Question Bank - Multiple Choice Questions (MCQs)

Unit 1: Concept of Business Economics

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 produced.
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 2: 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% increases 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: Revenue and Cost Analysis

1. The overall costs incurred for producing a good or a service is called the cost of production.

   A. True
   B. False
2. The production costs are divided into:

   A. Fixed costs
   B. Variable costs.
   C. Semi-variable costs
   D. All of the above
3. Implicit costs of production –

   A. are the costs that have already incurred but are not separately shown as an expense while calculating the total cost of production.
   B. are the costs that have been incurred and have also been booked as an expense.
   C. the expenses that are paid out costs and involve cash outflows from the business.
   D. All of the above
4. Explicit costs of production –

   A. are the costs that have already incurred but are not separately shown as an expense while calculating the total cost of production.
   B. are the costs that have been incurred and have also been booked as an expense.
   C. the expenses that are paid out costs and involve cash outflows from the business.
   D. Option B&C only
5. Economic analysis examines cost behaviour over different timescales. These include:

   A. Short run
   B. Long run
   C. Very long run
   D. All of the above
6. Which of the following is true for "Short run" cost behavior?

   A. That period of time during which at least one factor of production must remain fixed.
   B. That period of time in which it is possible to vary output by varying all factors of production within the given state of technology.

C. That period during which factors outside the firms' control can vary.
D. All of the above

7. Which of the following is true for "long run" cost behavior?

   A. That period of time during which at least one factor of production must remain fixed.
   B. That period of time in which it is possible to vary output by varying all factors of production within the given state of technology.
   C. That period during which factors outside the firms' control can vary.
   D. All of the above
8. Which of the following is true for "very long run" cost behavior?

   A. That period of time during which at least one factor of production must remain fixed.
   B. That period of time in which it is possible to vary output by varying all factors of production within the given state of technology.
   C. That period during which factors outside the firms' control can vary.
   D. All of the above
9. Which of the following is correct for Fixed cost?

   A. Costs that do not vary with the level of output.
   B. The fixed costs of a business are known as the overheads.
   C. As the quantity of output increases, the average fixed cost decreases
   D. All of the above
10. Which of the following is correct for Variable cost?

   A. Costs that vary as the level of output varies.
   B. Costs to the firm will increase with every extra unit of output.
   C. Variable costs are more or less constant up to a certain level of output after which they increase.
   D. All of the above
11. Which of the following is correct for Total cost?

   A. Bringing the two costs (fixed and variable) together.
   B. The all of the expense to produce each level of output.
   C. Both A&B
   D. None
12. Which of the following is correct for Average Total cost?

   A. All of the expense to produce each level of output, divided by the total number of units
   B. The short-run average cost curve is U shaped
   C. The average cost is made up of an average fixed cost per unit plus an average variable cost per unit.

D. All of the above

13. Which of the following is correct for Average Marginal cost?

    A. The addition to total costs resulting from increasing output by one Unit. i.e. the variable costs of the last Unit produced
    B. The marginal cost will change at various levels of production.
    C. Once the total costs have been established, it is relatively simple to then calculate the marginal cost between each output level.
    D. All of the above

14. All of the following are correct Except:

    I. The marginal cost is key to understanding how much a firm will want to produce, and therefore supply to the market.
    II. The average variable cost curve also begins by decreasing, finds a minimum spot, and then increases afterwards.
    III. The average fixed cost curve is always downward sloping, because the fixed costs remain constant, and are then spread out more thinly with each additional unit of output.
    IV. The average total cost curve is the sum of the AVC and AFC curves, so it has a flat shape.

    A. (I) and (IV) only
    B. (IV) only
    C. All of the above
    D. None

15. Laws of costs (or Laws of returns) include:

    A. Law of decreasing cost (Law of increasing returns)
    B. Law of constant cost (Law of constant returns)
    C. Law of increasing cost (Law of decreasing returns)
    D. All of the above

16. If the variable factors of production show increasing returns, then MC is set to be falling. However, as these factors ultimately exhibit diminishing returns of productivity, the Marginal cost curve will always eventually increase.

    A. The above statement is correct
    B. The above statement is incorrect

17. Law of variable proportion – As the quantity of one factor is increased, with others remaining fixed, the marginal product of that factor will decline.

A. The above statement is correct
B. The above statement is incorrect

18. Assumptions underlying the Law of variable proportion include:

A. Constant state of technology: if technology improved, then the marginal product could increase also.
B. Fixed number of other factors: they must stay constant to be able to test it.
C. Possibility to combine factors: the factors must be able to combine to make a product.
D. All of the above

19. Which of the following is true for Economies of scale?

A. Cost reducing benefits to large scale production.
B. Factors which lead to the overall decrease in unit cost, as output increases.
C. Both A&B
D. None

20. Which of the following is true for Diseconomies of scale?

A. Cost increasing disadvantages of large-scale production.
B. Factors which lead to the overall increase in unit cost, as output increases.
C. Both A&B
D. None

21. Which of the following is correct for Revenue under perfect competition?

A. Demand curve is completely horizontal.
B. It is not a downward sloping demand curve.
C. From a firm's perspective, because price remains constant, the average revenue remains constant too.
D. All of the above

22. Which of the following is correct for Revenue under imperfect competition?

A. The demand curve faced by firms is downward sloping.
B. The demand curve, and therefore AR curve, is downward sloping and to the right.
C. The marginal revenue is always less than the price due to the arithmetic of averages and marginals.
D. All of the above

23. The firm operating in conditions of perfect competition will face a number of features particular to its market. Identify such features:

    I. Large numbers of buyers and sellers
    II. Homogenous product
    III. Free entry and exit
    IV. Perfect knowledge of prices
    V. Transport costs are negligible
    VI. Firms are price takers

    A. All of the above
    B. (I) and (IV) only
    C. (II) (IV) and (V) only
    D. None

24. Under Perfect competition Short Run Equilibrium with Supernormal Profits:

    A. The revenue derived from supplying the market exceeds the opportunity cost of the factors used.
    B. The firm is producing to the right of (i.e. above) the quantity corresponding to its lowest AC.
    C. Firm is enduring rising unit costs in order to supply the present quantity.
    D. All of the above

25. Under Perfect competition Short Run Equilibrium with Subnormal Profits:

    A. The revenue derived from supplying the market is less than the opportunity cost of the factors used.
    B. The firm will be producing to the left of (i.e. below) the quantity corresponding to its lowest AC (which is unsustainable).
    C. A firm will exit the market if its average revenue/ price is below the average variable cost.
    D. All of the above

26. Shutdown condition –

    A. The market price that forces a firm to exit the market.
    B. This occurs when P<AVC.
    C. Both A&B
    D. None

27. In the long-run the supernormal profits will be eroded by:

    A. Higher price will attract more firms into the market
    B. The increased supply will lower the price
    C. Both A&B
    D. None

28. Which of the following is true for Firms under Imperfect competition?

    A. This arises when only a few firms are able to supply a certain good at the given market price.
    B. This becomes problematic mainly from a public policy perspective.
    C. If a few firms hold a lot of power in a marketplace, then they are more likely to increase the price for their own profit, at the expense of consumer welfare.
    D. All of the above

29. Monopoly –

    A. A market structure where there is just one firm supplying to the whole market.
    B. The extreme case of imperfect competition.
    C. There is absence of competition.
    D. All of the above

30. Features of a monopoly include:

    I. Sole supplier of good or commodity
    II. Profit maximising firm
    III. Price maker
    IV. Earn super normal profit
    V. Very high barriers to entry

    A. All of the above
    B. (I) and (III) only
    C. (I) (III) and (IV) only
    D. None

31. Under the Long run equilibrium of a monopolist the firm faces a downward sloping demand curve because:

    A. the average revenue increase as output decreases.
    B. the average revenue decreases as output increases.
    C. the average revenue remains constant as output increases.
    D. None

32. Advantages of a monopoly include:

A. Benefit from economies of scale
B. Dominant domestically allows for international competitiveness
C. Supernormal profits
D. Able to take a long-term approach
E. All of the above

33. Disadvantages of a monopoly include:

A. Output is restricted in the market
B. Price is higher than in a competitive market
C. Less choice for consumers
D. Less consumer sovereignty
E. All of the above

34. Which of the following is true for Price discrimination?

A. The action of selling the same product to different groups of buyers at different prices in order to maximise profits.
B. One of the characteristics of a monopolist is the ability to engage in price discrimination.
C. Both A&B
D. None

35. Conditions required for price discrimination include:

A. Monopoly power – Firm must have the ability to set prices.
B. Elasticity of demand – Each group of buyers must have a different elasticity of demand in order to extract consumer surplus.
C. Separation of market – Firm must be able to split up the groups of buyers, and prevent goods from being resold between them.
D. All of the above

36. Oligopoly –

A. An industry dominated by a few large suppliers.
B. There are 2 or more but not more than 20 suppliers.
C. Oligopolies might be collusive (i.e. member firms work together in making pricing and output decisions) or non-collusive.
D. All of the above

37. Features of oligopoly include:

I. Interdependence of firms

II. Few seller's markets
III. Inside competition – Outside agreement
IV. Lack of uniformity in size of the firms
V. Barriers to entry (Entry is difficult but not impossible)
VI. Homogenous or differentiated goods

A. All of the above
B. (II) and (V) only
C. (II) (V) and (VI) only
D. None

38. Since under oligopoly the exact behaviour pattern of a producer cannot be ascertained with certainty, the "demand curve" cannot be drawn accurately and with definiteness.

A. True
B. False

39. Which of the following is correct for "Collusive oligopolies"?

A. Collusive oligopolies are rare in practice.
B. Oligopolists collude (agree on an approach) in oligopolistic markets are known as a cartel.
C. Cartel members might be tempted to break the agreement in the pursuit of increasing their share of the industry profit.
D. All of the above

40. Which of the following conditions apply for a possible Collusion?

I. Only very few firms are operating which are all well known to each other.
II. They are open with each other regarding costs and production methods.
III. Production techniques and costs of all the firms are similar.
IV. They produce similar products.
V. There is a dominant firm.
VI. There are significant barriers on entry of new firms.
VII. The market is stable (that is no price war and price rivalry).
VIII. Non – intervention by the Government to hinder Collusions.

A. All of the above
B. (I) (III) and (IV) only
C. (III) (VI) and (VIII) only
D. None

41. Assumptions of kinked demand curve include:

A. There is an established or prevailing market price for the product of the oligopolistic industry.
B. Each seller's attitude depends on the attitude of his rivals.
C. Any attempt by one seller to increase sales by reducing price of his product will trigger other firms will also follow his move and thereby starting Price War.
D. If one seller raises price of his product other firms may not follow his price rise policy.
E. All of the above

42. Advantages of oligopoly include:

I. Members of an oligopoly might be able to set prices.
II. Oligopolists are able to make large profits as there are few players in the market.
III. Barriers to entry allow an oligopolist to maintain profits in the long term.
IV. Customers are easily able to make price comparisons among the few players existing in the market and this may lead to competitive pricing.
V. Stable prices in the market make planning easier for both the supplier and the customer.

A. All of the above
B. (II) and (IV) only
C. (I) and (V) only
D. None

43. In order to maximise profits a firm endeavors to
(A) increase its revenue
(B) lower its cost
(C) both (A) and (B)
(D) increase its capital

44. **The following cost will remain same whatever the level of activity.**
(A) Incremental cost
(B) Sunk cost
(C) Both (A) and (B)
(D) None of the above

45. **The cost of plant, equipment and materials at the price paid originally for them.**
(A) Replacement Cost
(B) Historical cost
(C) Implicit cost
(D) None of the above

46. **Which of the following is (are) variable cost(s)?**
(A) wages of labor
(B) price of raw material
(C) cost on fuel and power used

(D) all of the above

47. **The output can be increased in short run by increasing**
(A) fixed cost
(B) variable cost
(C) both (A) and (B)
(D) none of the above
48. **Average Fixed Cost (AFC) =**
(A) Total Fixed Cost (TFC) / Number of outputs produced (Q)
(B) Total Variable Cost (TVC) / Number of outputs produced (Q)
(C) Total Fixed Cost (TFC) X Number of outputs produced (Q)
(D) Total Variable Cost (TVC) X Number of outputs produced (Q)

49. Average Variable Cost (AVC) =
(A) Total Fixed Cost (TFC) / Number of Outputs produced (Q)
(B) Total Variable Cost (TVC) / Number of Outputs produced (Q)
(C) Total Fixed Cost (TFC) X Number of Outputs produced (Q)
(D) Total Variable Cost (TVC) X Number of Outputs produced (Q)

50. **The average total cost (ATC) =**
(A) Total Fixed Cost (TFC) / Number of Outputs produced (Q)
(B) Total Variable Cost (TVC) / Number of Outputs produced (Q)
(C) Total Cost (TC) / Number of Outputs produced (Q)
(D) Total Cost (TC) X Number of Outputs produced (Q)

Unit 4: Pricing under various market conditions

1) Firms in perfect competition face a:
   a) Perfectly elastic demand curve
   b) Perfectly inelastic demand curve
   c) Perfectly elastic supply curve
   d) Perfectly inelastic supply curve

2) In perfect competition:
   a) The price charged by a firm equals the marginal revenue
   b) The price charged by a firm equals the average variable cost

c) The fixed cost equals the variable costs
d) The price charged by a firm equals the total costs

3) A profit maximizing firm in perfect competition produces where:
a) Total revenue is maximized
b) Marginal revenue equals zero
c) Marginal revenue equals marginal cost
d) Marginal revenue equals average cost

4) In perfect competition:
a) The products firms offer are very similar
b) Products are heavily differentiated
c) A few firms dominate the market
d) Consumers have limited information

5) In the long run in perfect competition:
a) The price equals the total revenue
b) Firms are allocatively inefficient
c) Firms are productively efficient
d) The price equals total cost

6) In perfect competition:
a) Short run abnormal profits are competed away by firms leaving the industry
b) Short run abnormal profits are competed away by firms entering the industry
c) Short run abnormal profits are competed away by the government
d) Short run abnormal profits are competed away by greater advertising

7) In perfect competition:
a) A few firms dominate the industry
b) Firms are price makers
c) There are many buyers but few sellers
d) There are many buyers and many sellers

8) In the short run firms in perfect competition will still produce provided:
a) The price covers average variable cost
b) The price covers variable costs
c) The price covers average fixed cost

d) The price covers fixed costs

9) In the long run equilibrium in perfect competition:
a) Price = average cost = marginal cost
b) Price = average cost = total cost
c) Price = marginal revenue = total cost
d) Total revenue = total variable cost

10) For a perfectly competitive firm:
a) Total revenue is a straight line
b) Price is greater than marginal revenue
c) Price equals total revenue
d) Price equals total cost

11) In perfect competition, restrictions on entry into an industry
a) do not exist.
b) apply to labour but not to capital.
c) apply to both capital and labour.
d) apply to capital but not to labour.

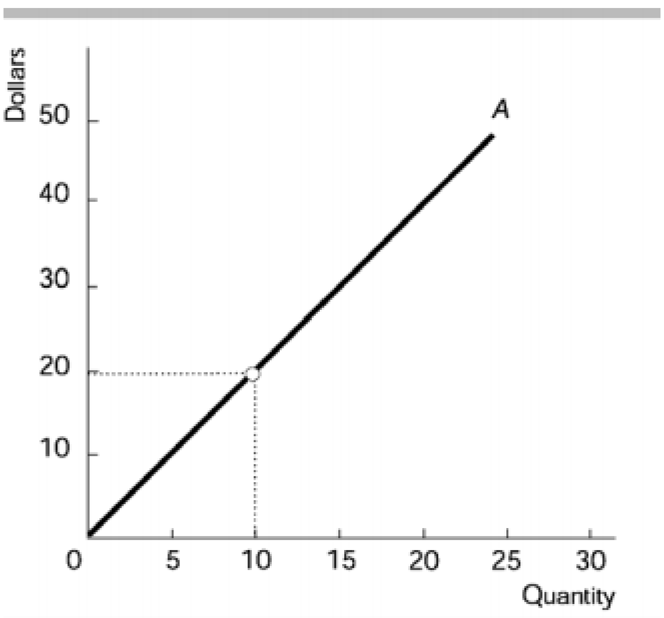
12) In perfect competition,
a) there are significant restrictions on entry.
b) each firm can influence the price of the good.
c) there are few buyers.
d) all firms in the market sell their product at the same price.

13) The price elasticity of demand for any perfectly competitive firm's output is
a) less than 1.
b) equal to zero.
c) infinite.
d) 1.

14) The demand for wheat from farm A is perfectly elastic because wheat from farm A is a(n)
a) perfect complement to wheat from farm B.
b) perfect substitute for wheat from farm B.

c) normal good.
d) inferior good.

15) A perfectly competitive firm's demand curve is
a) perfectly inelastic.
b) the same as the market demand curve.
c) downward sloping.
d) the same as the firm's marginal revenue curve.



16) The above figure shows a firm's total revenue line. The firm must be in a market with
a) monopolistic competition.
b) monopoly.
c) perfect competition.
d) oligopoly.

17) The figure above portrays a total revenue curve for a perfectly competitive firm. Curve A is straight because the firm
a) has perfect information.
b) wants to maximize its profits.
c) is a price taker.

d) faces constant returns to scale.

18) In the above figure showing a perfectly competitive firm's total revenue line, the firm's marginal revenue
a) does not change as output increases.
b) falls as output increases.
c) rises as output increases.
d) cannot be determined.

Quantity	Price
5	Rs.15
6	Rs.15
7	Rs. 15

19) In the above table, if the firm sells 5 units of output, its total revenue is
a) Rs.30.
b) Rs. 15.
c) Rs.75.
d) Rs. 90.

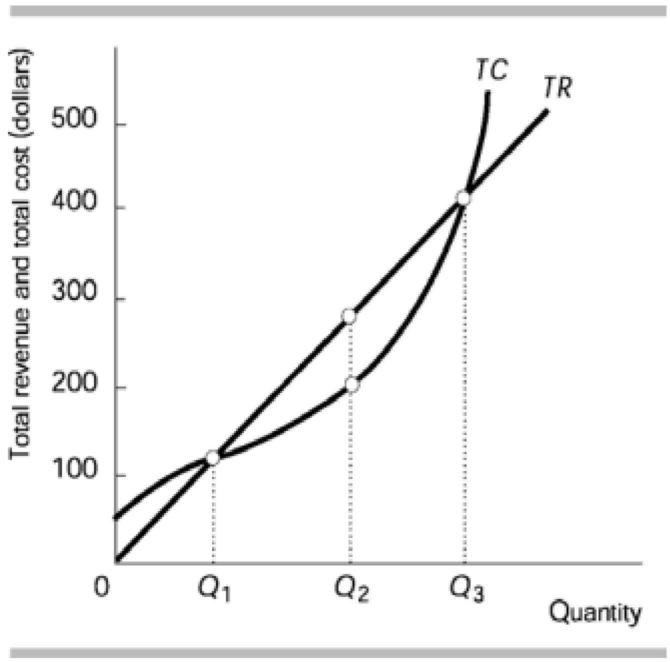
20) In the above table, if the quantity sold by the firm rises from 5 to 6, its marginal revenue is
a) Rs.15.
b) Rs. 75.
c) Rs. 90.
d) Rs. 30.

21) In perfect competition, the marginal revenue of an individual firm
a) equals the price of the product.
b) is positive but less than the price of the product.
c) exceeds the price of the product.
d) is zero.

Output	Total Revenue	Total Cost
0	$0	$25
1	$30	$49
2	$60	$69
3	$90	$91
4	$120	$117
5	$150	$147
6	$180	$180

22) In the above table, the price of the product is
- a) $30.
- b) $150.
- c) $147.
- d) $180

23) In the above table, the firm
- a) must be in a perfectly competitive industry, because its marginal revenue is constant.
- b) cannot be in a perfectly competitive industry, because its short-run economic profits are greater than zero.
- c) cannot be in a perfectly competitive industry, because its long-run economic profits are greater than zero.
- d) must be in a perfectly competitive industry, because its marginal cost curve eventually rises.



24) In the above figure, by increasing its output from Q1 toQ2, the firm

a) increases its profit.

b) increases its marginal revenue.

c) reduces its marginal revenue.

d) decreases its profit.

25) In the above figure, by increasing its output from Q2 to Q3, the firm

a) increases its marginal revenue.

b) reduces its marginal revenue.

c) No profit

d) increases its profit.

26) The feature of the above figure that indicates that the firm is a perfectly competitive firm is the

a) fact that the total cost and total revenue curves are farthest apart at output is

b) shape of the total revenue curve.

c) fact that the total cost and total revenue curves cross twice.

d) shape of the total cost curve.

Output (tons of rice per year)	Total cost (dollars per ton)
0	$1,000
1	$1,200
2	$1,600
3	$2,200
4	$3,000
5	$4,000

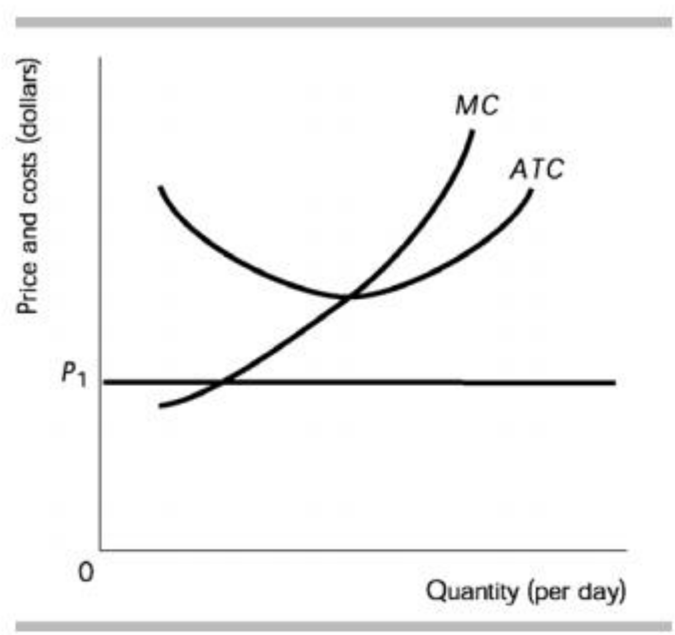
27)Based on the table above which shows Chip's costs, if rice sells for $600 a ton, Chip's profit-maximizing output is

a) less than one ton.

b) between one and two tons.

c) between two and three tons.

d) between three and four tons.



28) In the above figure, if the price is P1, the firm is

a) earning a normal profit.
b) incurring an economic loss.
c) earning enough revenue to pay all of its opportunity costs.
d) making an economic profit.

29) Suppose the cost curves in the above figure apply to all firms in the industry. Then, if the initial price is P1, in the long run the market
a) supply will decrease.
b) supply will increase.
c) demand will decrease.
d) demand will increase.

30) New reports indicate that eating ginger helps people remain healthy. The news shifts the demand curve for ginger rightward. In response, new farms enter the ginger industry. During the period in which the new farms are entering, the price of a ginger ________ and the profit of each existing firm ________.
a) falls; rises
b) rises; falls
c) rises; rises
d) falls; falls

31) If firms exit an industry, the
a) profits of the remaining firms decrease.
b) industry supply curve shifts leftward.
c) price of the product falls.
d) output of the industry increases.

32) Paul runs a shop that sells printers. Paul is a perfect competitor and can sell each printer for a price of $300. The marginal cost of selling one printer a day is $200; the marginal cost of selling a second printer is $250; and the marginal cost of selling a third printer is $350. To maximize his profit, Paul should sell
a) two printers a day.
b) more than three printers a day.
c) three printers a day.
d) one printer a day.

33) In the long run, a perfectly competitive firm can
a) earn an economic profit, earn a normal profit, or incur an economic loss.
b) earn an economic profit.
c) incur an economic loss.
d) earn a normal profit.

34) The following are key features of a monopoly EXCEPT
A) diseconomies of scale.

B) no close substitutes.
C) influence over price.
D) barriers to entry.

35) Which of the following statements about a monopoly is FALSE?
A) A monopoly is the only supplier of the good.
B) Monopolies have no barriers to entry or exit.
C) The good produced by a monopoly has no close substitutes.
D) None of the above; that is, all of the above answers are true statements about a monopoly.

36). Which of the following is LEAST likely to be a monopoly?
A) the sole owner of an occupational license
B) a pharmaceutical company with a patent on a drug
C) a store in a large shopping mall
D) the holder of a public franchise

37) Patents create monopolies by restricting
A) prices.
B) profit.
C) entry.
D) demand

38) All of the following are examples of price discrimination EXCEPT
A) lower ticket prices for matinee performances.
B) buy-one-get-one-free offers.
C) "early bird specials" at a restaurant.
D) "buy now, pay later" payment options.

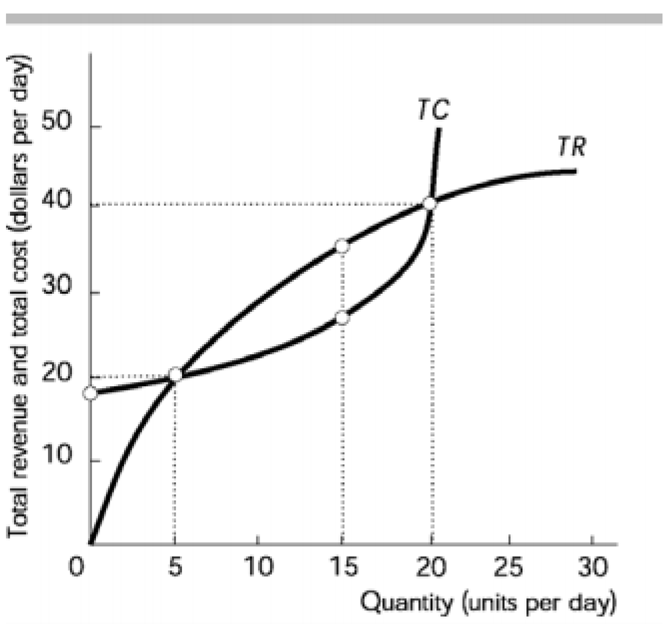
39) Total revenue equals
A) total cost minus profit.
B) price times quantity sold.
C) marginal revenue times quantity sold.
D) the area between the demand curve and the marginal revenue curve

40) For a monopoly, the industry demand curve is the firm's
A) profit function.

B) marginal revenue curve.
C) supply curve.
D) demand curve.

41) Monopolists
A) face downward sloping demand curves.
B) are price takers.
C) have no short-run fixed costs.
D) maximize revenue, not profits.

42) The marginal revenue curve for a single-price monopoly
A) lies below its demand curve.
B) is horizontal.
C) lies above its demand curve.
D) coincides with its demand curve

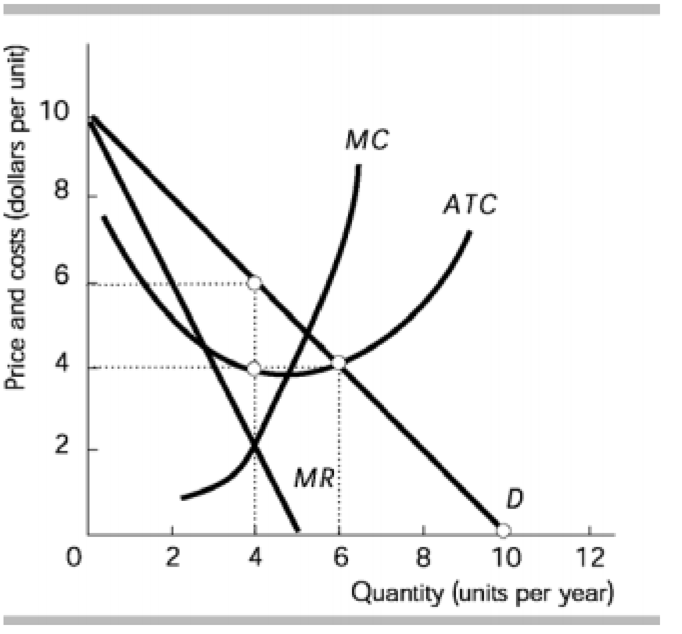


43) The figure above shows a monopoly's total revenue and total cost curves. The monopoly's economic profit is positive if it produces between
A) 0 and 20 units.
B) 5 and 20 units.
C) 0 and 15 units.
D) 0 and 5 units.

44) The figure above shows a monopoly's total revenue and total cost curves. The monopoly's economic profit is zero if it produces
A) 15 units of output.
B) 5 or 20 units of output.
C) 0 units of output.
D) none of the above

45) The figure above shows a monopoly's total revenue and total cost curves. The monopoly's economic profit is maximized when it produces
A) 5 units of output.
B) 20 units of output.
C) 0 units of output.
D) 15 units of output.

46) The monopoly with the TR and TC curves shown in the figure above will produce
A) 5 units of output.
B) 20 units of output.
C) 15 units of output.
D) 0 units of output.



47) For the unregulated, single-price monopoly shown in the figure above, when its profit is maximized, output will be

A) 4 units per year and the price will be $6.
B) 6 units per year and the price will be $4.
C) 4 units per year and the price will be $4.
D) None of the above answers is correct.

48) The unregulated, single-price monopoly shown in the figure above will produce where its demand
A) equals its ATC curve.
B) is inelastic.
C) is elastic.
D) equals its MC curve.

49) The unregulated, single-price monopoly shown in the figure above has a total economic profit of
A) $4.
B) $16.
C) $24.
D) $8

50) A price discriminating monopolist charges lower prices to customers with
A) higher average willingness-to-pay.
B) lower average willingness-to-pay.
C) lower supply elasticities.
D) higher supply elasticities.

Demand Schedule Facing a Perfectly Price Discriminating Firm

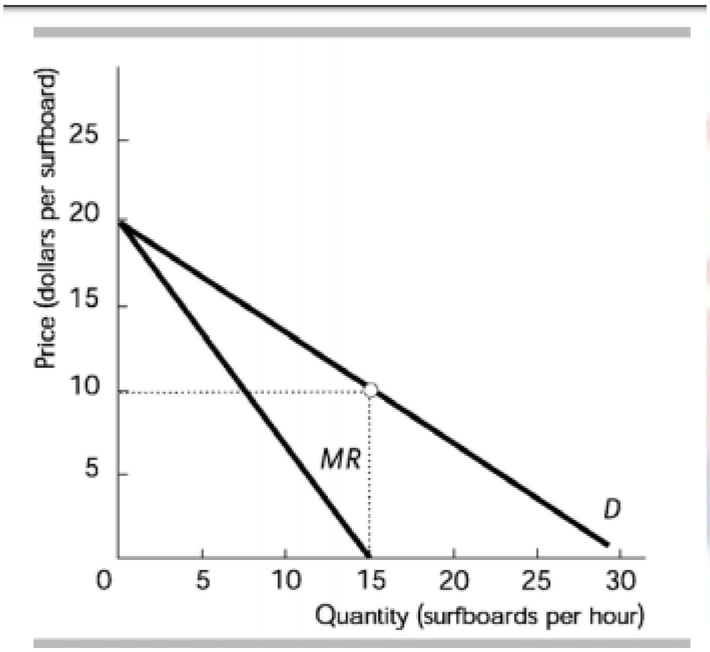
Price (dollars)	Quantity Sold
8	0
7	1
6	2
5	3
4	4
3	5
2	6
1	7

51) Using the demand schedule in the above table, if the firm's marginal cost is constant at $3.00, output for a perfect price discriminating monopolist is
A) 2 units.
B) 4 units.
C) 5 units.
D) 3 units.

52) Using the demand schedule in the above table, the marginal revenue for the perfectly price discriminating monopolist from the sale of the third unit of output is
A) $6.
B) $5.
C) $4.
D) $3.

53) Using the demand schedule in the table above, the total revenue a perfectly price discriminating monopolist receives from selling 5 units of output is
A) $18.
B) $5.

C) $15.
D) $25



54) The figure above shows the demand curve facing Sue's Surfboards, the sole renter of surfboards on Big Wave Island. Sue's Surfboards currently rents 15 surfboards an hour. Sue's total revenue from the 15 surfboards is
A) $10.
B) $225.
C) $300.
D) $150.

55) A price and Quantity fixing agreement is known as
a) Collusion
b) Game theory
c) Price leadership
d) Price discrimination

56) Which of the following market structure is same as monopoly?
a) Pure competition
b) Duopoly
c) Oligopoly
d) Monopolistic