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Q1. If the price of an inferior good falls, its demand

a) can be any of the above

b) rises

c) falls

d) remains constant

Q2. The expenses on advertising is called

a) Selling cost

b) Implicit cost

c) Surplus cost

d) Fixed cost

Q3. If the change in demand for a commodity is at a faster rate than change in the price of the commodity, the demand is

a) inelastic

b) perfectly inelastic

c) elastic

d) perlectly elastic

Q4. Which one of the following pairs of goods is an example for Joint Supply ?

a) Wool and Mutton

b) Coffee and Tea

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c) Ink and Pen

d) Tooth brush and Paste

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Q5. The term “market” in Economics means

a) Shops and super bazars

b) A central place

c) Presence of competition

d) Place where goods are stored

Q6. Cost of production of the producer is given by:

a) sum of wages, interest, rent and normal profit.

b) sum of wages paid to labourers.

c) sum of wages and interest paid on capital.

d) sum of wages, interest, rent and supernormal profit.

Q7. Perfectly inelastic demand is equal to :

a) Greater than one

b) One

c) Infinite

d) Zero

Q8. Given the money wages, if the price level in an economy increases, then the real wages will

a) become flexible

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b) increase

c) decrease

d) remain constant

Q9. Prime cost is equal to

a) Fixed cost only

b) Variable cost plus administrative cost

c) Variable cost plus fixed costs

d) Variable cost only

Q10. As output increases, average fixed cost

a) first increases, then falls

b) increases

c) falls

d) remains constant

Q11. In Economics the ‘Utility’ and ‘Usefulness’ have

a) None of the above

b) same meaning

c) different meaning

d) opposite meaning

Q12. The four factors of production are

a) labour, climate, land, tools,

b) land, labour, capital, organisation,

c) land, electricity, water, labour

d) labour, capital, land, rainfall,

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Q13. Why is rent earned by land even in the long run ?

a) Its supply is inelastic in the long run

b) Land has original and indestructible power

c) Land is a man made factor

d) Its supply is inelastic in the short run

Q14. Micro-economics is also called :

a) Expenditure theory

b) Income theory

c) Investment theory

d) Price theory

Q15. Extension or contraction of quantity demanded of a commodity is a result of a change in the

a) climate of the region

b) unit price of the commodity

c) income of the consumer

d) tastes of the consumer

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Answers to the above questions :

Q1. Answer: (b)

Some goods are known as inferior goods. With inferior goods, there is an inverse relationship between real income and the demand for the good in question.

If real incomes rise, the demand for an inferior good will fall. If real incomes fall (in a recession, for instance), the demand for an inferior good will rise.

Example: Bus travel. As people get richer, they are more likely to buy themselves a car, or use a taxi, rather than rely on the more inferior bus, so the demand for bus travel falls as real incomes rise.

Q2. Answer: (a)

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

Q3. Answer: (d)

If quantity demanded changes by a very large percentage as a result of a tiny percentage change in price, then the demand is said to be perfectly elastic.

It reflects the fact that the quantity demanded is extremely responsive to even a small change in price.

Technically, the elasticity in this extreme case would be undefined but it approaches negative infinity as demand becomes more elastic.

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Q4. Answer: (a)

The production of two or more goods simultaneously from the same imputs is called Joint Supply. Wool and Mutton are an example for joint supply.

Q5. Answer: (b)

The most important defining characteristic of a market in economics is that it allows buyers and sellers to exchange any type of goods, services and information.

According to Walter Christaller's 'Central Place Theory,' a central place is a market centre for the exchange of goods and services by people attracted from the surrounding area.

The central place is so-called because it is centrally located to maximize accessibility from the surrounding region.

Q6. Answer: (a)

The following elements are included in the cost of production:

1. Purchase of raw machinery,
2. Installation of plant and machinery,
3. Wages of labour,
4. Rent of Building,
5. Interest on capital,
6. Wear and tear of the machinery and building,
7. Advertisement expenses,
8. Insurance charges,
9. Payment of taxes,

10. In the cost of production, the imputed value of the factor of production owned by the firm itself is also added,
11. The normal profit of the entrepreneur is also included In the cost of production.

Q7. Answer: (d)

Price Elasticity of Demand is a measure of the relationship between a change in the quantity demanded of a particular good and a change in its price.

It measures the responsiveness of demand to changes in price for a particular good. If the price elasticity of demand is equal to 0, demand is perfectly inelastic (i.e., demand does not change when price changes).

Q8. Answer: (c)

If workers receive a higher nominal wage and the price level does not change, then the real purchasing power of their wages is higher and they are inclined to increase the quantity of labour supplied.

If the workers receive the same nominal wage, but the price level increases, then the real purchasing power of their wages is lower and they are inclined to decrease the quantity of labour supplied.

Any combination of changes in nominal resource prices or the price level that changes the purchasing power of resource prices entices resource owners to change quantities supplied.

Q9. Answer: (b)

Prime Cost refers to a business's expenses for the materials and labour it uses in production. Prime cost is a way of measuring the total cost of the production inputs needed to create a given output.

By analyzing its prime costs, a company can determine how much it must charge for its finished product in order to make a profit.

Variable costs are expenses that change in proportion to the activity of a business. Variable cost is the sum of marginal costs over all units produced. It can also be considered normal costs. Fixed costs and variable costs make up the two components of the total cost.

Prime Cost = Direct Materials + Direct Labour+ Direct expenses.

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This comes to Variable cost + Administrative cost. The administrative cost is the cost associated with the general management of the organization in accounting.

Q10. Answer: (c)

Average fixed cost refers to fixed costs of production (FC) divided by the quantity (Q) of output produced. It is a per-unit-of-output measure of fixed costs.

As the total number of goods produced increases, the average fixed cost decreases because the same amount of fixed costs is being spread over a larger number of units of output.

Q11. Answer: (c)

In economics, utility is a representation of preferences over some set of goods and services. Preferences have a utility representation so long as they are transitive, complete, and continuous.

Usefulness refers to which extent something is useful and the utility is the quality of that piece in practical use. Both are inter-related terms.

The utility is a factor of usefulness term. Usefulness means having the practical utility of a piece that is beneficial, pertinent and functional.

Q12. Answer: (b)

Factors of Production is an economic term to describe the inputs that are used in the production of goods or services in the attempt to make an economic profit.

Resources required for the generation of goods or services, generally classified into four major groups:

1. Land (including all natural resources),
2. Labor (including all human resources),
3. Capital (including all man-made resources), and
4. Enterprise (which brings all the previous resources together for production).

Q13. Answer: (a)

Rent accrues to land which is fixed in supply even in the longer run. It is permanent. In contrast to it is a quasi rent, introduced by Marshall, which is inelastic in the short run, but elastic in the longer run.

Q14. Answer: (d)

Microeconomics is the branch of economics concerned with isolated parts of the economy, for example, individual people, firms or industries. It involves such topics as the theory of prices and of the firm.

Q15. Answer: (b)

Demand for a commodity refers to the quantity of the commodity that people are willing to purchase at a specific price per unit of time, other factors (such as the price of related goods, income, tastes and preferences, advertising, etc) being constant.

Demand includes the desire to buy the commodity accompanied by the willingness to buy it and sufficient purchasing power to purchase it. So changes in the unit price of a commodity lead to either extension or contraction in demand.

The law of demand states that there is an inverse relationship between the quantity demanded of a commodity and its price, other factors being constant. In other words, the higher the price, the lower the demand and vice versa, other things remaining constant.

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