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

Created By Careericons Team

Q1. Total fixed cost curve is

a) Negatively sloping

b) Vertical

c) Horizontal

d) Positively Sloping

Q2. The basic object of all production is to

a) increase physical output

b) satisfy human wants

c) provide employment

d) make profits

Q3. Marginal cost is the

a) cost of producing a given level of output

b) cost of producing a unit of output

c) cost of producing an extra unit of output

d) cost of producing the total output

Q4. The measure of a worker's real wage is

a) The purchasing power of his earnings

b) The change in his productivity over a given time

c) His earnings after deduction at source

d) His daily earnings

Q5. The main determinant of real wage is

a) purchasing power of money

b) extra earning

c) nature of work

d) promotion prospect

Q6. Demand for complementary goods is known as

a) Cross demand

b) Joint demand

c) Derived demand

d) Direct demand

Q7. The demand for necessities is

a) perfectly elastic

b) elastic

c) perfectly inelastic

d) inelastic

Q8. The degree of monopoly power is to be measured in terms of the firm's

a) selling price

b) normal profit

c) supernormal profit

d) both normal and supernormal profit

Q9. Economic rent refers to

a) Payment made for the use of land

b) Payment made for the use of labour

c) Payment made for the use of capital

d) Payment made for the use of organisation

Q10. If the main objective of the government is to raise revenue, it should tax commodities with

a) high income elasticity of demand

b) high elasticity of demand

c) low elasticity of supply

d) low elasticity of demand

Q11. Purchasing Power Parity theory is related with

a) Exchange rate

b) Interest rate

c) Bank rate

d) Wage rate

Q12. When there is one buyer and many sellers then that situation is called

a) Double buyers right

b) Monopoly

c) Single buyer right

d) Down right

Q13. The internal rate of return

a) is equal to the market interest rate for all the firm’s investment.

b) must be less than the interest rate if the firm is to invest.

c) makes the present value of profits equal to the present value of costs.

d) falls as the annual yield of an investment rises.

Q14. In the long-run equilibrium, a competitive firm earns

a) No profit

b) Super-normal profit

c) Profits equal to other firms

d) Normal profit

Q15. When the total product rises at an increasing rate, the

a) marginal product remains constant

b) marginal product is zero

c) marginal product is rising

d) marginal product is falling

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Answers to the above questions :

Q1. Answer: (c)

The Total Fixed Cost Curve is a curve that graphically represents the relation between the total fixed cost incurred by a firm in the short-run product of a good or service and the quantity produced.

This curve is constructed to capture the relation between total fixed cost and the level of output, holding other variables, like technology and resource prices, constant.

Because total fixed costs are in fact, fixed, the total fixed cost curve is, in fact, a horizontal line.

Q2. Answer: (b)

According to Adam Smith, consumption is the sole end and purpose of all production. The goal of production is the satisfaction of human desire.

All the processes, by which human labour creates goods and services, bring them to the ultimate consumer.

Q3. Answer: (c)

Marginal cost is the change in total cost that arises when the quantity produced changes by one unit.

That is, it is the cost of producing one more unit of a good. In general terms, marginal cost at each level of production includes any additional costs required to produce the next unit.

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Q4. Answer: (a)

A real wage rate is a nominal wage rate divided by the price of a good and is a transparent measure of how much of the good an hour of work buys. It provides an important indicator of the living standards of workers, and also of the productivity of workers.

While differences in earnings or incomes may be misleading indicators of worker welfare, real wage rates are comparable across time and location.

Nominal wages are not sufficient to tell us if workers gain since, even if wages rise, the price of one of the goods also rises when moving to free trade. The real wage represents the purchasing power of wages— that is, the quantity of goods the wages will purchase.

Q5. Answer: (a)

The term real wages refers to wages that have been adjusted for inflation. This term is used in contrast to nominal wages or unadjusted wages.

Real wages provide a clearer representation of an individual's wages. The real purchasing power of income or money is the key determinant of the real wage. It is an indication of an individual's actual purchasing power.

Real wages are a useful economic measure, as opposed to nominal wages, which simply show the monetary value of wages in that year. However, real wages do not take into account other compensation like benefits or old-age pensions.

Q6. Answer: (b)

Demand for complementary goods is called Joint Demand. Joint Demand is the demand in which goods are related in such a way that an increase in the demand for one causes an increase in the demand for the other.

Q7. Answer: (c)

Inelastic demand means that if the price changes, the quantity demanded will not change much.

The more necessary a good is, the lower the elasticity, as people will attempt to buy it no matter the price. Necessities such as water are likely to have perfectly inelastic demand.

Q8. Answer: (c)

Monopoly power implies the amount of discretion that a monopolist possesses to fix up the prices of his products and the degree of control over his output decisions.

According to J.S. Bains, the degree of monopoly power can be measured by the monopoly firm's super-normal profit.

Q9. Answer: (a)

Rent refers to that part of the payment by a tenant which is made only for the use of land, i.e., free gift of nature. The payment made by an agriculturist tenant to the landlord is not necessarily equaled to the economic rent.

A part of this payment may consist of interest on capital invested in the land by the landlord in the form of buildings, fences, tube wells, etc. The term ’economic rent’ refers to that part of the payment which is made for the use of land only, and the total payment made by a tenant to the landlord is called ‘contract rent’.

Economic rent is also called surplus because it emerges without any effort on the part of a landlord.

Q10. Answer: (d)

The Ramsey rule states that commodities with low elasticities of demand should be taxed at higher rates than commodities with high elasticities of demand.

However, low-income people might spend a higher proportion of their incomes on commodities with low elasticities of demand (food, clothing, and so on) than might high-income people.

Consequently, following the Ramsey rule may result in a regressive taxation scheme society may view as inequitable.

Q11. Answer: (a)

Purchasing power parity (PPP) is an economic theory and a technique used to determine the relative value of currencies, estimating the amount of adjustment needed on the exchange rate between countries in order for the exchange to be equivalent to (or on par with) each currency's purchasing power. It asks how much money would be needed to purchase the same goods and services in two countries, and uses that to calculate an implicit foreign exchange rate. Using that PPP rate, an amount of money thus has the same purchasing power in different countries.

Q12. Answer: (c)

In economics, a monopsony (mono: single) is a market form in which only one buyer faces many sellers. It is an example of imperfect competition, similar to a monopoly, in which only one seller faces many buyers.

As the only purchaser of a good or service, the monopsonist may dictate terms to its suppliers in the same manner that a monopolist controls the market for its buyers.

It is also known as Single buyer Right. A single-payer universal health care system, in which the government is the only "buyer" of health care services, is an example of a monopsony. Another possible monopsony could develop in the exchange between the food industry and farmers.

Q13. Answer: (d)

The internal rate of return on an investment or project is the "annualized effective compounded return rate" or discount rate that makes the net present value of all cash flows (both positive and negative) from a particular investment equal to zero.

In more specific terms, the IRR of an investment is the interest rate at which the net present value of costs (negative cash flows) of the investment equals the net present value of the benefits (positive cash flows) of the investment.

Q14. Answer: (d)

Making the assumption that the market demand curve remains unchanged, higher market supply will reduce the equilibrium market price until the price = long-run average cost.

At this point, each firm is making normal profits only. There is no further incentive for the movement of firms in and out of the industry and a long-run equilibrium has been established.

Q15. Answer: (c)

The marginal product of an input (factor of production) is the extra output that can be produced by using one more unit of the input (for instance, the difference in output when a firm's labour usage is increased from five to six units), assuming that the quantities of no other inputs to a production change.

Marginal product, which occasionally goes by the alias marginal physical product (MPP), is one of two measures derived from the total product. The other is an average product. Marginal product is directly proportional to total product.