

INTRODUCTION TO MICRO ECONOMICS BASED INDIAN ECONOMY MCQ PRACTICE QUESTIONS AND ANSWERS PDF WITH EXPLANATION

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Q1. Who is called the Father of Economics?

- a) Adam Smith
 - b) J.M. Keynes
 - c) Malthus
 - d) Ricardo
-

Q2. A demand curve will **not** shift:

- a) When only price of the commodity changes
 - b) When only income changes
 - c) When only prices of substitute products change
 - d) When there is a change in advertisement expenditure
-

Q3. Which of the following is **not** an economic problem ?

- a) Deciding between different ways of spending leisure time
 - b) Deciding between paid work and leisure
 - c) Deciding between expenditure on one good and the other
 - d) Deciding between alternative methods of personal savings
-

Q4. The '**break-even point**' is where

- a) total revenue equals total cost
- b) marginal revenue equals marginal cost
- c) average revenue equals average cost

d) None of the above

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Q5. 'Capital gains' refers to goods which

- a) find multiple uses
- b) serve as a source of raising further capital
- c) help in the further production of goods
- d) directly go into the satisfaction of human wants

Q6. If the average revenue is a horizontal straight line, marginal revenue will be

- a) L shaped
- b) U shaped
- c) Kinked
- d) Identical with average revenue

Q7. Cross elasticity of demand between petrol and car is

- a) negative
- b) infinite
- c) positive
- d) zero

Q8. Production function refers to the functional relationship between input and ____.

- a) service
- b) product

c) produce

d) output

Q9. Knowledge, technical skill, education etc. in economics, are regarded as

a) working capital

b) social-overhead capital

c) human capital

d) tangible physical capital

Q10. Seller's market denotes a situation where :

a) supply and demand are evenly balanced

b) commodities are available at competitive rates

c) demand exceeds supply

d) supply exceeds demand

Q11. The fixed cost on such factors of production which are neither hired nor bought by the firm is called

a) surcharged cost

b) social cost

c) opportunity cost

d) economic cost

Q12. Equilibrium price means

a) Price determined to maximise profit

b) Price determined by demand and supply

c) Price determined by Cost and Profit

d) Price determined by Cost of production

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Q13. Division of labour is the result of

- a) specialisation
- b) Complicated work
- c) excessive pressure
- d) excess supply of labour

Q14. A 'Market Economy' is one which

- a) All of these
- b) is controlled by the Government
- c) is free from the Government control
- d) is influenced by international market forces

Q15. Which one of the following is having elastic demand ?

- a) Match boxes
- b) Electricity
- c) Medicines
- d) Rice

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Answers to the above questions :

Q1. Answer: (a)

Adam Smith is best known for two classic works: The Theory of Moral Sentiments (1759), and An Inquiry into the Nature and Causes of the Wealth of Nations (1776).

The latter, usually abbreviated as The Wealth of Nations, is considered his magnum opus and the first modern work of economics. Smith is cited as the father of modern economics and is still among the most influential thinkers in the field of economics today.

Q2. Answer: (a)

In economics, the demand curve is the graph depicting the relationship between the price of a certain commodity and the amount of it that consumers are willing and able to purchase at that given price. A change in the price of the commodity leads to a movement along the demand curve without shifting it.

In simple words, the increase or decrease in the price of a commodity only causes contraction or extension of demand (increase causes contraction while decrease cause extension).

An increase or decrease in demand only occurs only when there is a change in other determinants of demand, other than the price of the commodity.

So when the price of the commodity changes, the demand curve does not shift; however, when any other determinant of demand changes, the demand curve shifts either rightward or leftward.

Q3. Answer: (a)

The Theory of Economic Problem states that scarcity exists in the sense that only finite and insufficient resources are available to satisfy the needs and desires of all human beings.

The fundamental economic problem is how to allocate scarce resources to the provision of various goods and services within the economy.

The question then becomes how to determine what is to be produced, and how the factors of production (such as capital and labour) are to be allocated.

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Q4. Answer: (a)

Break-even is the point of balance between making either a profit or a loss. In economics & business, specifically cost accounting, the break-even point (BEP) is the point at which cost or expenses and revenue are equal: there is no net loss or gain, and one has “broken even”.

A profit or a loss has not been made, although opportunity costs have been “paid”, and capital has received the risk-adjusted, expected return.

Q5. Answer: (c)

Capital goods are goods that are used in producing other goods, rather than being bought by consumers.

They are tangible assets such as buildings, machinery, equipment, vehicles and tools that an organization uses to produce goods or services in order to produce consumer goods and goods for other businesses.

Q6. Answer: (d)

The price of a good is also known as the Average Revenue of the firm. Average Revenue (AR) or Price and Marginal Revenue (MR) are identical.

When the former is constant, the latter is also constant. Moreover, the Average Revenue curve of a firm is the same as the individual demand curve.

Hence, the competitive demand curve is a horizontal straight line parallel to the OX axis.

Q7. Answer: (a)

In economics, the cross elasticity of demand or cross-price elasticity of demand measures the responsiveness of the demand for a good to a change in the price of another good.

It is measured as the percentage change in demand for the first good that occurs in response to a percentage change in the price of the second good.

For example, if, in response to a 10% increase in the price of fuel, the demand for new cars that are fuel inefficient decreased by 20%, the cross elasticity of demand would be -2.

A negative cross elasticity denotes two products that are complements, while a positive cross elasticity denotes two substitute products.

Q8. Answer: (d)

The Production function expresses a functional relationship amidst quantities of raw materials and goods.

It is the name given to the relationship between rates of input of productive services and the rate of output of product.

Q9. Answer: (c)

Human capital is the stock of competencies, knowledge, social and personality attributes, including creativity, embodied in the ability to perform labour so as to produce economic value.

It is an aggregate economic view of the human being acting within economies, which is an attempt to capture the social, biological, cultural and psychological complexity as they interact in explicit and/or economic transactions.

Q10. Answer: (c)

A seller's market is a market that has more buyers than sellers. High prices result from this excess of demand over supply.

The opposite of the seller's market is the buyer's market, where supply greatly exceeds demand.

Q11. Answer: (b)

Social cost is defined as a sum of the private cost and external costs. The social cost is generally not borne by an individual. It may be borne by the entire society, city or even country.

This is not a one-time cost like a private cost. This cost is recurrent and it is very difficult to calculate due to the inclusion of external costs.

The cost may result from an event, action, or policy change. Social costs are not calculated whenever a seller sells any product or item to the buyer. This cost is added up from the use of that product.

Q12. Answer: (b)

The equilibrium price is a state in an economy where the supply of goods matches demand. When a major index experiences a period of consolidation or sideways momentum, it can be said that the forces of supply and demand are relatively equal and that the market is in a state of equilibrium.

In short, it is the market price at which the supply of an item equals the quantity demanded.

Q13. Answer: (a)

Division of Labor is the "specialization" of cooperative labour in specific, circumscribed tasks and like roles.

It is a process whereby the production process is broken down into a sequence of stages and workers are assigned to particular stages.

Q14. Answer: (c)

A market economy is an economic system in which economic decisions and the pricing of goods and services are guided solely by the aggregate interactions of a country's individual citizens and businesses.

There is little government intervention or central planning. The United States is the world's premier market economy.

Q15. Answer: (b)

In economics, the demand elasticity refers to how sensitive the demand for a good is to changes in other economic variables. The demand for those goods having more than one use is said to be elastic.

Electricity can be used for a number of purposes like heating, lighting, cooking, cooling etc.

If the electricity bill increases people utilize electricity for certain important urgent purposes and if the bill falls people use electricity for a number of other unimportant uses. Thus the demand for electricity is elastic.

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