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

For All Competitive SSC, Bank, IBPS, UPSC, Railway, IT & Other Govt. Exams

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Q1. It is prudent to determine the size of the output when the industry is operating in the stage of

a) negative returns

b) increasing returns

c) constant returns

d) diminishing returns

Q2. The situation in which total Revenues equals total cost, is known as :

a) Perfect competition

b) Monopolistic competition

c) Equilibrium level of output

d) Break even point

Q3. In the case of an inferior good, the income elasticity of demand is :

a) Positive

b) Zero

c) Negative

d) Infinite

Q4. The relationship between the value of money and the price level in an economy is

a) Stable

b) Direct

c) Inverse

d) Proportional

Q5. The theory of monopolistic competition has been formulated in the United States of America by

a) Joseph Schumpeter

b) Joan Robinson

c) Edward Chamberlin

d) John Bates Clark

Q6. The principle of maximum social advantage is the basic principle of

a) Environmental Economics

b) Micro Economics

c) Macro Economics

d) Fiscal Economics

Q7. Division of labour is limited by

a) working space

b) the number of workers

c) hours of work

d) extent of the market

Q8. Which of the following are **not** fixed costs?

a) Insurance charges

b) Rent on land

c) Municipal taxes

d) Wages paid to workers

Q9. Economic rent does **not** arise when the supply of a factor unit is

a) Relatively inelastic

b) Perfectly inelastic

c) Perfectly elastic

d) Relatively elastic

Q10. A firm is in equilibrium when its

a) average revenue and marginal revenue are equal

b) marginal cost equals the marginal revenue

c) total cost is minimum

d) total revenue is maximum

Q11. Which law states that with constant taste and preferences, the proportion of income spend on food stuff diminishes as income increases?

a) Engel's Law

b) Say's Law

c) Griffin's Law

d) Gresham's Law

Q12. A fall in demand or rise in supply of a commodity–

a) determines the price elasticity

b) Increases the price of that commodity

c) decreases the price of that commodity

d) neutralises the changes in the price

Q13. Under increasing returns the supply curve is

a) parallel to the price -axis

b) positively sloped from left to right

c) negatively sloped from left to right

d) parallel to the quantity-axis

Q14. What is selling cost ?

a) Cost incurred on advertisement

b) Cost incurred on transportation of commodities to market

c) Cost incurred on promoting the sale of the product

d) Cost incurred on commission and salaries personnel

Q15. Which of the following does **not** determine supply of labour ?

a) Work-leisure ratio

b) Size and age-structure of population

c) Nature of work

d) Marginal productivity of labour

Answers to the above questions :

Q1. Answer: (d)

In economics, diminishing returns (also called diminishing marginal returns) is the decrease in the marginal (per-unit) output of a production process as the amount of a single factor of production is increased, while the amounts of all other factors of production stay constant.

This law plays a central role in production theory.

Q2. Answer: (d)

In economics and 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."

Q3. Answer: (c)

Negative income elasticity of demand is associated with inferior goods; an increase in income will lead to a fall in the demand and may lead to changes to more luxurious substitutes.

Positive income elasticity of demand is associated with normal goods; an increase in income will lead to a rise in demand.

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Q4. Answer: (c)

The basic causal relationship between the price level and the value of money is that as the price level goes up, the value of money goes down.

The "**value of money**" refers to what a unit of money can buy whereas the "**price level**" refers to the average of all of the prices of goods and services in a given economy.

Q5. Answer: (c)

In treatments of monopolistic competition, Edward Chamberlin and Joan Robinson are usually credited with simultaneously and independently developing the theory of monopolistic or imperfect competition.

Chamberlin published his book 'The Theory of Monopolistic Competition' in 1933, the same year that Joan Robinson published her book on the same topic: 'The Economics of Imperfect Competition,' so these two economists can be regarded as the parents of the modern study of imperfect competition.

Q6. Answer: (d)

The 'Principle of Maximum Social Advantage', introduced by British economist Hugh Dalton, is the fundamental principle of Public Finance which implies that all the financial operations of the state should aim at maximization of net social benefit.

It takes into consideration both the aspects of public finance that is the government revenue or taxation as well as government expenditure. Since it studies problems related to government taxation and spending, it comes under the domain of fiscal economics.

Q7. Answer: (d)

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

As it is the power of exchanging that gives occasion to the division of labour, so the extent of this division must always be limited by the extent of that power, or, in other words, by the extent of the market. When the market is very small, no person can have any encouragement to dedicate himself entirely to one employment.

Q8. Answer: (d)

In economics, fixed costs are business expenses that are not dependent on the level of goods or services produced by the business. They tend to be time-related, such as salaries or rents being paid per month and are often referred to as overhead costs.

For some employees, salary is paid on monthly rates, independent of how many hours the employees work. This is a fixed cost. On the other hand, the hours of hourly employees paid in wages can often be varied, so this type of labour cost is a variable cost.

Q9. Answer: (c)

Economic rent in the sense of surplus over transfer earnings arises when the supply of the factor units is less than perfectly elastic or not perfectly elastic.

When the supply of factor units is perfectly elastic, there is no surplus or economic rent and the actual earnings and transfer earnings are equal.

In such a scenario, at a given price or remuneration, the entrepreneur can engage any number of factor units.

Q10. Answer: (b)

A consumer is in a state of equilibrium when he achieves maximum aggregate satisfaction on the expenditure that he makes depending on the set of conditions relating to his tastes and preferences, income, price and supply of the commodity etc.

Producers’ equilibrium occurs when he maximizes his net profit subject to a given set of economic situations. A firm’s equilibrium point is when it has no inclination in changing its production.

In the short run Marginal revenue = Marginal Cost is the condition of equilibrium.

Q11. Answer: (a)

According to Engel's Law, as the disposable income of a consumer increases, the percentage of income spent on food decreases if all other factors remain constant.

This happens even when the actual expenditure on food rises. The income elasticity of demand for food is less than 1. A lower Engel coefficient indicates a higher standard of living.

Q12. Answer: (c)

The four basic laws of supply and demand are:

1. If demand increases and supply remains unchanged, a shortage occurs, leading to a higher price;
2. If demand decreases and supply remains unchanged, a surplus occurs, leading to a lower price;
3. If demand remains unchanged and supply increases, a surplus occurs, leading to a lower price; and
4. If demand remains unchanged and supply decreases, a shortage occurs, leading to a higher price.

Q13. Answer: (b)

Supply curve, in economics, is a graphic representation of the relationship between product price and quantity of product that a seller is willing and able to supply. Product price is measured on the vertical axis of the graph and quantity of product supplied on the horizontal axis.

In most cases, when there are increasing returns, the supply curve is drawn as a slope rising upward from left to right, since product price and quantity supplied are directly related (i.e., as the price of commodity increases in the market, the amount supplied increases).

Q14. Answer: (c)

Selling cost is total cost of marketing, advertising, and selling a product. It differs from the production cost which is incurred to produce goods.

Q15. Answer: (d)

The term ‘supply of labour’ refers to the number of hours of a given type of labour that will be offered for hire at different wage rates. Usually, it is found that the higher the wage rates larger is the supply indicating a direct relationship that exists between the wage rate i.e. the price of labour and labour hours supplied.

The supply of labour is very much affected by the work leisure ratio which in turn is affected by the changes in wage rates.

The supply of labour in an economy depends on various economic and non-economic factors such as:

1. population,
2. sex composition,
3. age composition of the population,
4. willingness to work,
5. wage rates,
6. migration and immigration,
7. working hours,
8. social attitude and standard,
9. legal barriers,
10. education and training,
11. employer’s attitude,
12. labour supply and leisure,
13. the efficiency of workers, etc.

In economics, the marginal product of labour (MPL) is the change in output that results from employing an added unit of labour. It has nothing to do with the supply of labour.