SELF EXAMINATION QUESTIONS - I

1. 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

2. A firm encounters its “shutdown point” when:
   (a) average total cost equals price at the profit-maximizing level of output
   (b) average variable cost equals price at the profit-maximizing level of output
   (c) average fixed cost equals price at the profit-maximizing level of output
   (d) marginal cost equals price at the profit-maximizing level of output

3. Under ______ market condition, firms make normal profits in the long run.
   (a) Perfect Competition   (b) Monopoly
   (c) Oligopoly   (d) None of the above

Use Table 1 to answer questions 4-6.

<table>
<thead>
<tr>
<th>Output</th>
<th>Total Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>0</td>
<td>240</td>
</tr>
<tr>
<td>1</td>
<td>330</td>
</tr>
<tr>
<td>2</td>
<td>410</td>
</tr>
<tr>
<td>3</td>
<td>480</td>
</tr>
<tr>
<td>4</td>
<td>540</td>
</tr>
<tr>
<td>5</td>
<td>610</td>
</tr>
<tr>
<td>6</td>
<td>690</td>
</tr>
</tbody>
</table>

4. The average fixed cost of 2 units of output is:
   (a) ₹ 80   (b) ₹ 85
   (c) ₹ 120   (d) ₹ 205

5. The marginal cost of the sixth unit of output is:
   (a) ₹ 133   (b) ₹ 75
   (c) ₹ 80    (d) ₹ 450

6. Average Variable Cost of 4 units of output is:
   (a) 75       (b) 135
   (c) 60       (d) insufficient data

7. Suppose a department store has a sale on its silverware. If the price of a plate-setting is reduced from ₹ 300 to ₹ 200 and the quantity demanded increases from 3,000 plate-settings to 5,000 plate-settings, what is the price elasticity of demand for silverware?
   (a) 8   (b) 1.0
   (c) 1.25   (d) 1.50
Read the following paragraph and answer question 8-10.

Suppose that a sole proprietorship is earning total revenues of ₹10,00,000 and is incurring explicit costs of ₹7,50,000. The owner could work for another company for ₹3,00,000 a year.

8. What will be the implicit cost of the firm?
   (a) ₹3,00,000  
   (b) ₹2,50,000  
   (c) ₹7,50,000  
   (d) insufficient data

9. The above mentioned firm is earning:
   (a) Accounting profit of ₹2,50,000.  
   (b) Economic loss of ₹50,000  
   (c) Both a and b are correct.  
   (d) None of the above is correct.

10. Suppose in the above mentioned question, the owner had invested ₹50,00,000 by withdrawing from his saving accounts on which he was earning 5% interest per annum, the economic profit or loss is
    (a) economic profit of ₹75,000  
    (b) economic loss of ₹75,000  
    (c) economic profit of ₹2,50,000  
    (d) economic loss of ₹2,50,000

11. If increasing air fares increases revenues and decreasing them decreases revenues, then the demand for air travel has a price elasticity of:
    (a) Zero  
    (b) Greater than zero but less than one  
    (c) One  
    (d) Greater than one

12. Which of the following is not a characteristic of a “price-taker”?
    (a) TR = P x Q  
    (b) AR = Price  
    (c) Negatively – sloped demand  
    (d) Marginal Revenue = Price

13. Which cost increases continuously with the increase in production?
    (a) Average cost  
    (b) Marginal cost  
    (c) Fixed cost  
    (d) Variable cost

14. 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

15. When the perfectly competitive firm and industry are in long run equilibrium then:
    (a) P = MR = SAC = LAC  
    (b) D = MR = SMC = LMC  
    (c) P = MR = Lowest point on the LAC curve  
    (d) All of the above

16. In monopoly, the relationship between average and marginal revenue curves is as follows:
    (a) AR curve lies above the MR curve  
    (b) AR curve coincides with the MR curve  
    (c) AR curve lies below the MR curve  
    (d) AR curve is parallel to the MR curve
17. Production may be defined as an act of ————.
(a) creating utility  (b) earning profit  
(c) destroying utility  (d) providing services

18. Demand for electricity is elastic because ————.
(a) it is very expensive  (b) it has a number of close substitutes  
(c) it has alternative uses  (d) none of the above

19. The opportunity cost of a good is
(a) the time lost in finding it  
(b) the quantity of other goods sacrificed to get another unit of that good  
(c) the expenditure on the good  (d) the loss of interest in using savings

20. Micro-economics is concerned with
(a) the economy as a whole  (b) the electronics industry  
(c) the study of individual economic behaviour  (d) the interactions within the entire economy

21. ________ and ________ do not directly affect the demand curve
(a) the price of related goods, consumer incomes  
(b) Consumer incomes, tastes  
(c) the costs of production, bank opening hours  (d) the price of related goods, preferences

22. Relationship between AR, MR and Price elasticity of demand is
(a) MR = AR + [e -1/e]  (b) MR = AR x [e -1/e]  
(c) AR = MR x [e -1/e]  (d) MR = AR x [e/e -1]

23. The Slope of Indifference Curve indicates
(a) Marginal Rate of Substitution of x for y  (b) Prices of x and y  
(c) Slope of the budget line  (d) Change in prices

24. In perfect competition the firm's ________ above AVC has the identical shape of the firm's supply  
curve
(a) Marginal revenue curve  (b) Marginal cost curve  
(c) Average cost curve  (d) None of the above

25. If the demand curve for good X is downward-sloping, an increase in the price will result in
(a) A decrease in the demand for good X.  
(b) No change in the quantity demanded for good X.  
(c) A larger quantity demanded for good X.  (d) A smaller quantity demanded for good X.
26. Yesterday, seller A supplied 400 units of a good X at ₹ 10 per unit. Today, seller A supplies the same quantity of units at ₹ 5 per unit. Based on this evidence, seller A has experienced a (an)

(a) Decrease in supply.  
(b) Increase in supply.  
(c) Increase in the quantity supplied.  
(d) Decrease in the quantity supplied.

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

(a) Wages paid to factory labor  
(b) Payment on the lease for factory equipment  
(c) Rent on the factory  
(d) Interest payments on borrowed financial capital

28. Price discrimination is a situation when a producer

(a) Charges different prices in different markets  
(b) Charges same price  
(c) Charges many prices  
(d) All of the above.

29. Which of the following statements about price and marginal cost in competitive and monopolized markets is true?

(a) In competitive markets, price equals marginal cost; in monopolized markets, price equals marginal cost.  
(b) In competitive markets, price exceeds marginal cost; in monopolized markets, price exceeds marginal cost.  
(c) In competitive markets, price equals marginal cost; in monopolized markets, price exceeds marginal cost.  
(d) In competitive markets, price exceeds marginal cost; in monopolized markets, price equals marginal cost.

30. New firms are barred from entering the market in

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

31. If oligopolists engage in collusion and successfully form a cartel, the market outcome is

(a) The same as if it were served by a monopoly  
(b) The same as if it were served by competitive firms  
(c) Efficient because cooperation improves efficiency  
(d) Known as Nash equilibrium
32. You are given the following data:

<table>
<thead>
<tr>
<th>Output</th>
<th>0</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Costs</td>
<td>0</td>
<td>15</td>
<td>30</td>
<td>45</td>
<td>60</td>
<td>75</td>
</tr>
</tbody>
</table>

The above data is an example of:
(a) Constant returns to scale.  (b) Decreasing returns to scale.
(c) Increasing returns to scale.  (d) Globalization.

33. Which of the following statements is correct?
(a) In a perfectly competitive market, firms are price takers.
(b) Microeconomics is the study of the behaviour of the economy as a whole.
(c) Positive economics focuses on welfare of the people of a society
(d) None of the above

34. Which of the following statements is incorrect?
(a) Unlike normative economics, positive economics is based on objective analysis of economic issues.
(b) The opportunity cost of a good is the quantity of other goods sacrificed to get another unit of that good.
(c) Microeconomics emphasizes interactions in the economy as a whole.
(d) None of the above.

35. A rational person does not act unless _________.
(a) the action is ethical.
(b) the action produces marginal costs that exceed marginal benefits.
(c) the action produces marginal benefits that exceed marginal costs.
(d) the action makes money for the person.

36. Suppose you find ₹100. If you choose to use ₹100 to go to a football match, your opportunity cost of going to the game is _________.
(a) nothing, because you found the money.
(b) ₹100 (because you could have used ₹100 to buy other things) plus the value of your time spent at the game.
(c) ₹100 (because you could have used the ₹100 to buy other things) plus the value of your time spent at the game, plus the cost of the dinner you purchased at the game.
(d) ₹100 (because you could have used the ₹100 to buy other things).

37. If consumers always spend 15 percent of their income on food, then the income elasticity of demand for food is _________.
(a) 1.50  (b) 1.15  (c) 1.00  (d) 0.15
38. 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)  infinite.  (c)  one.  (d)  unable to be determined from this information.

39. Which of the following statements is normative?
   (a) Large government deficits cause an economy to grow more slowly.
   (b) People work harder if the wage is higher.
   (c) The unemployment rate should be less.
   (d) Printing too much money causes inflation.

40. Total utility is maximum when:
   (a) marginal utility is zero  (b) marginal utility is at its highest point
   (c) marginal utility is equal to average utility  (d) average utility is maximum

41. An indifference curve slopes down towards right since more of one commodity and less of another result in:
   (a) same satisfaction  (b) greater satisfaction
   (c) maximum satisfaction  (d) decreasing expenditure

42. The consumer is in equilibrium when the following condition is satisfied:
   (a) \[
   \frac{\text{MU}_x}{\text{MU}_y} > \frac{P_x}{P_y}
   \]
   (b) \[
   \frac{\text{MU}_x}{\text{MU}_y} < \frac{P_x}{P_y}
   \]
   (c) \[
   \frac{\text{MU}_x}{\text{MU}_y} = \frac{P_x}{P_y}
   \]
   (d) None of the above

43. In the case of a Giffen good, the demand curve will be:
   (a) horizontal  (b) downward-sloping to the right
   (c) upward-sloping to the right  (d) vertical

44. The law of consumer surplus is based on:
   (a) indifferent curve analysis  (b) revealed preference theory
   (c) law of substitution  (d) the law of diminishing marginal utility

45. 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

46. In the case of an inferior good the income elasticity of demand is:
   (a) positive  (b) zero
   (c) negative  (d) infinite
47. The elasticity of substitution between two perfect substitutes is:
   (a) zero  (b) greater than zero  
   (c) less than infinity  (d) infinite

48. Elasticity of supply refers to the degree of responsiveness of supply of a good to changes in its:
   (a) demand  (b) price  
   (c) costs of production  (d) state of technology

49. An isoquant slopes:
   (a) downward to the left  (b) downward to the right  
   (c) upward to the left  (d) upward to the right

50. The income of a household rises by 20 per cent, the demand for computer rises by 25 per cent, this means computer (in Economics) is a/an
   (a) inferior good  (b) luxury good  
   (c) necessity  (d) can't say

51. Which of the following is a property of the indifference curve?
   (a) Indifference curves are convex to the origin  (b) Indifference curves slope downwards from left to right  
   (c) No two indifference curves can cut each other  (d) All of the above are the properties of Indifference curves.

52. The structure of the cold drink industry in India is best described as:
   (a) Perfectly competitive  (b) Monopolistic  
   (c) Oligopolistic  (d) Monopolistically competitive

53. If a seller realizes ₹ 10,000 after selling 100 units and ₹ 14,000 after selling 120 units. What is the marginal revenue here?
   (a) ₹ 4000  (b) ₹ 450  
   (c) ₹ 200  (d) ₹ 100

54. In economics, what a consumer is ready to pay minus what he actually pays, is termed as:
   (a) Consumer's equilibrium  (b) Consumer's surplus  
   (c) Consumer's expenditure  (d) None of the above

55. 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

56. 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 marginal utility  (d) Law of supply
57. In the case of a straight line demand curve meeting the two axes the price – elasticity of demand at the mid-point of the line would be:
(a) 0  (b) 1
(c) 1.5  (d) 2

58. All of the following are determinants of demand except
(a) tastes and preferences  (b) quantity supplied
(c) income  (d) price of related goods

59. 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

60. When aggregate economic activity is increasing, the economy is said to be in
(a) an expansion.  (b) a contraction.
(c) a peak.  (d) a turning point.
SELF EXAMINATION QUESTIONS - II

1. 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

2. 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

3. If the price of Pepsi decreases relative to the price of Coke and Slice, the demand for:
   (a) Coke will rise
   (b) Slice will decrease
   (c) Coke and Slice will increase
   (d) Coke and Slice will decrease

4. The indifference curve approach does not assume:
   (a) Rationality on the parts of consumers
   (b) Ordinal measurement of satisfaction
   (c) Consistent consumption pattern behaviour of consumers
   (d) Cardinal measurement of utility

5. The marginal cost curve intersects the average cost curve when average cost is:
   (a) Maximum
   (b) Minimum
   (c) Raising
   (d) Falling

6. In long run equilibrium the pure monopolist can make pure profits because of
   (a) Blocked entry
   (b) The high price he charges
   (c) The low LAC costs
   (d) Advertising

7. 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.

8. 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
9. The ‘substitution effect’ takes place due to change in
   (a) income of the consumer  (b) prices of the commodity
   (c) relative prices of the commodities  (d) all of the above

10. Under income effect, consumer
    (a) moves along the original indifference curve
    (b) moves to higher or lower indifference curve
    (c) always purchases higher quantities of both the commodities
    (d) none of the above

11. Under the perfect competition a firm will be in Equilibrium when :
    (a) MC = MR  (b) MC cuts the MR from below
    (c) MC is rising when it cuts the MR  (d) All of the above

12. A perfectly competitive firm has control over
    (a) price  (b) production as well as price
    (c) production, price and consumers  (d) none of the above

13. The demand curve facing an industrial firm under monopoly is
    (a) horizontal straight line  (b) indeterminate
    (c) downward sloping  (d) upward sloping

14. Price discrimination is not possible:
    (a) under monopoly situation  (b) under any market firm
    (c) under monopolistic competition  (d) under perfect competition

15. In short run, a firm in monopolistic competition
    (a) always earns profits  
    (b) incurs losses
    (c) earns normal profit only
    (d) may earn normal profit, supernormal profit or incur losses

16. In the case of two perfect substitutes, the indifference curve will be :
    (a) Straight line  (b) L-shaped
    (c) U-shaped  (d) C-shaped

17. In case of inferior goods, income elasticity is :
    (a) zero  (b) positive
    (c) negative  (d) none
18. Cross elasticity of demand between tea and coffee is:
   (a) positive  (b) negative  
   (c) zero  (d) infinity

19. If all inputs are trebled and the resultant output is doubled, this is a case of:
   (a) constant returns to scale  (b) increasing returns to scale  
   (c) diminishing returns to scale  (d) negative returns to scale

20. In the case of monopoly:
   (a) MR curve cannot be defined  (b) AR curve cannot be defined  
   (c) the short run supply curve cannot be defined  (d) none of the above

21. If the income elasticity is greater than one the commodity is
   (a) Necessity  (b) Luxury  
   (c) Inferior goods  (d) None of these

22. Full capacity is utilized only when there is
   (a) Monopoly  (b) Perfect competition  
   (c) Price discrimination  (d) Oligopoly

23. Which of the following falls under Micro Economics?
   (a) National Income  (b) General Price level  
   (c) Factor Pricing  (d) National Saving and Investment

24. If a point on a demand curve of any commodity lies on X Axis then price elasticity of demand of that 
   commodity at that point will be: __________
   (a) Infinite  (b) More than zero  
   (c) Less than zero  (d) zero

25. One characteristic not typical of oligopolistic industry is:
   (a) Too much importance to non-price competition  
   (b) Price leadership  
   (c) Horizontal demand curve  (d) A small number of firms in the industry

A competitive firm sells as much as of its product it chooses at a market price of ₹ 100 per unit. Its 
fixed cost is ₹ 300 and its variable costs (in rupees) for different levels of production are shown in 
the following table. Use Table 1 to answer questions 26-29.
<table>
<thead>
<tr>
<th>Qty.</th>
<th>Variable Cost</th>
<th>Fixed Cost</th>
<th>Total Cost</th>
<th>Average Variable Cost</th>
<th>Average Total Cost</th>
<th>Marginal Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>0</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>5</td>
<td>270</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>10</td>
<td>490</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>15</td>
<td>720</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>20</td>
<td>1000</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>25</td>
<td>1370</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>30</td>
<td>1870</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>35</td>
<td>2540</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>40</td>
<td>3420</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>45</td>
<td>4550</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>50</td>
<td>5970</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

26. When production is 35 units, the average variable cost is: __________
   (a) ₹ 7.25  (b) ₹ 72.25  (c) ₹ 72.57  (d) ₹ 85.50

27. In the table marginal cost per unit that corresponds to 25 units of production is
   (a) ₹ 3.50  (b) ₹ 74  (c) ₹ 450  (d) ₹ 370

28. To maximize output, the firm should produce
   (a) 30  (b) 35  (c) 45  (d) 50

29. If the market price drops from ₹ 100 to ₹ 74, the firm short run response should be: __________
   (a) Continue to produce the same number of units as before the drop in price
   (b) Produce 10 units
   (c) Produce 20 units
   (d) Produce 25 units

Read the following data and answer Questions Number 30-35.

XYZ are three commodities where X and Y are complements whereas X and Z are substitutes. A shopkeeper sells commodity X at Rs. 40 per piece. At this price he is able to sell 100 pieces of X per month. After some time he decreases the price of X to Rs. 20. Following the price decrease: He is able to sell 150 pieces of X per month. The demand for Y increases from 25 units to 50 units. The demand for commodity Z decreases from 150 to 75 units.

30. The price elasticity of demand when the price of X decreases from ₹ 40 per piece to ₹ 20 per piece will be equal to:
   (a) 1.5  (b) 1.0  (c) 1.66  (d) 0.6
31. The cross elasticity of monthly demand for Y when the price of X decreases from ₹ 40 to ₹ 20 is equal to:
   (a) +1  (b) −1
   (c) −1.5  (d) +1.5

32. The cross-elasticity of Z when the price of X decreases from 40 to 20 is equal to:
   (a) −0.6  (b) +0.6
   (c) −1  (d) +1

33. What can be said about price elasticity of demand for X?
   (a) Demand is unit elastic  (b) Demand is highly elastic
   (c) Demand is perfectly elastic  (d) Demand is inelastic

34. Suppose income of the residents of locality increase by 50% and the quantity of X commodity increases by 20%. What is income elasticity of demand for commodity X?
   (a) 0.6  (b) 0.4
   (c) 1.25  (d) 1.35

35. We can say that commodity X in economics is a/an
   (a) luxury good  (b) inferior Good
   (c) normal Good  (d) none of the above

36. If the total cost of manufacturing commodity ‘X’ is ₹ 1,50,000. Out of this implicit cost is ₹ 80,000 what will be explicit cost:
   (a) ₹ 95,000  (b) ₹ 1,25,000
   (c) ₹ 80,000  (d) ₹ 70,000

37. Which of the following statements is correct?
   (a) Employment and economic growth are studied in micro-economics.
   (b) Micro economics deals with balance of trade
   (c) Economic condition of a section of the people is studied in micro-economics
   (d) External value of money is dealt with in micro-economics

38. Suppose income of the consumers increases by 50% and the demand for commodity X increases by 20% what will be the income elasticity of demand for commodity X?
   (a) .04  (b) 0.4
   (c) 4.00  (d) −4.00

39. 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
40. The price of hot dogs increases by 22% and the quantity of hot dog demanded falls by 25%. This indicates that demand for hot dog is
(a) elastic
(b) inelastic
(c) unitarily elastic
(d) perfectly elastic.

41. A firm’s average fixed cost is ₹ 20 at 6 units of output. What will it be at 4 units of output?
(a) ₹ 60
(b) ₹ 30
(c) ₹ 40
(d) ₹ 20

42. The kinked demand hypothesis is designed to explain in the context of oligopoly
(a) Price and output determination
(b) Price rigidity
(c) Price leadership
(d) Collusion among rivals

43. The structure of the tooth paste industry in India is best described as:
(a) Perfectly competitive
(b) Monopolistic
(c) Monopolistically competitive
(d) Oligopolistic

44. When ____________ we know that the firm are earning just normal profits:
(a) AC = AR
(b) MC = MR
(c) MC = AC
(d) AR = MR.

45. Which is the other name that is given to the long run average cost curve?
(a) profit curve
(b) planning curve
(c) demand curve
(d) indifference curve

46. The kinked demand curve model of oligopoly assumes that:
(a) response (of consumers) to a price increase is less than the response to a price decrease
(b) response (of consumers) to a price increase is more than the response to a price decrease
(c) elasticity of demand is constant regardless of whether price increases or decreases
(d) elasticity of demand is perfectly elastic if price increases and perfectly inelastic if price decreases

47. Diminishing marginal returns imply
(a) decreasing average variable costs
(b) decreasing marginal costs
(c) increasing marginal costs
(d) decreasing average fixed costs

48. Which of the following is an example of an “explicit cost”?
(a) The wages a proprietor could have made by working as an employee of a large firm
(b) The income that could have been earned in alternative uses by the resources owned by the firm
(c) The payment of wages by the firm
(d) The normal profit earned by a firm
49. Marginal cost is defined as:
   (a) the change in total cost due to one unit change in output
   (b) total cost divided by output
   (c) the change in output due to one unit change in input
   (d) total product divided by the quantity of input

50. 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

51. Which of the following statements is incorrect?
   (a) Even monopolist can earn losses
   (b) Firms in a perfectly competitive market are price-takers
   (c) It is always beneficial for a firm in the perfectly competitive market to discriminate prices
   (d) Economic laws are less exact than the laws of physical sciences

52. The producer is in equilibrium at a point where the cost line is:
   (a) above the isoquant
   (b) below the isoquant
   (c) cutting the isoquant
   (d) tangent to isoquant

53. 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

54. Contraction of demand is the result of:
   (a) decrease in the number of consumers
   (b) increase in the price of the good concerned
   (c) increase in the prices of other goods
   (d) decrease in the income of purchasers

55. 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

56. If a competitive firm doubles its output, its total revenue:
   (a) doubles.
   (b) more than doubles.
   (c) less than doubles.
   (d) cannot be determined because the price of the good may rise or fall.
57. Which of the following involve a trade-off?

(a) Taking a nap  
(b) All of these answers involve trade-offs.  
(c) Watching a football game on Saturday afternoon  
(d) Going to university

58. A firm’s production function:

(a) Shows how much output and the level of input required for the firm to maximize profits  
(b) Establishes the minimum level of output that can be produced using the available resources  
(c) Shows the maximum output that can be produced with a given amount of inputs with available technology  
(d) Shows labour force which is employed

59. In the short run if a perfectly competitive firm finds itself operating at a loss, it will:

(a) Reduce the size of its plant to lower fixed costs.  
(b) Raise the price of its product.  
(c) Shutdown.  
(d) Continue to operate as long as it covers its variable cost

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

(a) New consumer goods orders  
(b) Delayed deliveries  
(c) New building permits  
(d) Prime rate

ANSWERS I

<table>
<thead>
<tr>
<th></th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
<th>8</th>
<th>9</th>
<th>10</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>(d)</td>
<td>(b)</td>
<td>(c)</td>
<td>(a)</td>
<td>(c)</td>
<td>(a)</td>
<td>(c)</td>
<td>(d)</td>
<td>(b)</td>
<td>(c)</td>
</tr>
<tr>
<td>2</td>
<td>(b)</td>
<td>12</td>
<td>(c)</td>
<td>22</td>
<td>(b)</td>
<td>32</td>
<td>(a)</td>
<td>42</td>
<td>(c)</td>
<td>52</td>
</tr>
<tr>
<td>3</td>
<td>(a)</td>
<td>13</td>
<td>(d)</td>
<td>23</td>
<td>(a)</td>
<td>33</td>
<td>(a)</td>
<td>43</td>
<td>(c)</td>
<td>53</td>
</tr>
<tr>
<td>4</td>
<td>(c)</td>
<td>14</td>
<td>(a)</td>
<td>24</td>
<td>(b)</td>
<td>34</td>
<td>(c)</td>
<td>44</td>
<td>(d)</td>
<td>54</td>
</tr>
<tr>
<td>5</td>
<td>(c)</td>
<td>15</td>
<td>(d)</td>
<td>25</td>
<td>(d)</td>
<td>35</td>
<td>(c)</td>
<td>45</td>
<td>(b)</td>
<td>55</td>
</tr>
<tr>
<td>6</td>
<td>(a)</td>
<td>16</td>
<td>(a)</td>
<td>26</td>
<td>(b)</td>
<td>36</td>
<td>(b)</td>
<td>46</td>
<td>(c)</td>
<td>56</td>
</tr>
<tr>
<td>7</td>
<td>(c)</td>
<td>17</td>
<td>(a)</td>
<td>27</td>
<td>(a)</td>
<td>37</td>
<td>(c)</td>
<td>47</td>
<td>(d)</td>
<td>57</td>
</tr>
<tr>
<td>8</td>
<td>(a)</td>
<td>18</td>
<td>(c)</td>
<td>28</td>
<td>(a)</td>
<td>38</td>
<td>(a)</td>
<td>48</td>
<td>(b)</td>
<td>58</td>
</tr>
<tr>
<td>9</td>
<td>(c)</td>
<td>19</td>
<td>(b)</td>
<td>29</td>
<td>(c)</td>
<td>39</td>
<td>(c)</td>
<td>49</td>
<td>(b)</td>
<td>59</td>
</tr>
<tr>
<td>10</td>
<td>(b)</td>
<td>20</td>
<td>(c)</td>
<td>30</td>
<td>(d)</td>
<td>40</td>
<td>(a)</td>
<td>50</td>
<td>(b)</td>
<td>60</td>
</tr>
</tbody>
</table>

ANSWERS II

<table>
<thead>
<tr>
<th></th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
<th>8</th>
<th>9</th>
<th>10</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>(d)</td>
<td>(d)</td>
<td>(d)</td>
<td>(b)</td>
<td>(b)</td>
<td>(d)</td>
<td>(c)</td>
<td>(a)</td>
<td>(c)</td>
<td>(d)</td>
</tr>
<tr>
<td>2</td>
<td>(b)</td>
<td>12</td>
<td>(d)</td>
<td>22</td>
<td>(b)</td>
<td>32</td>
<td>(d)</td>
<td>42</td>
<td>(b)</td>
<td>52</td>
</tr>
<tr>
<td>3</td>
<td>(d)</td>
<td>13</td>
<td>(c)</td>
<td>23</td>
<td>(c)</td>
<td>33</td>
<td>(d)</td>
<td>43</td>
<td>(c)</td>
<td>53</td>
</tr>
<tr>
<td>4</td>
<td>(d)</td>
<td>14</td>
<td>(d)</td>
<td>24</td>
<td>(d)</td>
<td>34</td>
<td>(b)</td>
<td>44</td>
<td>(a)</td>
<td>54</td>
</tr>
<tr>
<td>5</td>
<td>(b)</td>
<td>15</td>
<td>(d)</td>
<td>25</td>
<td>(c)</td>
<td>35</td>
<td>(c)</td>
<td>45</td>
<td>(b)</td>
<td>55</td>
</tr>
<tr>
<td>6</td>
<td>(a)</td>
<td>16</td>
<td>(a)</td>
<td>26</td>
<td>(c)</td>
<td>36</td>
<td>(b)</td>
<td>46</td>
<td>(c)</td>
<td>56</td>
</tr>
<tr>
<td>7</td>
<td>(c)</td>
<td>17</td>
<td>(c)</td>
<td>27</td>
<td>(c)</td>
<td>37</td>
<td>(c)</td>
<td>47</td>
<td>(c)</td>
<td>57</td>
</tr>
<tr>
<td>8</td>
<td>(c)</td>
<td>18</td>
<td>(a)</td>
<td>28</td>
<td>(a)</td>
<td>38</td>
<td>(b)</td>
<td>48</td>
<td>(b)</td>
<td>58</td>
</tr>
<tr>
<td>9</td>
<td>(c)</td>
<td>19</td>
<td>(b)</td>
<td>29</td>
<td>(d)</td>
<td>39</td>
<td>(b)</td>
<td>49</td>
<td>(b)</td>
<td>59</td>
</tr>
<tr>
<td>10</td>
<td>(b)</td>
<td>20</td>
<td>(c)</td>
<td>30</td>
<td>(d)</td>
<td>40</td>
<td>(a)</td>
<td>50</td>
<td>(d)</td>
<td>60</td>
</tr>
</tbody>
</table>