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Q1. When the price of a commodity falls, we can expect

a) the demand for it to increase

b) the supply of it to increase

c) the demand for it to fall

d) the demand for it to stay constant

Q2. "Marginal Cost" equals

a) the change in total cost divided by the change in quantity

b) total cost minus total benefit for the last unit produced

c) total cost divided by total benefit for the last unit produced

d) total cost divided by quantity

Q3. Which from the following is **not** true when the interest rate in the economy goes up ?

a) Return on capital increases

b) Saving increases

c) Lending decreases

d) Cost of production increases

Q4. Same price prevails throughout the market under

a) oligopoly

b) perfect competition

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c) monopoly

d) monopolistic competition

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Q5. The excess of price a person is to pay rather than forego the consumption of the commodity is called

a) Consumer’s surplus

b) Price

c) Profit

d) Producers’ surplus

Q6. The Psychological law of consumption states that

a) consumption does not change with a change in income

b) proportionate increase in consumption is less than proportionate increase in income

c) increase in income is equal to increase in consumption

d) increase in consumption is greater than increase in income

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Q7. The demand for which of the following commodity will **not** rise in spite of a fall in its price?

a) Meat

b) Television

c) Refrigerator

d) Salt

Q8. Under which market condition do firms have excess capacity?

a) Oligopoly

b) Perfect competition

c) Monopolistic competition

d) Duopoly

Q9. Perfect competition means

a) None of these

b) large number of buyers and less sellers

c) large number of buyers and sellers

d) large number of sellers and less buyers

Q10. At “Break-even point”,

a) the firm is at zero-profit point

b) the industry is in equilibrium in the long-run.

c) the producers suffers the minimum losses

d) the seller earns maximum profit

Q11. Consumer’s surplus is the highest in the case of:

a) necessities

b) durable goods

c) luxuries

d) comforts

Q12. The demand for labour is called

a) Factory demand

b) Market demand

c) Direct demand

d) Derived demand

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Q13. The supply of labour in the economy depends on

a) Natural resources

b) Population

c) National income

d) Per capita income

Q14. Expenditure on advertisement and public relations by an enterprise is a part of its

a) fixed capital

b) consumption of fixed capital

c) final consumption expenditure

d) intermediate consumption

Q15. Returns to scale is a

a) long-run phenomenon

b) timeless phenomenon

c) directionless phenomenon

d) short-run phenomenon

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Answers to the above questions :

Q1. Answer: (a)

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In economics, the law of demand is an economic law, which states that consumers buy more of a good when its price is lower and less when its price is higher.

The Law of demand states that the quantity demanded and the price of a commodity are inversely related, other things remaining constant.

That is, if the income of the consumer, prices of the related goods, and preferences of the consumer remain unchanged, then the change in the number of goods demanded by the consumer will be negatively correlated to the change in the price of the good.

Q2. Answer: (a)

Marginal cost is the change in the total cost that arises when the quantity produced has an increment by unity.

That is, it is the cost of producing one more unit of a good. To illustrate marginal cost let's assume that the total cost of producing 10,000 units is Rs. 50,000.

If we produce a total of 10,001 units the total cost is Rs. 50,002. That would mean the marginal cost—the cost of producing the next unit—was Rs. 2.

Q3. Answer: (a)

The interest rate is the cost of demanding or borrowing loanable funds. Alternatively, the interest rate is the rate of return from supplying or lending loanable funds. The demand for loanable funds takes account of the rate of return on capital.

The rate of return on capital is the additional revenue that a firm can earn from its employment of new capital. This additional revenue is usually measured as a percentage rate per unit of time, which is why it is called the rate of return on capital.

Firms will demand loanable funds as long as the rate of return on capital is greater than or equal to the interest rate paid on funds borrowed. In case of an increase in interest rate, return on capital decreases.

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Q4. Answer: (b)

Under perfect competition, the control over price is completely eliminated because all firms produce homogeneous commodities. This condition ensures that the same price prevails in the market for the same commodity.

Q5. Answer: (d)

'Producer Surplus' is an economic measure of the difference between the amount that a producer of a good receives and the minimum amount that he or she would be willing to accept for the good.

The difference, or surplus amount, is the benefit that the producer receives for selling the good in the market.

Q6. Answer: (b)

According to Keynes' psychological law of consumption, increased aggregate consumption is due to increased aggregate income – aggregate consumption increases with increase in aggregate income but the increase in consumption is less than the increase in the income.

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This is because when the basic necessities or demands of the people are already fulfilled, they start saving the extra additional income.

Q7. Answer: (d)

For certain goods called necessities, demand is not related to income. Demand for salt does not increase with the increase in income & does not decrease with the decrease in income.

It means that it is irrespective of income. The demand curve slopes downward for goods like salt, but it is inelastic.

Q8. Answer: (c)

Unlike a perfectly competitive firm, a monopolistically competitive firm ends up choosing a level of output that is below its minimum efficient scale. When the firm produces below its minimum efficient scale, it is under-utilizing its available resources.

In this situation, the firm is said to have excess capacity because it can easily accommodate an increase in production. This excess capacity is the major social cost of a monopolistically competitive market structure.

Q9. Answer: (c)

The fundamental condition of perfect competition is that there must be a large number of sellers or firms. Homogeneous Commodity is the second fundamental condition of a perfect market.

Q10. Answer: (a)

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." For businesses, reaching the break-even point is the first major step towards profitability.

Q11. Answer: (a)

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Consumer surplus is the difference between the price consumers would be prepared to pay and the actual market price.

Q12. Answer: (d)

The demand for labour is “derived” from the production and demand for the product being demanded.

If the demand for the product increases, either the price will increase or the demand for production labour will increase until the equilibrium price and production numbers are met. Labour is “derived” from the market demand for the product.

Q13. Answer: (b)

The supply curve for labor depends on variables such as population, wage rates, etc. in developing countries, the vast population base explains the relatively lower wage rates and easy accessibility to labour supply. This is just the opposite in the case of developed countries.

Q14. Answer: (d)

Expenditure on the advertisement and public relations by an enterprise is a part of its intermediate consumption. These are treated as intermediate goods and services which form part of the cost of producing other goods.

Intermediate consumption consists of the total monetary value of goods and services consumed or used up as inputs in production by enterprises, including raw materials, services and various other operating expenses.

Q15. Answer: (a)

Returns to Scale refers to changes in production that occur when all resources are proportionately changed in the long run. It comes in three forms-- increasing, decreasing, or constant based on whether the changes in production are proportionally more than, less than, or equal to the proportional changes in inputs.

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It is the guiding principle for long-run production, playing a similar role that the law of diminishing marginal returns plays for short-run production.

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