	36
4	72	4	44
5	76	5	50
6	79	6	54
7	80	7	56

50. As Shaniq drinks additional cups of tea at breakfast, Shaniq's

- A) marginal utility from tea decreases.
- B) total utility from tea increases.
- C) total utility from tea decreases.
- D) Both answers A and B are correct.
- E) Both answers B and C are correct.

### Unit 2: Answer key

1-b	2-b	3-d	4-b	5-d	6-b	7-b	8-a	9-d	10-d
11-b	12-a	13-c	14-b	15-b	16-d	17-b	18-b	19-c	20-a
21-c	22-c	23-b	24-d	25-b	26-d	27-c	28-d	29-d	30-b
31-b	32-d	33-e	34-d	35-d	36-c	37-b	38-c	39-c	40-c
41-c	42-b	43-b	44-a	45-b	46-b	47-a	48-d	49-b	50-d

### Unit 3: Demand & supply analysis

1 Normally a demand curve will have the shape:

- A Horizontal
- B Vertical
- C Downward sloping
- D Upward sloping

2. Which one is the assumption of law of demand?

- A Price of the commodity should not change
- B Quantity demanded should not change
- C Prices of substitutes should not change
- D none of the above

3. The elasticity of demand of durable goods is:

- A Less than unity
- B Greater than unity
- C Equal to unity
- D Zero

4 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 In A and B both

5. The horizontal demand curve parallel to x-axis implies that the elasticity of demand is:

- A Zero
- B Infinite
- C Equal to one
- D Greater than zero but less than infinity

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

- A Remains constant
- B Decreases
- C Increases
- D First decreases and then rises

7. What is meant by Autarky in international trade?

- A Monopoly in international trade
- B Imposition of restrictions in international trade
- C Removal of all restrictions from international trade
- D The idea of self sufficiency and no international trade by a country

8 .Cost push inflation occurs because of:

- A Wage push
- B Profit push
- C Both A and B
- D Ineffective policies of the government

9. When demand is perfectly inelastic, an increase in price will result in:

- A A decrease in total revenue
- B An increase in total revenue
- C No change in total revenue
- D A decrease in quantity demanded

10. Other things equal, if a good has more substitutes, its price elasticity of demand is:

- A Larger
- B Smaller
- C Zero
- D Unity

11. If elasticity of demand is very low it shows that the commodity is:

- A A necessity
- B A luxury
- C Has little importance in total budget
- D (a) and (c) above

12. If demand is unitary elastic, a 25% increase in price will result in:

- A 25% change in total revenue
- B No change in quantity demanded
- C 1% decrease in quantity demanded
- D 25% decrease in quantity demanded

13. Demand for a commodity refers to:

- A Need for the commodity
- B Desire for the commodity
- C Amount of the commodity demanded at a particular price and at a particular time
- D Quantity demanded of that commodity

14. 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 Increase
- B Decrease
- C Remain the same
- D Become zero

15 An individual demand curve slopes downward to the right because of the:

- A Working of the law of diminishing marginal utility
- B substitution effect of decrease in price
- C income effect of fall in Price
- D All of the above

16. The cost of one thing in terms of the alternative given up is called:

- A Real cost
- B Production cost
- C Physical cost
- D opportunity cost

17. The elasticity of demand of durable goods is:

- A More elastic
- B Less elastic
- C Zero elastic
- D Infinite elastic

18. If demand is inelastic, a change in the price:

- A Will change the quantity in same direction
- B Will change total revenue in same direction
- C Will change total revenue in the opposite direction
- D Will not change quantity

19) Rahul has a special taste for college canteen is hotdogs. The owner of the canteen doubles the prices of hotdogs. Rahul did not respond to the increase in prices and kept on demanding the same quantity of hotdogs. His demand for hotdogs is:

- A Perfectly elastic
- B Perfectly inelastic
- C Elastic
- D Less elastic

20) Income elasticity of demand is defined as the responsiveness of:

- A Quantity demanded to a change in income
- B Quantity demanded to a change in price
- C Price to a change in income
- D Income to a change in quantity demanded

21) Assume that consumer's income and the number of sellers in the market for good X both falls. Based on this information, we can conclude with certainty that the equilibrium:

- A Price will decrease
- B Price will increase
- C Quantity will increase
- D Quantity will decrease

22) The following are causes of shift in demand EXCEPT the one:

- A Change in income

- B Change in price
- C Change in fashion
- D Change in prices of substitutes

23). If quantity demanded is completely unresponsive to changes in price, demand is:

- A Inelastic
- B Unit elastic
- C Elastic
- D Perfectly inelastic

24). Law of demand shows relation between:

- A Income and price of commodity
- B Price and quantity of a commodity
- C Income and quantity demand
- D Quantity demanded and quantity supplied

25). Irrespective of price, Sofia always spends Rs. 100 a week on ice cream, we conclude that:

- A Elasticity of demand is 0
- B Elasticity of demand is 1
- C Elasticity of demand is infinite
- D The law of demand has been violated

26) When cross elasticity of demand is a large positive number, one can conclude that:

- A The good is normal
- B The good is inferior
- C The good is a substitute
- D The good is a complement

27). Price and demand are positively correlated in case of:

- A Necessities
- B Comforts
- C Giffen goods
- D Luxuries

28). The supply of a good refers to:

- A Stock available for sale
- B Total stock in the warehouse
- C Actual Production of the good
- D Quantity of the good offered for sale at a particular price per unit of time

29) The law of supply and the law of demand both rely on the concept of opportunity cost  
True/False

30) Land, labor, capital, and entrepreneurship are bought and sold in the product market  
True/False

31) Price signals direct the answers to the what, how, and for whom questions in a laissez-faire economy  
True/False

32) The market price equals the equilibrium price if quantity demanded equals quantity supplied at the market price  
True/False

33) The law of supply and the law of demand both rely on the concept of opportunity cost  
True/False

34) There are never shortages or surpluses when the price in the market is equal to the equilibrium price for the market  
True/False

35) According to the law of supply, if the price of calculators decreased, the supply of calculators would decrease, ceteris paribus  
True/False

36) Economics is the study of how people deal with scarcity  
True/False

37) The opportunity cost of an item or an action is always equal to the amount of money a person pays to enjoy that item or action.  
True/False

38) if the price of petrol increases greatly , the demand for public transport will increase  
True/False

39) Negative externalities help big firms earn large profits

True/False

40) Because wants are unlimited but resources are not, scarcity is a characteristic of all economies.

True/False

41) The opportunity cost of a choice is the value of the forgone alternative that was not chosen.

True/False

42) Production possibilities represent the alternative choices of goods that the economy can produce.

True/False

43) PRICE IS DETERMINED BY THE INTERACTION OF SUPPLY AND DEMAND

True/False

44) Goods are scarce because society's desire for them exceeds society's ability to produce them

True/False

45) When the factory pollutes the air we breathe in the market economy, this situation is known in economics as ,market failure

True/False

46) Microeconomics deals with allocation of resources.

True/False

47) Price is the main determinant of macroeconomics.

True / False

48) Income is the main determinant of microeconomics.

True / False

49 ) Partial equilibrium analysis is used in microeconomics.

True / False

50)General equilibrium analysis is applied in microeconomics.

True / False

### Unit 3 Answer Keys

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

### Unit 4: Production Analysis

1. Which of the following is a variable cost?
  - a. Interest payments
  - b. Raw materials costs
  - c. Property taxes
  - d. All of the above are variable costs.
  
2. Which of the following is an implicit cost?
  - a. The salary earned by a corporate executive
  - b. Depreciation in the value of a company-owned car as it wears out
  - c. Property taxes
  - d. All of the above are implicit costs.
  
3. If the output levels at which short-run marginal and average cost curves reach a minimum are listed in order from smallest to greatest, then the order would be
  - a. AVC, MC, ATC
  - b. ATC, AVC, MC
  - c. MC, AVC, ATC
  - d. AVC, ATC, MC

4. When deciding how much of a particular good to produce, a producer should:
- Keep producing more units until the total benefits equal the total costs.
  - Always produce an additional unit if price is greater than marginal cost.
  - Never produce an additional unit if its marginal cost is higher than the marginal cost of previously produced units.
  - Always produce at additional unit if price is greater than zero.
5. If an input is owned and used by a firm, then its
- explicit cost is zero.
  - implicit cost is zero.
  - opportunity cost is zero.
  - economic cost is zero.
6. Short-run marginal cost is equal to
- the change in total cost divided by the change in output.
  - the change in total variable cost divided by the change in output.
  - the cost per unit of the variable input divided by the marginal product of the variable input.
  - all of the above.
7. Short-run average variable cost is equal to
- total variable cost divided by output.
  - average total cost minus average fixed cost.
  - the cost per unit of the variable input divided by the average product of the variable input.
  - all of the above.
8. Which of the following short-run cost curves declines continuously?
- Average total cost
  - Marginal cost
  - Average fixed cost
  - Average variable cost
9. The law of diminishing returns begins at the level of output where
- marginal cost is at a minimum.
  - average variable cost is at a minimum.
  - average fixed cost is at a maximum.
  - None of the above is correct.

10. The long-run average cost curve is at a minimum at a level of output where
- the firm is experiencing constant returns to scale.
  - it is equal to long-run marginal cost.
  - the long-run average cost curve is tangent to the lowest point on a short-run average total cost curve.
  - all of the above occur.
11. If a firm has a downward sloping long-run average cost curve, then
- it is experiencing decreasing returns to scale.
  - it is experiencing decreasing returns.
  - it is a natural monopoly.
  - marginal cost is greater than average cost.
12. One reason that a firm may experience increasing returns to scale is that greater levels of output make it possible for the firm to
- employ more specialized machinery.
  - obtain bulk purchase discounts.
  - employ a greater division of labor.
  - All of the above are correct.
13. One reason that a firm may experience decreasing returns to scale is that greater levels of output can result in
- a greater division of labor.
  - an increase in meetings and paperwork.
  - smaller inventories per unit of output.
  - All of the above are correct.
14. Economies of scope refers to the decrease in average total cost that can occur when a firm
- produces more than one product.
  - has monopoly power in world markets.
  - controls the raw materials used as inputs.
  - narrows the scope of its regional markets.
15. Breakeven analysis identifies the
- profit-maximizing level of output.
  - level of output where economic profit is equal to zero.
  - level of output where marginal revenue is equal to marginal cost.
  - All of the above are correct.

16. 1-The process by which inputs are transformed into 'output'.

- (A) Production
- (B) productivity
- (C) Manufacturing
- (D) None of the above

17. -Which of the following is not an input?

- (A) steel
- (B) aluminium
- (C) rubber
- (D) car

18. -The difference between revenue and cost is called

- (A) wage
- (B) profit
- (C) output
- (D) none of the above

19. -It is the technological knowledge that determines the maximum levels of output that can be produced using different combinations of inputs.

- (A) productivity
- (B) production function
- (C) manufacturing
- (D) none of the above

20.-The inputs that a firm uses in the production process are called

- (A) factors of production
- (B) organs of production
- (C) production inputs
- (D) none of the above

21. When a firm doubles its inputs and finds that its output has more than doubled, this is known as:

- a) economies of scale.
- b) constant returns to scale.
- c) diseconomies of scale.
- d) a violation of the law of diminishing returns.

22.-Following is (are) factor(s) of production.

- (A) labor
- (B) capital
- (C) both (A) and (B)
- (D) none of the above

23.-Which of the following is true?

- (A) In the short run, at least one of the factor – labour or capital – cannot be varied
- (B) In the long run, all factors of production can be varied
- (C) both (A) and (B)
- (D) None of the above

24.-The relationship between the variable input and output, keeping all other inputs constant, is often referred to as \_\_\_\_ of the variable input.

- (A) Total Product (TP)
- (B) Average Product
- (C) Marginal Product
- (D) None of the above

25. \_\_\_\_ of an input is defined as the change in output per unit of change in the input when all other inputs are held constant.

- (A) Total Product (TP)
- (B) Average Product
- (C) Marginal Product
- (D) None of the above

26. \_\_\_\_ is defined as the output per unit of variable input.

- (A) Total Product (TP)
- (B) Average Product
- (C) Marginal Product
- (D) None of the above

27. Marginal Product =

- (A) Output / Input
- (B) Input / Output
- (C) Change in output / Change in input
- (D) Change in input / Change in output

28. Marginal product is undefined at \_\_\_\_ level of input employment.

- (A) zero
- (B) one
- (C) two
- (D) three

29. Law of variable proportions or the law of diminishing marginal product is the tendency of the Marginal Product to

- (A) first increase and then fall
- (B) first fall and then increase
- (C) fall constantly
- (D) increase constantly

30. An increase in the amount of one of the inputs keeping all other inputs constant results in

- (A) decrease in output
- (B) an increase in output
- (C) consistency in output
- (D) none of the above

31. When a proportional increase in all inputs results in an increase in output by the same proportion, the production function is said to display

- (A) Decreasing Returns to Scale (DRS)
- (B) Increasing Returns to Scale (IRS)
- (C) Constant returns to scale (CRS)
- (D) None of the above

32. When a proportional increase in all inputs results in an increase in output by a smaller proportion, the production function is said to display

- (A) Decreasing Returns to Scale (DRS)
- (B) Increasing Returns to Scale (IRS)
- (C) Constant returns to scale (CRS)
- (D) None of the above

33. When a proportional increase in all inputs results in an increase in output by a larger proportion, the production function is said to display

- (A) Decreasing Returns to Scale (DRS)
- (B) Increasing Returns to Scale (IRS)
- (C) Constant returns to scale (CRS)
- (D) None of the above

34. For every level of output, the firm chooses the

- (A) maximum cost input combination
- (B) least cost input combination
- (C) maximum cost output combination
- (D) least cost output combination

35. Total cost =

- (A) Total variable cost
- (B) Total fixed cost
- (C) Total variable cost + Total fixed cost
- (D) Total variable cost – Total fixed cost

36. -At zero level of output, Total cost =

- (A) Total variable cost
- (B) Total fixed cost
- (C) Total variable cost + Total fixed cost
- (D) Total variable cost – Total fixed cost

37. Average fixed cost (AFC) =

- (A) Total Fixed cost / unit of output
- (B) Total Variable cost / unit of output
- (C) Total cost / unit of output
- (D) None of the above

38. Average variable cost (AVC) =

- (A) Total Fixed cost / unit of output
- (B) Total Variable cost / unit of output
- (C) Total cost / unit of output
- (D) None of the above

39. Short run average cost (SAC) =

- (A) Total Fixed cost / unit of output
- (B) Total Variable cost / unit of output
- (C) Total cost / unit of output
- (D) None of the above

40. Short run marginal cost (SMC) =

- (A) change in total cost / change in output
- (B) change in total cost / change in input
- (C) change in total variable cost / change in output
- (D) change in total fixed cost / change in output

41. Marginal cost is undefined at \_\_\_\_ of output.

- (A) zero
- (B) one
- (C) two
- (D) three

42. \_\_\_\_ is the increase in Total variable cost (TVC) due to increase in production of one extra unit of output.

- (A) fixed cost
- (B) marginal cost
- (C) variable cost
- (D) average cost

43. Total fixed cost

- (A) increases with the increase in production
- (B) decreases with the increase in production
- (C) remains constant for all levels of production
- (D) none of the above

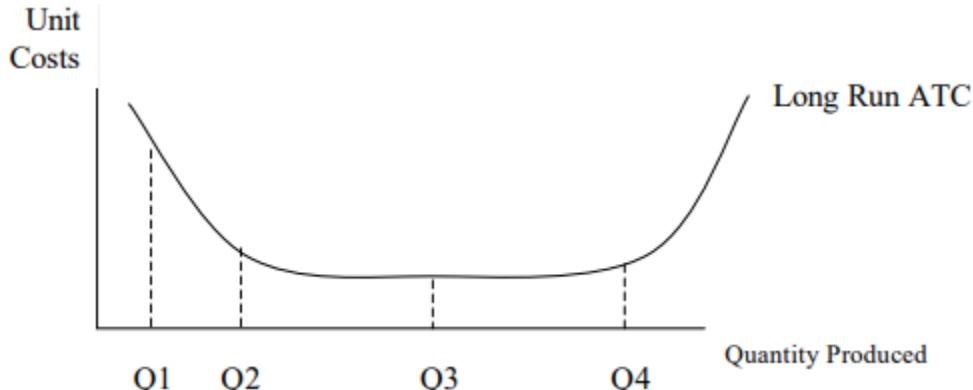
44. In the long run, all inputs are

- (A) variable
- (B) constant
- (C) depends upon the units of production
- (D) none of the above

45. Which of the following graph curves are U-shaped?

- (A) Average variable cost (AVC)
- (B) Long run marginal cost (LRMC)
- (C) Long run average cost (LRAC)
- (D) All of the above

Use the following to answer question 46. :



46. In the graph above, minimum efficient scale occurs at:

- A) Q1.
- B) Q2.
- C) Q3.
- D) Q4.

47. When a firm doubles its inputs and finds that its output has more than doubled, this is known as:

- A) economies of scale.
- B) constant returns to scale.
- C) diseconomies of scale.
- D) a violation of the law of diminishing returns.

48. The larger the diameter of a natural gas pipeline, the lower is the average total cost of transmitting 1,000 cubic feet of gas 1,000 miles. This is an example of:

- A) economies of scale.
- B) normative economies.
- C) diminishing marginal returns.
- D) an increasing marginal product of labor.

49. If all resources used in the production of a product are increased by 20 percent and output increases by 20 percent, then there must be:

- A) economies of scale.
- B) constant returns to scale.
- C) diseconomies of scale.
- D) increasing average total costs.

50. Economies and diseconomies of scale explain why the:
- A) short-run average fixed cost curve declines so long as output increases.
  - B) marginal cost curve must intersect the minimum point of the firm's average total cost curve.
  - C) long-run average total cost curve is typically U-shaped.
  - D) short-run average variable cost curve is U-shaped.

**Unit 4: Answer key**

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