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Created By Careericons Team

Q1. Which activity is **not** included in production ?

a) Services done by a house-wife in her own house

b) Production of wheat by a farmer

c) Production of medicines by a company

d) Services given by a nurse in hospital

Q2. Operating Surplus arises in the

a) Enterprise Sector

b) Government Sector

c) Production for self-consumption

d) Subsistence farming

Q3. The situation in which total revenue is equal to total cost, is known as

a) perfect competition

b) monopolistic competition

c) equilibrium level of output

d) break-even point

Q4. A supply function expresses the relationship between

a) price and consumption

b) price and output

c) price and selling cost

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d) price and demand

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Q5. When there is a change in demand leading to a shift of the Demand Curve to the right, at the same price as before, the quantity demanded will

a) contract

b) decrease

c) increase

d) remain the same

Q6. Buyers and Sellers will have perfect knowledge of market conditions under

a) Oligopoly

b) Duopoly

c) Perfect competition

d) Monopolistic competition

Q7. “Interest is a reward for parting with liquidity” is according to

a) Ohlin

b) Keynes

c) Marshall

d) Haberler

Q8. Production Function relates to:

a) wage level to profits

b) costs to outputs

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c) costs to inputs

d) inputs to outputs

Q9. A demand curve, which is parallel to the horizontal axis, showing quantity, has the price elasticity equal to

a) Infinity

b) Zero

c) One

d) Less than one

Q10. Which of the following most closely approximates our definition of oligopoly ?

a) Wheat farmers

b) The cigarette industry.

c) The barber shops

d) The gasoline stations

Q11. The law of diminishing returns applies to

a) Service sector

b) All sectors

c) Industrial sector

d) Agricultural sector

Q12. Bilateral monopoly refers to the market situation of

a) one seller and one buyer

b) two sellers, two buyers

c) one seller and two buyers

d) two sellers and one buyer

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Q13. Consumer's sovereignty means:

a) consumer goods are free from government control.

b) consumers are free to spend their income as they like.

c) consumers have the power to manage the economy.

d) consumer's expenditures influence the alloca tion of resources.

Q14. A situation of large number of firms producing similar goods is termed as :

a) Oligopoly

b) Perfect competition

c) Monopolistic competition

d) Pure competition

Q15. The Law of Demand expresses

a) None of the above

b) effect of change in price of a commodity on its demand

c) effect of change in demand of a commodity on its price

d) effect of change in demand of a commodity over the supply of its substitute

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Answers to the above questions :

Q1. Answer: (a)

Services done by a house-wife in her own house are not included in production.

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Q2. Answer: (b)

Operating surplus is an accounting concept used in national accounts statistics (such as United Nations System of National Accounts (UNSNA) and in corporate and government accounts. It is the balancing item of the Generation of Income Account in the UNSNA.

It may be used in macroeconomics as a proxy for total pre-tax profit income, although entrepreneurial income may provide a better measure of business profits.

In UNSNA, “implicit (imputed) rents” on land owned by the enterprise and the “implicit (imputed) interest” chargeable on the use of the enterprise’s own funds are excluded from operating surplus.

Q3. 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".

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

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Q4. Answer: (b)

The supply function expresses the relationship between the total quantity supplied and the price received by all suppliers per unit of time, holding other factors constant. It illustrates the relationship between price and supply.

image

The diagram (Price is shown on the Y-axis and Quantity per day on the X-axis) shows that suppliers will produce quantity Q1 units of a good if the price they receive is P1.

As the price keeps decreasing, the quantity produced also keeps on decreasing. So though the supply function has to do with supply and price, it can be perceived to express the similar functional relationship between price and output (in terms of quantity that will be produced).

Q5. Answer: (c)

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. The shift of a demand curve takes place when there is a change in any non-price determinant of demand, resulting in a new demand curve.

There is movement along a demand curve when a change in price causes the quantity demanded to change. When there is a change in an influencing factor other than price, there may be a shift in the demand curve to the left or to the right, as the quantity demanded increases or decreases at a given price.

For example, if there is a positive news report about the product, the quantity demanded at each price may increase, as demonstrated by the demand curve shifting to the right.

Q6. Answer: (b)

Complete market information is one of the main features of Perfect Competition. This condition implies close contact between buyers and sellers.

Both of them possess complete knowledge about the prices at which goods are being bought and sold and the prices at which others are prepared to buy or sell.

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Q7. Answer: (b)

In macroeconomic theory, liquidity preference refers to the demand for money, considered as liquidity. The concept was first developed by John Maynard Keynes in his book The General Theory of Employment, Interest and Money (1936) to explain the determination of the interest rate by the supply and demand for money. The demand for money as an asset was theorized to depend on the interest foregone by not holding bonds.

Interest rates, he argues, cannot be a reward for saving as such because, if a person hoards his savings in cash, keeping it under his mattress say, he will receive no interest, although he has nevertheless refrained from consuming all his current income. Instead of a reward for saving, interest in the Keynesian analysis is a reward for parting with liquidity.

Q8. Answer: (d)

In microeconomics and macroeconomics, a production function is a function that specifies the output of a firm, an industry, or an entire economy for all combinations of inputs.

The primary purpose of the production function is to address allocative efficiency in the use of factor inputs in production and the resulting distribution of income to those factors.

Q9. Answer: (a)

Price elasticity of demand measures consumer response to price changes. If consumers are relatively sensitive to price changes, demand is elastic; if they are relatively unresponsive to price changes, demand is inelastic.

Perfectly inelastic demand is graphed as a line parallel to the vertical axis; perfectly elastic demand is shown by a line above and parallels to the horizontal axis.

When the demand for a commodity is perfectly elastic, the quantity of demand keeps changing with the price. So the coefficient of price elasticity of demand is infinity.

Q10. Answer: (b)

An oligopoly is a market form in which a market or industry is dominated by a small number of sellers (oligopolists). Because there are few sellers, each oligopolist is likely to be aware of the actions of the others. The decisions of one firm influence, and are influenced by, the decisions of other firms.

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Businesses that are part of an oligopoly share some common characteristics: they are less concentrated than in a monopoly but more concentrated than in a competitive system.

This creates a high amount of interdependence which encourages competition in non-pricerelated areas, like advertising and packaging. Tobacco companies, soft drink companies, and airlines are examples of an imperfect oligopoly.

Q11. Answer: (b)

The classical economists were of the opinion that – the law of diminishing returns applies only to agriculture and to some extractive industries, such as mining, fisheries urban land, etc. However, it is applicable to other sectors such as manufacturing as well.

Q12. Answer: (a)

In a bilateral monopoly, there is both a monopoly (a single seller) and monopsony (a single buyer) in the same market. The one supplier tends to act as monopoly power and looks to charge high prices to the one buyer. The lone buyer looks towards paying a price that is as low as possible.

Since both parties have conflicting goals, the two sides negotiate based on the relative bargaining power of each, with a final price settling in between the two sides' points of maximum profit.

Q13. Answer: (b)

Consumer sovereignty means that buyers ultimately determine which goods and services remain in production.

In unrestricted markets, those with income or wealth are able to use their purchasing power to motivate producers. So ultimately it means how the consumers want to spend their incomes.

Q14. Answer: (b)

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. The products of all firms in the industry are homogeneous and identical.

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Q15. Answer: (b)

The law of demand states the inverse relation that comes to exist of between price in one hand and quantity demanded on the other. The law of demand portrays that demand is the function of price.

Price is the key determinant of demand. Fluctuations in price lead to changes in the quantity demanded. In other words, the higher the price of a product, the lower the quantity demanded.

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