ECO-401
2009 & 2010
MID TERM PAPERS
17 Papers Solved

WaqasAhmedTanoli@gmail.com

PAPER # 1

Question No: 1 (Marks: 1) - Please choose one

Microeconomics is the branch of economics that deals with which of the following topics?

► The behavior of individual consumers.
► Unemployment and interest rates.
► The behavior of individual firms and investors.
► **The behavior of individual consumers and behavior of individual firms and investors**.

Microeconomics is the branch of economics that deals with which of the following topics
The behavior of individual consumers
The behavior of individual firms and investors

Question No: 2 (Marks: 1) - Please choose one

If pen and ink are complements, then an increase in the price of pen will cause:

► An increase in the price of ink.
► **Less ink to be demanded at each price**.
► A decrease in the demand for pen.
► A rightward shift in the demand curve for ink.

Question No: 3 (Marks: 1) - Please choose one

When college students leave town for the summer, the demand for meals at the local restaurants decline. This results in:

- ► A decrease in equilibrium price and an increase in quantity of meal.
- ► An increase in equilibrium price and quantity of meal.
- ► **A decrease in equilibrium price and quantity of meal**.
- ► An increase in equilibrium price and a decrease in quantity of meal.

When college students leave town for the summer, the demand for meals at the local restaurants declines. This results in a decrease in equilibrium price and quantity. The demand curve shifts to the left because the town population declines, resulting in lower prices and quantity.

Question No: 4 (Marks: 1) - Please choose one

An increase in supply is shown by:

- ► Shifting the supply curve to the left.
- ► **Shifting the supply curve to the right.**
- ► Upward movement along the supply curve.
- ► Downward movement along the supply curve

Question No: 5 (Marks: 1) - Please choose one

Assume that the government sets a ceiling on the interest rate that banks charge on loans. If the ceiling is set below the market equilibrium interest rate, the result will be:

- ► A surplus of credit.
- ► **A shortage of credit.**
- ► Greater profits for banks issuing credit.
- ► A perfectly inelastic supply of credit in the market place.

If a price ceiling is placed below the market-clearing price, at the ceiling price, buyers want to buy more than sellers will make available .let buyers would like to buy amount 50Q at price 10 but sellers will sell only 30. Shortage 50-30 =20
Similarly
Customer demand more for loan than bank will make available. Result will be the shortage of credit.

Question No: 6 (Marks: 1) - Please choose one

If a 12% price reduction causes quantity demanded to rise by 12% then:

- ► Demand is inelastic.
- ► Demand is elastic.
- ► Demand is perfectly elastic.
- ► **Total revenue will remain constant.**

PЄd = Percentage change in Quantity Demanded/Percentage change in Price

PЄd =12/12 = 1

Increase in Price

- If the demand for the good is unit-elastic (the price elasticity of demand is 1), an increase in price does not change total revenue. In this case the two effects off-set each other
- If demand for a good is *elastic* (the price elasticity of demand is greater than 1), an increase in price reduces total revenue. In this case, the price effect is weaker than the quantity effect.
- If demand for a good is *inelastic* (the price elasticity of demand is less than 1), an increase in price increases total revenue. In this case, the price effect is stronger than the quantity effect.

Decrease in Price

- When demand is unit-elastic, the effects exactly balance; so a decrease in the price has no effect on total revenue.
- When demand is *elastic*, the quantity effect dominates the price effect; so a decrease in the price increases total revenue
- When demand is *inelastic*, the price effect dominates the quantity effect; so a decrease in the price reduces total revenue

Question No: 7 (Marks: 1) - Please choose one

Which of the following will be TRUE if demand is inelastic?

► The coefficient of elasticity is greater than one.
► The percentage change in quantity demanded is same as the percentage change in the price.
► **An increase in price will increase total revenue.**
► None of the given options.

If demand for a good is inelastic (the price elasticity of demand is less than 1), an increase in price increases total revenue. In this case, the price effect is stronger than the quantity effect.

Question No: 8 (Marks: 1) - Please choose one

Which of the following is the term that economists use to describe how consumers rank different goods and services?

► Satisfaction index.
► Goodness.
► **Utility.**
► None of the given options.

Utility refers to consumer rankings of different goods and services

Question No: 9 (Marks: 1) - Please choose one

Marginal utility is best described as:

► The total satisfaction gained from the total consumption of the good.
► **The change in satisfaction from consuming one additional unit of the good.**
► The additional satisfaction gained by consumption of the last good.
► The per unit satisfaction of the good consumed.

Marginal utility (MU) is the additional utility derived from the consumption of one or more unit of the good.
MU: The additional utility obtained from the consumption or use of an additional unit of a good
MU: Is the change in total utility form one additional unit of a good or service.
Marginal utility is the extra satisfaction generated from consuming one more unit of a good.

Question No: 10 (Marks: 1) - Please choose one

According to the utility model of consumer demand, the law of diminishing marginal utility indicates that the demand curve is:

► Vertical.
► U-shaped.
► Upward-sloping.
► **Downward-sloping.**

The law of diminishing marginal utility is a explanation of the downward sloping demand curve
The marginal utility curve slopes downwards in a MU-Q graph showing the principle of diminishing marginal utility. The MU curve is exactly equal to the demand curve

Question No: 11 (Marks: 1) - Please choose one

Law of diminishing marginal utility indicates that the slope of the marginal utility curve is:

► Horizontal.
► Vertical.
► **Negative.**

► Positive.

The negative slope of the marginal utility curve reflects the law of diminishing marginal utility

Question No: 12 (Marks: 1) - Please choose one

A person with a diminishing marginal utility of income will be:

► **Risk averse.**
► Risk neutral.
► Risk loving.
► None of the given options.

Risk Aversion: This exists when a person has decreasing/diminishing marginal utility of income
Risk Neutrality: This exists when a person has constant marginal utility of income
Risk Loving: This exists when a person has increasing marginal utility of income.

Question No: 13 (Marks: 1) - Please choose one

Aslam spends all of his money on racquetballs and food. What would happen to Aslam's budget line if his income increased by 10 percent holding prices constant?

► It would shift inward.
► It would rotate about the axis for food.
► It would rotate about the axis for racquetballs.
► **It would shift outward.**

If money income rises, the budget line will shift outwards/upward (parallel to the initial budget line).
Decrease in income will shift the budget line downward /left ward.
These shift are parallel and change in income do not affect the budget line's slope.

http://quizlet.com/4762932/econ-test-2-flash-cards/

Question No: 14 (Marks: 1) - Please choose one

Suppose you are a workaholic (like work a lot) and your friend is a leisure lover. Compared to your friend your indifference curve will be:

► **Flatter.**
► Steeper.
► Identical.
► None of the given options.

Leisure Lovers Steep indifference curve
Workaholic's flat indifference curve

Question No: 15 (Marks: 1) - Please choose one

Which of the following statements about indifference curves is NOT correct?

► Indifference curves are generally negatively sloped.
► Without utility being quantifiable we can say that one indifference curve is higher than (or preferred to) another but we cannot say by how much.
► Two indifference curves cannot intersect unless they are identical throughout.
► **Two different indifference curves can intersect but only once.**

Indifference curve never intersect each other because intersecting indifference curves violate the theoretical assumption that consumers prefer greater quantities of goods.

Indifference curves have a negative slope and negative slope of indifference curve implies that the two goods are substitutes for one another.
Indifference curves are convex to origin – indifference curve for normal goods are not only negatively sloping but are also convex to the origin , the convexity of indifference curves implies that , two goods are imperfect substitutes for one another and the marginal rate of substitution between two good decreases as a consumer movers along an indifference curve.
Indifference curves do no intersect nor are tangent to one another – if two indifference curves intersect it would mean violation of consistency or transitivity assumption in consumer preference
Higher indifference curves represent a higher level of satisfaction than the lower ones.

Question No: 16 (Marks: 1) - Please choose one

Which of the following is a correct statement about the substitution effect?

► **The substitution effect is always negative.**
► The substitution effect is positive for an inferior good.
► The substitution effect measures how demand changes when income changes.
► The substitution effect is positive for a Giffen good.

SUBSTITUTION EFFECT:

It is one of two reasons for law of demand and the negative slope of the market demand curve. The substitution effect occurs because a change in the price of a good makes it relatively higher or lower than the prices of other goods that might act as substitutes. A higher price means that a good is more expensive relative to other goods, while a lower price means it's less expensive. Or more simply we can say that if price of any good increases, people reduce its consumption and substitute any other good whose price is not increased. **Substitution effect is always negative.**

Question No: 17 (Marks: 1) - Please choose one

A normal good can be defined as one which consumers purchase more of as:

- ► Prices fall.
- ► Prices rise.
- ► Incomes fall.
- ► **Incomes increase.**

Normal goods are goods whose quantity demanded goes up as consumer income increases.

Question No: 18 (Marks: 1) - Please choose one

The largest amount of output that a firm can produce with a given combination of inputs is determined by the:

- ► Marginal product of labor.
- ► Gains from specialization.
- ► Cost function.
- ► **Production function.**

PRODUCTION FUNCTION

A mathematical relation between the production of a good or service and the inputs used.
A production function is simply the relationship between inputs & outputs
A production function shows how much output can be produced with a given amount of input

Question No: 19 (Marks: 1) - Please choose one

Which of the following is most likely to be a fixed input in the short run for a Garage owner?

- ► The grease used to lubricate cars.
- ► The part-time labor employed to repair cars.
- ► The electricity used to heat and light the garage.
- ► **The garage used to repair cars.**

Question No: 20 (Marks: 1) - Please choose one

The total cost (TC) of producing computer software diskettes (Q) is given as: TC = 200 + 5Q. What is the average total cost?

- ► 5Q.
- ► 5.
- ► **5 + (200/Q).**
- ► None of the given options.

ATC or AC =AVC + AFC
ATC = 5Q + 200
ATC=5+200/Q

Question No: 21 (Marks: 1) - Please choose one

A firm maximizes profit by operating at the level of output where:

- ► Average revenue equals average cost.
- ► Average revenue equals average variable cost.
- ► Total costs are minimized.
- ► **Marginal revenue equals marginal cost.**

A firm maximizes profit by operating where marginal revenue equal marginal costs

Question No: 22 (Marks: 1) - Please choose one

Revenue is equal to:

- ► **Price times quantity.**
- ► Price times quantity minus total cost.
- ► Price times quantity minus average cost.
- ► Price times quantity minus marginal cost.

Total revenue (TR) = Price x Quantity (P x Q)

Question No: 23 (Marks: 1) - Please choose one

A price taker is:

- ► A firm that accepts different prices from different customers.
- ► A monopolistically competitive firm.
- ► **A firm that cannot influence the market price.**
- ► An oligopolistic firm.

A firm that does not have the ability to influence market price is a price-taker

Question No: 24 (Marks: 1) - Please choose one

Which of the following is an example of a natural monopoly?

- ► The trademark protecting Gatoraide.
- ► The talents of Tom Hanks.
- ► **The local water company.**
- ► The patent on an Intel processor.

Question No: 25 (Marks: 1) - Please choose one

A perfectly competitive firm maximizes profit by finding the level of production at which:

- ► **Price = Marginal Cost.**

- ► Price = Average Total Cost.
- ► Average Total Cost = Marginal Cost.
- ► Price < Marginal Cost.

A perfectly competitive firm maximizes profit by producing the quantity of output that equates price and marginal cost
Perfectly competitive firm faces a horizontal demand curve it can sell as much as it wishes at the market price, the firm chooses its profit maximizing output level by setting marginal cost equal to the market price.

Profit maximization in the short run

1) For a firm in a perfectly competitive market, price is equal to both average revenue and marginal revenue. **P=MR=AR** (only true in perfectly competitive market)

2) Condition for profit maximization is **MR=MC** (true in any type of market)

3) Combine these two results together: for a profit maximizing firm in a perfectly competitive market, it will choose the output where price is equal to marginal cost. **P=MC**

Question No: 26 (Marks: 1) - Please choose one

If at the profit-maximizing quantity, profits are positive,then:

- ► Price < Average Total Cost.
- ► **Price > Average Total Cost.**
- ► Price < Average Variable Cost.
- ► Price = Marginal Cost.

Profit is maximized when MC = MR
If P > ATC the firm is making profits.

Question No: 27 (Marks: 1) - Please choose one

If a firm experiences economies of scale, then the:

- ► Long-run average total cost curve is equal to the economies of scope.
- ► **Long-run average total cost curve is positively sloped.**
- ► Long-run average total cost curve is horizontal.
- ► Long-run average total cost curve is negatively sloped.

THE LONG-RUN AVERAGE COST CURVE (LRAC)
The long-run average cost (LRAC) curve for a typical firm is U shaped.

i. In the case of economies of scale, long run total cost (LRTC) is an upward sloping curve but with falling slope. **Note that the slope can never become zero or negative, though.**
ii. In diseconomies of scale, LRTC is an upward sloping curve with an increasing slope.
iii. In constant costs, LRTC is a positively sloped straight line.

Question No: 28 (Marks: 1) - Please choose one
The monopolist has no supply curve because:

► **The quantity supplied at any particular price depends on the monopolist's demand curve.**
► The monopolist's marginal cost curve changes considerably over time.
► The relationship between price and quantity depends on both marginal cost and average cost.
► Although there is only a single seller at the current price, it is impossible to know how many sellers would be in the market at higher prices.

http://www.google.com.pk/url?sa=t&rct=j&q=&esrc=s&source=web&cd=4&cad=rja&ved=0CEMQFjAD&url=http%3A%2F%2Ffbemoodle.emu.edu.tr%2Fmod%2Fresource%2Fview.php%3Fid%3D10616&ei=UseLUc7fIYPFPYfugOgH&usg=AFQjCNHBKuMXd-eD5VP6B-lNKaHrLZ9wMw&sig2=sxeDXrKovRjBe6tvSXoTJw&bvm=bv.46340616,d.ZWU

Question No: 29 (Marks: 1) - Please choose one
A firm never operates:

► At the minimum of its average total cost curve.
► At the minimum of its average variable cost curve.
► On the downward-sloping portion of its average total cost curve.
► **On the downward-sloping portion of its average variable cost curve.**

http://www.google.com.pk/url?sa=t&rct=j&q=&esrc=s&source=web&cd=1&cad=rja&ved=0CCwQFjAA&url=http%3A%2F%2Fhomepage.ntu.edu.tw%2F~chensyu%2Fmicro2008%2Fhw8.pdf&ei=isaLUcy0CsjcPe-ngbgH&usg=AFQjCNEXBkbfHcn2jQbBV9L6zKvW-1KuwQ&sig2=T8pA0crUV8DVmGOwdE9RSA&bvm=bv.46340616,d.ZWU

http://www.google.com.pk/url?sa=t&rct=j&q=&esrc=s&source=web&cd=7&cad=rja&ved=0CE8QFjAG&url=http%3A%2F%2Ffbemoodle.emu.edu.tr%2Fmod%2Fresource%2Fview.php%3Fid%3D10516&ei=isaLUcy0CsjcPe-ngbgH&usg=AFQjCNGIopftv4-_EXT9De4XoCkMWSt3Ew&sig2=qeeN6PtuEKy_V4MpskooSQ&bvm=bv.46340616,d.ZWU

Question No: 30 (Marks: 1) - Please choose one
As compared to existing firms, a new firm entering in monopolist market has:

► **High costs.**

► Low costs.
► Equal costs.
► None of the given options.

LIMIT PRICING

If a firm is already established in the market, it got gradually the business tricks of how to run the business. **A new entrant firm in the market has to face high costs. A monopolist firm knows about this fact very well that his costs are lower than the new entrant firm so he can take advantage of this situation.**

Question No: 31 (Marks: 1) - Please choose one

Following are the disadvantages of monopoly EXCEPT:

► Monopolists earn higher profits.
► **Monopolists produce high quality goods at higher prices.**
► Most of the "surplus" (producer + consumer surplus) accrues to monopolists.
► Monopolists do not pay sufficient attention to increasing efficiency.

Disadvantages of monopolies:

i. Monopolists produce lower quantities at higher prices compared to perfectly competitive firms. This is because monopolists do not produce where P=MC (the point of allocative efficiency) nor at P= AC minimum (the point of cost efficiency).
ii. Monopolists earn supernormal profits compared to perfectly competitive firms
iii. Most of the "surplus" (producer + consumer surplus) accrues to monopolists.
iv. Monopolists do not pay sufficient attention to increasing efficiency in their production processes.

Question No: 32 (Marks: 1) - Please choose one

When a firm charges each customer the maximum price that the customer is willing to pay, the firm:

► Engages in a discrete pricing strategy.
► Charges the average reservation price.
► Engages in second-degree price discrimination.
► **Engages in first-degree price discrimination**

.

1ST DEGREE PD

In this type, everyone charged according to what he can pay. Seller can charge the highest price of any product from customers. First-degree price discrimination occurs when identical goods are sold at different prices to each individual consumer. Obviously, the seller is not always going to be able to identify who is willing to pay more for certain items, but when he or she can, his profit increases

Question No: 33 (Marks: 1) - Please choose one

Which of the following is NOT regarded as a source of inefficiency in monopolistic competition?

- ► The fact that price exceeds marginal cost.
- ► Excess capacity.
- ► **Product diversity.**
- ► The fact that long-run average cost is not minimized.

The price charged by a monopolistically competitive firm is higher than the marginal cost of production, which violates the efficiency condition that price equals marginal cost. A monopolistically competitive firm is inefficient because it has market control and faces a negatively-sloped demand curve.

Price exceeds marginal cost. This means that the value to consumers of additional units of output exceeds the marginal cost of producing these units.
Second, under monopolistic competition, there is excess capacity. Output is lower than the quantity that would minimize average cost. On the other hand, this smaller output provides the consumer with greater product diversity.

Question No: 34 (Marks: 1) - Please choose one

What happens to an incumbent firm's demand curve in monopolistic competition as new firms enter?

- ► It shifts rightward.
- ► **It shifts leftward.**
- ► It becomes horizontal.
- ► New entrants will not affect an incumbent firm's demand curve.

A firm making profits in the short run will break even in the long run because demand will decrease and average total cost will increase. This means in the long run, a monopolistically competitive firm will make zero economic profit.

As new firms enter the market, demand for the existing firm's products becomes more elastic and the demand curve shifts to the left, driving down price. Eventually, all super-normal profits are eroded away.

Question No: 35 (Marks: 1) - Please choose one

Which of the following is true for both perfectly competitive and monopolistically competitive firms in the long run?

► Price = Marginal Cost.
► Marginal Cost = Average Total Cost.
► Price > Marginal Revenue.
► **Profit equals zero.**

The long-run characteristics of a monopolistically competitive market are almost the same as in perfect competition, with the exception of monopolistic competition having heterogeneous products, and that monopolistic competition involves a great deal of non-price competition

LONG-RUN COMPETITIVE EQUILIBRIUM

1) MC = MR
2) P = LAC
• No incentive to leave or enter
• Profit = 0
3) Equilibrium Market Price

Question No: 36 (Marks: 1) - Please choose one

Which one of the following is TRUE about pure monopoly?

► **The monopoly's demand curve and the market demand curve are one and the same.**
► The market is dominated by just two firms.
► The monopolist will always charge the highest possible price.
► The monopolist will always charge a high price because it wants to maximize profits.

A monopolist is a single seller. He himself is a firm as well as an industry. Hence market demand curve is in itself the demand curve of the monopolist. As a result of this the demand curve of a monopolist is downward sloping.

Question No: 37 (Marks: 1) - Please choose one

If income elasticity is negative, the good is:

► Normal good.
► A substitute good.
► A complementary good.
► **Inferior good.**

If the sign of income elasticity of demand is positive, the good is normal and if sign is negative, the good is inferior.

Question No: 38 (Marks: 1) - Please choose one

If indifference curves cross, then:

► The assumption of a diminishing marginal rate of substitution is violated.
► **The assumption of transitivity is violated.**
► The assumption of completeness is violated.
► Consumers minimize their satisfaction.

If indifference curves cross, then assumption of transitivity is violated

Question No: 39 (Marks: 1) - Please choose one

If the demand curve for a good is downward sloping, then the good:

► Must be inferior.
► Must be giffen.
► Can be normal or inferior.
► **Must be normal.**

Demand curve for a normal good is downward sloping due to the combination of income and substitution effect.
A good with an upward-sloping demand curve is called a Giffen good.
A inferior good *is* a good that is in less demand even though the income increases. When this situation occurs the demand curve *is positive* sloping

Question No: 40 (Marks: 1) - Please choose one

The marginal rate of substitution between food and shelter for a given point on an indifference curve:

► Is equal to the absolute value of the slope of the indifference curve at that point.
► Is equal to the rate at which the consumer is willing to exchange the two goods in the market place.
► Reflects the relative values the consumer attaches to the two good.
► **Is described, in part, by each of the given statements.**

http://www.google.com.pk/url?sa=t&rct=j&q=&esrc=s&source=web&cd=1&cad=rja&ved=0CC8QFjAA&url=http%3A%2F%2Fhighered.mcgraw-hill.com%2Fsites%2Fdl%2Ffree%2F0073375942%2F695206%2FCH3new09.doc&ei=o8CLUdv6IszJPeqPgcgB&usg=AFQjCNHKPzmuEDxl5R90hYCWO4PbKEOZ1w&sig2=bT1nCcWkwH7lA_zmfBmWdg&bvm=bv.46340616,d.ZWU

PAPER # 2

Question No: 1 (Marks: 1) - Please choose one

An individual whose attitude towards risk is known as:

► **Risk averse.**
► **Risk loving.**
► Risk neutral.
► None of the given options.

Question No: 2 (Marks: 1) - Please choose one

The concept of a risk premium applies to a person that is:

► All of the given options.
► **Risk averse.**
► Risk neutral.
► Risk loving.

Risk premium is the amount of income that a risk adverse person is willing to pay to avoid the risk. For risk aversion, the risk premium is the amount a person would pay for insurance
The risk premium is the amount of money that a risk-averse person would pay to avoid taking a risk

Question No: 3 (Marks: 1) - Please choose one

A normative economic statement:

► Is a statement of fact.
► Is a hypothesis used to test economic theory.
► **Is a statement of what ought to be, not what is.**
► Is a statement of what will occur if certain assumptions are true.

Normative economics discusses "what ought to be".

Question No: 4 (Marks: 1) - Please choose one

Economics is different from other social sciences because it is primarily concerned with the study of _____, it is similar to other social sciences because they are all concerned with the study of _____.

► Limited resources, market behavior.
► **Scarcity, human behavior.**
► Social behavior, limited resources.

► Biological behavior, scarcity.

http://siteresources.worldbank.org/PGLP/Resources/QuestionsWeekOne.pdf

Question No: 5 (Marks: 1 - Please choose one

Because of the relationship between a perfectly competitive firm's demand curve and its marginal revenue curve, the profit maximization condition for the firm can be written as:

► P = MR.
► P = AVC.
► AR = MR.
► **P = MC.**

A perfectly competitive firm produces the profit-maximizing quantity of output that equates marginal revenue and marginal cost.

Question No: 6 (Marks: 1) - Please choose one

A welfare loss occurs in monopoly where:

► **The price is greater than the marginal cost.**
► The price is greater than the marginal benefit.
► The price is greater than the average revenue.
► The price is greater than the marginal revenue.

In monopoly in long run equilibrium: The firm is allocatively inefficient
A monopolist faces: A downward sloping demand curve
A welfare loss occurs in monopoly where: The price is greater than the marginal cost

http://global.oup.com/uk/orc/busecon/economics/gillespie_econ2e/01student/mcqs/unit12/

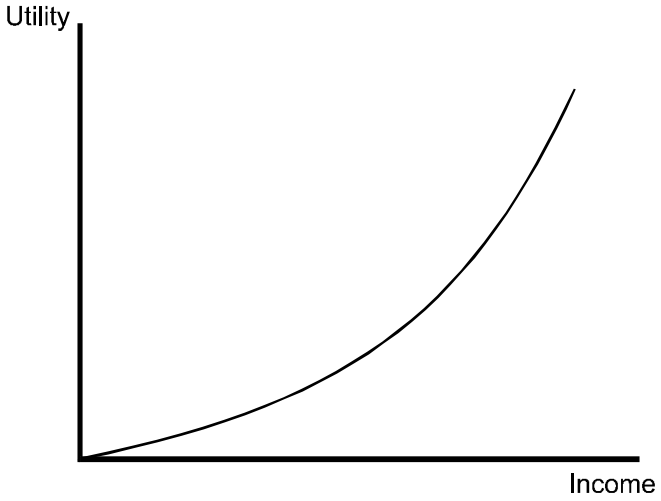
Question No: 7 (Marks: 1) - Please choose one

The "perfect information" assumption of perfect competition includes all of the following EXCEPT:

► Consumers know their preferences.
► Consumers know their income levels.
► Consumers know the prices available.
► **Consumers can anticipate price changes.**

http://homepage.ntu.edu.tw/~chensyu/micro2008/hw8.pdf

Question No: 8 (Marks: 1) - Please choose one



Figure

In figure given above, the marginal utility of income is:

► **Increasing as income increases**.
► Constant for all levels of income.
► Diminishes as income increases.
► None of the given options.

Question No: 9 (Marks: 1) - Please choose one

A consultant for Mattel (the producer of Barbie) reports that their long run average cost curve is decreasing. In other words, he is saying that:

► The firm has increasing returns to scale and the law of diminishing marginal productivity does not apply to this firm.
► The firm has decreasing returns to scale and the law of diminishing marginal productivity does not apply to this firm.
► **The firm has increasing returns to scale but the law of diminishing marginal productivity may still apply to this firm.**
► The firm has decreasing returns to scale but nonetheless the law of diminishing marginal productivity may still apply to this firm.

The negatively-sloped portion of this long-run average cost curve reflects economies of scale and increasing returns to scale. The positively-sloped portion reflects diseconomies of scale or decreasing returns to scale.

Question No: 10 (Marks: 1) - Please choose one

If the cross price elasticity of demand between two goods X and Y is positive; it means that goods are:

► Independent.
► Complements.

► **Substitutes.**
► Inferior.

THREE CORE RULES OF ELASTICTY page 36

Question No: (Marks: 1) - Please choose one

A demand schedule is best described as:

► **A numerical tabulation of the quantity demanded of a good at different prices, ceteris paribus**.
► A graphical representation of the law of demand.
► A systematic listing of all the variables that might conceivably bring about a change in demand.
► A symbolic representation of the law of demand: P,Q and Q, P.

A demand schedule is a table (sometimes also referred to as a graph) which shows various combinations of quantity demanded and price

Law of demand

As the price of a good rises, the quantity demanded of the good falls, and as the price of a good falls, the quantity demanded of the good rises, ceteris paribus

Ceteris paribus or **caeteris paribus** is a Latin phrase, literally translated as "with other things the same," or "all other things being equal or held constant.

Question No: 12 (Marks: 1) - Please choose one

Which of the following best expresses the law of demand?

► A higher price reduces demand.
► A lower price reduces demand.
► **A higher price reduces quantity demanded.**
► A lower price shifts the demand curve to the right.

Law of demand

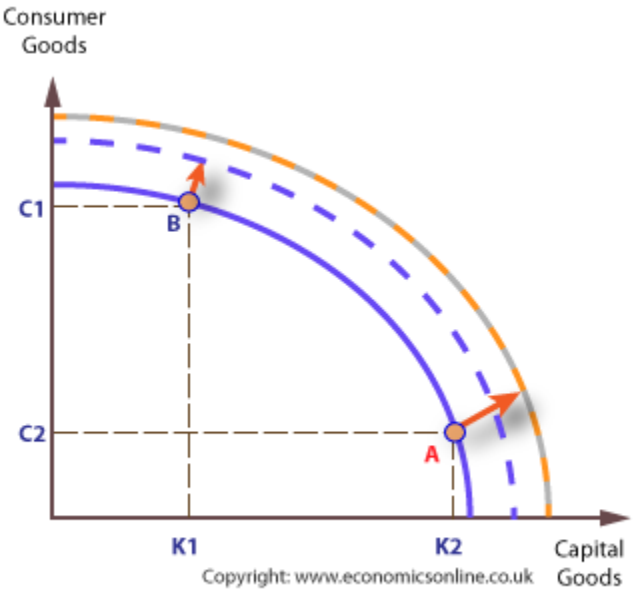
As the price of a good rises, the quantity demanded of the good falls, and as the price of a good falls, the quantity demanded of the good rises, ceteris paribus

Question No: 13 (Marks: 1) - Please choose one

Which of the following would most likely shift the production possibilities curve for a nation outward?

► A reduction in unemployment.
► **An increase in the production of capital goods**.
► A reduction in discrimination.
► An increase in the production of consumer goods**.**

If an economy chooses to produce more capital goods than consumer goods at point A, in the diagram, then it will grow by more than if it allocated more resources to consumer goods at point B.



Question No: 14 (Marks: 1) - Please choose one

The primary use of the kinked-demand curve is to explain price rigidity in:

- **Oligopoly.**
- Monopoly.
- Perfect competition.
- Monopolistic competition.

A kinked demand curve explains the "stickiness" of the prices in oligopolistic markets

Question No: 15 (Marks: 1) - Please choose one

A monopolistically competitive firm in short run equilibrium:

- Will make negative profit (lose money).
- Will make zero profit (break-even).
- Will make positive profit.
- **Any of the given are possible.**

Thus the characteristics of a monopolistically competitive market are almost the same as in perfect competition, with the exception of heterogeneous products
In the short run, a perfectly competitive firm can settle at equilibrium where it is making super normal profits, normal profits, loss, or where it decides to shut down.

In short run firm in monopolistically competitive markets could make negative, zero or positive profits.

:A monopolistically competitive firm **in the long run** will always break even, or earn only normal profit ensured by entry and exit of firms

Question No: 16 (Marks: 1) - Please choose one

A market with few entry barriers and with many firms that sell differentiated products is:

- ► Purely competitive.
- ► A monopoly.
- ► Monopolistically competitive.
- ► **Oligopolistic.**

Page 72

Question No: 17 (Marks: 1) - Please choose one

The maximum price that a consumer is willing to pay for a good is called:

- ► The reservation price.
- ► The market price.
- ► **The first-degree price.**
- ► The block price.

Price discrimination is categorized into three types:

- First degree price discrimination - charging what ever the market will bear,
- Second degree price discrimination - quantity discounts or versioning,
- Third degree price discrimination - separate markets and customer groups.

First price discrimination:

This type of discrimination, also known as **perfect price discrimination**, essentially states the company charges the consumer the maximum price that individual is willing to pay for that product

Question No: 18 (Marks: 1) - Please choose one

Third-degree price discrimination involves:

► Charging each consumer the same two part tariff.
► Charging lower prices the greater the quantity purchased.
► The use of increasing block rate pricing.
► **Charging different prices to different groups based upon differences in elasticity of demand.**

Third price discrimination:
A form of price discrimination in which a seller charges different prices to groups that are differentiated by an easily identifiable characteristic, **such as location, age, sex, or ethnic group.** This is the most common type of price discrimination. Third-degree price discrimination occurs if a seller charges different prices to two or more different buying groups with different demand elasticities.

Question No: 19 (Marks: 1) - Please choose one

A tennis pro charges $15 per hour for tennis lessons for children and $30 per hour for tennis lessons for adults. The tennis pro is practicing:

► First-degree price discrimination.
► Second-degree price discrimination.
► **Third-degree price discrimination.**
► All of the given options.

Third price discrimination:
A form of price discrimination in which a seller charges different prices to groups that are differentiated by an easily **identifiable characteristic, such as location, age, sex, or ethnic group.** This is the most common type of price discrimination. Third-degree price discrimination occurs if a seller charges different prices to two or more different buying groups with different demand elasticities.

Question No: 20 (Marks: 1) - Please choose one

An electric power company uses block pricing for electricity sales. Block pricing is an example of:

► First-degree price discrimination.
► **Second-degree price discrimination.**
► Third-degree price discrimination.
► Block pricing is not a type of price discrimination.

Second degree price discrimination:
A form of price discrimination in which a seller charges different prices for different quantities of a good. This also goes by the name block pricing. Second-degree price

discrimination is possible because decidedly different quantities are purchased by different types of buyers demand elasticity.

Question No: 21 (Marks: 1) - Please choose one

A firm never operates:

- ► At the minimum of its average total cost curve.
- ► At the minimum of its average variable cost curve.
- ► On the downward-sloping portion of its average total cost curve.
- ► **On the downward-sloping portion of its average variable cost curve.**

Question No: 22 (Marks: 1) - Please choose one

Marginal profit is equal to:

- ► **Marginal revenue minus marginal cost.**
- ► Marginal revenue plus marginal cost.
- ► Marginal cost minus marginal revenue.
- ► Marginal revenue times marginal cost.

Question No: 23 (Marks: 1) - Please choose one

If current output is less than the profit-maximizing output then which of the following must be TRUE?

- ► Total revenue is less than total cost.
- ► Average revenue is less than average cost.
- ► Marginal revenue is less than marginal cost.
- ► **Marginal revenue is greater than marginal cost.**

http://homepage.ntu.edu.tw/~chensyu/micro2008/hw8.pdf

Question No: 24 (Marks: 1) - Please choose one

At the profit-maximizing level of output, what is TRUE of the total revenue (TR) and total cost (TC) curves?

- ► **They must intersect with TC cutting TR from below.**
- ► They must intersect with TC cutting TR from above.
- ► They must be tangent to each other.
- ► They must have the same slope.

http://quizlet.com/21886592/intermediate-microeconomics-flash-cards/

Question No: 25 (Marks: 1) - Please choose one

The total cost (TC) of producing computer software diskettes (Q) is given as: TC = 200 + 5Q. What is the average total cost?

- ► 5Q.
- ► 5.
- ► **5 + (200/Q).**
- ► None of the given options.

ATC =AVC +AFC
ATC= 5Q + 200
ATC=5+200/Q

Question No: 26 (Marks: 1) - Please choose one

In order for a taxicab to be operated in New York City, it must have a medallion on its hood. Medallions are expensive but can be resold and are therefore an example of:

- **A fixed cost.**
- A variable cost.
- An implicit cost.
- An opportunity cost.

http://homepage.ntu.edu.tw/~chensyu/micro2008/hw7.pdf

Question No: 27 (Marks: 1) - Please choose one

Costs determine all of the following EXCEPT:

- **Demand for a product.**
- Firm's behaviour.
- How firms should expand?
- Firm's profitability.

Question No: 28 (Marks: 1) - Please choose one

The rate at which a firm can substitute capital for labour and hold output constant is the:

- Law of diminishing marginal returns.
- Marginal rate of substitution.
- **Marginal rate of factor substitution.**
- Marginal rate of production.

MARGINAL RATE OF TECHNICAL SUBSTITUTION (MRTS)

The slope of an isoquant is called marginal rate of technical substitution (MRTS)

MRTS is the amount of one factor, e.g. capital, that can be replaced by a one unit increase in the other factor e.g. labor, if output is to be held constant.

Question No: 29 (Marks: 1) - Please choose one

If a simultaneous and equal percentage decrease in the use of all physical inputs leads to a larger percentage decrease in physical output, a firm's production function is said to exhibit:

- **Decreasing returns to scale.**
- Constant returns to scale.
- Increasing returns to scale.

► Diseconomies of scale.

Increasing Returns to Scale

When our inputs are increased by let say 10%, our output increases by more than 10%.

Constant Returns to Scale

When our inputs are increased by 10% our output increases by exactly 10%.

Decreasing Returns to Scale

When our inputs are increased by 10%, our output increases by less than 10%

Decreasing returns to scale results if long-run production changes are less than the proportional changes in all inputs used by a firm.

Question No: 30 (Marks: 1) - Please choose one

At any given point on an indifference curve, the absolute value of the slope equals:

► Unity--otherwise there would be no indifference.
► **The marginal rate of substitution.**
► The consumer's marginal utility.
► None of the given options.

The marginal rate of substitution is equal to the absolute value of the slope of an indifference curve
The absolute value of the slop of the indifference curve at any point is the marginal rate of substitution which is equal to the marginal utility of one good divided by the marginal utility of the another good.
Absolute value of the slope of the indifference curve= Marginal rate of substitution

Question No: 31 (Marks: 1) - Please choose one

Aslam spends all of his money on racquetballs and food. What would happen to Aslam's budget line if his income increased by 10 percent holding prices constant?

► It would shift inward.
► It would rotate about the axis for food.
► It would rotate about the axis for racquetballs.
► **It would shift outward.**

If money income rises, the budget line will shift outwards/upward (parallel to the initial budget line).
Decrease in income will shift the budget line downward /left ward.

These shift are parallel and change in income do not affect the budget line's slope.

http://quizlet.com/4762932/econ-test-2-flash-cards/

Question No: 32 (Marks: 1) - Please choose one

According to the utility model of consumer demand, the law of diminishing marginal utility indicates that the demand curve is:

► Vertical.
► U-shaped.
► Upward-sloping.
► **Downward-sloping.**

The law of diminishing marginal utility is a explanation of the downward sloping demand curve
The marginal utility curve slopes downwards in a MU-Q graph showing the principle of diminishing marginal utility. The MU curve is exactly equal to the demand curve

Question No: 33 (Marks: 1) - Please choose one

Cross-price elasticity measures whether:

► Goods are normal or inferior.
► **Two goods are substitutes or complements.**
► Demand is elastic or inelastic.
► Supply is steeper than demand or vice versa.

Cross elasticity of demand is positive for Substitutes

If the two goods are substitutes, when the price of one good rises, the quantity demanded of other good increases. Cross elasticity of demand is positive.

Cross elasticity of demand is negative for Complements

If the two goods are complements, when the price of one good rises, the quantity demanded of another good decrease. Cross elasticity of demand is negative.

Question No: 34 (Marks: 1) - Please choose one

Which of the following will be TRUE if demand is inelastic?

► The coefficient of elasticity is greater than one.
► The percentage change in quantity demanded is same as the percentage change in the price.
► **An increase in price will increase total revenue.**
► None of the given options.

Inelastic demand of any product means that if price of that product increases there is very small effect on its quantity demanded. As price increases, total revenue also increases in case of inelastic demand.

Question No: 35 (Marks: 1) - Please choose one

Suppose your local public golf course increases the greens fees for using the course. If the demand for golf is relatively inelastic, you would expect:

► A decrease in total revenue received by the course.
► **An increase in total revenue received by the course.**
► No change in total revenue received by the course.
► An increase in the amount of golf played on the course.

Inelastic demand of any product means that if price of that product increases there is very small effect on its quantity demanded. As price increases, total revenue also increases in case of inelastic demand.

Question No: 36 (Marks: 1) - Please choose one

Aslam decides to stay at home and study for his exam rather than going out with his friends to a movie. His dilemma is an example of:

► The economic perspective.
► Marginal analysis.
► Allocative efficiency.
► **Opportunity cost.**

Opportunity cost: A benefit, profit, or value of something that must be given up to acquire or achieve something else.
Opportunity cost is defined as the value of the best foregone alternative. In simpler term it is the cost of the next best choice available to you when you choose from various mutually exclusive choices.
The cost of any activity measured in terms of the value of the next best alternative forgone (that is not chosen)
[In given Mcq Aslam is choosing to stay at home and study instead of going with his friend, Aslam is not choosing to play with his friend and this is opportunity cost for Aslam]

Question No: 37 (Marks: 1) - Please choose one

Government authorities have managed to reduce the unemployment rate from 8% to 4% in a hypothetical economy. As a result:

► The economy's production possibilities curve will shift outward.
► The economy's production possibilities curve will become steeper.
► The economy will move downward along its production possibilities curve.
► **The economy will move from a point inside to a point closer to its production**

possibilities curve.

If the economy were to reduce its unemployment it would come closer to reaching its existing productive capacity. The economy would thus be operating closer to its given production possibilities frontier.

.

Question No: 38 (Marks: 1) - Please choose one

Land is best described as:

- ► Produced factors of production.
- ► "Organizational" resources.
- ► Physical and mental abilities of people.
- ► **"Naturally" occurring resources.**

Question No: 39 (Marks: 1) - Please choose one

In pure capitalism, the role of government is best described as:

- ► Significant.
- ► Extensive.
- ► **Nonexistent.**
- ► Limited.

Free market/capitalist economy:

A free market/capitalist economy is a system in which the questions about what to produce, how to produce and for whom to produce are decided primarily by the demand and supply interactions in the market.

Question No: 40 (Marks: 1) - Please choose one

Microeconomics is the branch of economics that deals with which of the following topics?

- ► The behavior of individual consumers.
- ► Unemployment and interest rates.
- ► The behavior of individual firms and investors.
- ► **The behavior of individual consumers and behavior of individual firms and investors.**

PAPER # 3

Question No: 1 (Marks: 1) - Please choose one

Which of the following is a normative statement?

► Intermediate microeconomics should be required of all economics majors in order to build a solid foundation in economic theory.
► The minimum wage should not be increased, because to do so would increase unemployment.
► Smoking should be restricted on all airline flights.
► **All of the given options.**

http://collegebud.ca/public/pubcollegebud.ca/COMM220%20Q%20Bank.pdf

Question No: 2 (Marks: 1) - Please choose one

Which of the following is a positive statement?

► When the price of a good goes up, consumers buy less of it.
► When the price of a good goes up, firms produce more of it.
► When the Federal government sells bonds, interest rates rise and private investment is reduced.
► **All of the given options.**

http://collegebud.ca/public/pubcollegebud.ca/COMM220%20Q%20Bank.pdf

Question No: 3 (Marks: 1) - Please choose one

In a free-market economy, the allocation of resources is determined by:

► Votes taken by consumers.
► A central planning authority.
► **Consumer preferences.**
► The level of profits of firms.

http://www.bized.co.uk/learn/economics/qbank/micro.htm

In Free market economy what to produce is determined by consumers and how to produce is determined by produces and who get the goods is determined by the purchasing power of consumers.

Question No: 4 (Marks: 1) - Please choose one

Our economy is characterized by:

► **Unlimited wants and needs.**
► Unlimited material resources.
► No energy resources.
► Abundant productive labor.

Question No: 5 (Marks: 1) - Please choose one

When constructing a typical production possibilities curve, economists assume that:

► Economic resources are underutilized.
► Resources are equally productive in many alternative uses.
► **All available resources are employed efficiently**.
► Production technology is allowed to vary.

The production possibilities curve represents the maximum possible production of one good for a given amount of the other. This requires that all resources be fully employed.

http://highered.mcgrawhill.com/sites/1113273082/student_view0/chapter1/quiz_2.html

Question No: 6 (Marks: 1) - Please choose one

Which of the following would lead to an inward shift of a nation's production possibilities curve?

► Immigration of skilled workers into the nation.
► An increase in the size of the working-age population.
► **A decrease in the size of the working-age population**.
► Increased production of capital goods.

Feedback: The availability of additional resources will shift the curve out; a reduction in available resources will shift it in.

http://highered.mcgraw-hill.com/sites/1113273082/student_view0/chapter1/quiz_2.html

Question No: 7 (Marks: 1) - Please choose one

Government authorities have managed to reduce the unemployment rate from 8% to 4% in a hypothetical economy. As a result:

► The economy's production possibilities curve will shift outward.
► The economy's production possibilities curve will become steeper.
► The economy will move downward along its production possibilities curve.
► **The economy will move from a point inside to a point closer to its production possibilities curve.**

If the economy were to reduce its unemployment it would come closer to reaching its

existing productive capacity. The economy would thus be operating closer to its given production possibilities frontier.

Question No: 8 (Marks: 1) - Please choose one

If the quantity demanded of a product is greater than the quantity supplied of a product, then:

- **► There is a shortage of the product.**
- ► There is a surplus of the product.
- ► The product is a normal good.
- ► The product is an inferior good.

Shortage:

A shortage is a situation in which demand exceeds supply, i.e. producers are unable to meet market demand for the product. Shortages cause prices to raise prompting producers to produce more and consumers to demand less.

Question No: 9 (Marks: 1) - Please choose one

When movie ticket prices decrease, families tend to spend more time at cinema for watching videos instead at home. This best reflects:

- ► The rationing function of markets.
- **► The substitution effect.**
- ► Diminishing marginal utility.
- ► The income effect.

The substitution effect is reflected in consumer responses to higher prices as they shift purchases away from the good or service whose price has risen, purchasing other alternatives instead

Question No: 10 (Marks: 1) - Please choose one

What happens in the market for airline travel when the price of traveling by rail decreases?

- **► The demand curve for airline travel shifts left.**
- ► The demand curve for airline travel shifts right.
- ► The supply curve of airline travel shifts left.
- ► The supply curve of airline travel shifts right.

Price of rail ticket decrease so demand of traveling by rail increase, and demand of airline travel decrease and shift left.

Question No: 11 (Marks: 1) - Please choose one

A market is said to be in equilibrium when:

- ► Demand equals output.

► There is downward pressure on price.
► **The amount consumers wish to buy at the current price equals the amount producers wish to sell at that price**.
► All buyers are able to find sellers willing to sell to them at the current price.

The price at which the amount consumers wish to purchase equals the amount firms wish to sell is called the Equilibrium price.

Question No: 12 (Marks: 1) - Please choose one

A demand curve is price inelastic when:

► **Changes in demand are proportionately smaller than changes in price.**
► Changes in demand are proportionately greater than changes in price.
► Changes in demand are equal to changes in price.
► None of the given options.

Demand curve price inelastic when change is demand are proportionately smaller than change in price.
Demand curve price elastic when Changes in demand are proportionately greater than changes in price

Question No: 13 (Marks: 1) - Please choose one

Since the fish that are caught each day go bad very quickly, the daily catch will be offered for sale no matter what price it brings. As a result, we know that:

► None of the given options.
► The daily supply curve for fish slopes upward.
► **The daily supply curve for fish is perfectly inelastic.**
► The daily supply curve for fish is perfectly elastic.

Perfectly inelastic supply occurs when sellers have no choice in the production of a good.

Perfectly inelastic

An elasticity equal to zero; the elasticity of a type of goods for which quantity supplied does not change regardless of the price of the goods.

Question No: 14 (Marks: 1) - Please choose one

Law of diminishing marginal utility indicates that the slope of the marginal utility curve is:

► Horizontal.
► Vertical.
► **Negative.**
► Positive.

The negative slope of the marginal utility curve reflects the law of diminishing marginal utility

Question No: 15 (Marks: 1) - Please choose one

If your demand price for one unit of a good is $100 and the market price is $75, your consumer's surplus is:

► **$25**.
► $50.
► $75.
► $100.

Consumer surplus is the difference between the maximum price a consumer is willing to pay and the actual price they do pay
Consumer surplus is the value of a good minus the price paid for it – 100-75 =25

Question No: 16 (Marks: 1) - Please choose one

Suppose the first four units of an output produced incur corresponding total costs of 400, 700, 900, and 1000. The marginal cost of the fourth unit of output is:

► 50.
► **100.**
► 150.
► 200.

1000-9000 = 100

Question No: 17 (Marks: 1) - Please choose one

Suppose there are only two goods A and B, if more of good A is always preferred to less, and if less of good B is always preferred to more, then:

► Indifference curves slope downwards.
► **Indifference curves slope upwards**.
► Indifference curves may cross.
► Indifference curves could take the form of ellipses.

If there are only two goods, if more of good 1 is always preferred to less, and if less of good
2 is always preferred to more, then:
(a) Indifference curves slope downwards.
(b) Indifference curves slope upwards.
(c) Indifference curves may cross.
(d) Indifference curves could take the form of ellipses.
(e) None of the above.

Question No: 18 (Marks: 1) - Please choose one

As long as all prices remain constant, an increase in money income results in:

- ► An increase in the slope of the budget line.
- ► A decrease in the slope of the budget line.
- ► **An increase in the intercept of the budget line**.
- ► A decrease in the intercept of the budget line.

If money income rises, the budget line will shift outwards/upward (parallel to the initial budget line).
Decrease in income will shift the budget line downward /left ward.
These shifts are parallel and **change in income does not affect the budget line's slope**

http://web.uvic.ca/~okhan/Practice%20Question.pdf

Question No: 19 (Marks: 1) - Please choose one

Which of the following is a correct statement about the substitution effect?

- ► **The substitution effect is always negative.**
- ► The substitution effect is positive for an inferior good.
- ►The substitution effect measures how demand changes when income changes.
- ► The substitution effect is positive for a Giffen good.

SUBSTITUTION EFFECT:

It is one of two reasons for law of demand and the negative slope of the market demand curve. The substitution effect occurs because a change in the price of a good makes it relatively higher or lower than the prices of other goods that might act as substitutes. A higher price means that a good is more expensive relative to other goods, while a lower price means it's less expensive. Or more simply we can say that if price of any good increases, people reduce its consumption and substitute any other good whose price is not increased. **Substitution effect is always negative.**

Question No: 20 (Marks: 1) - Please choose one

In any production process, the marginal product of labour equals:

- ► Total output divided by total labour inputs.
- ► Total output minus the total capital stock.
- ► **The change in total output resulting from a 'small' change on the labour input**.
- ► Total output produced by labour inputs.

http://www.kevinhinde.com/elearning/prod_costs/prod_costmchoice.htm

Question No: 21 (Marks: 1) - Please choose one

Which of the following statements describes increasing returns to scale?

► Doubling the inputs used leads to double the output.
► Increasing the inputs by 50% leads to a 25% increase in output.
► **Increasing inputs by 1/4 leads to an increase in output of 1/3.**
► None of the given options.

¼=0.25, 1/3 = 0.34

Question No: 22 (Marks: 1) - Please choose one

An isoquant curve shows:

► **All the alternative combinations of two inputs that yield the same maximum total product.**
► All the alternative combinations of two products that can be produced by using a given set of inputs fully and in the best possible way.
► All the alternative combinations of two products among which a producer is indifferent because they yield the same profit.
► None of the given options.

http://homepage.ntu.edu.tw/~chensyu/micro2008/hw6.pdf

Question No: 23 (Marks: 1) - Please choose one

In a production process, all inputs are increased by 10%; but output increases less than 10%. This means that the firm experiences:

► **Decreasing returns to scale.**
► Constant returns to scale.
► Increasing returns to scale.
► None of the given options.

Question No: 24 (Marks: 1) - Please choose one

A monopoly occurs when:

► Each firm produces a product that is slightly different from the other firms.
► **One firm sells a good that has no close substitutes and a barrier blocks entry for other firms**.
► There are many firms producing the same product.
► All of the given options.

Question No: 25 (Marks: 1) - Please choose one

A perfectly competitive firm maximizes profit by finding the level of production at which:

- ► **Price = Marginal Cost**.
- ► Price = Average Total Cost.
- ► Average Total Cost = Marginal Cost.
- ► Price < Marginal Cost.

Question No: 26 (Marks: 1) - Please choose one

In the short run, a firm should shut down when:

- ► Production losses are less than fixed costs.
- ► Only normal profits are earned.
- ► **Production losses exceed fixed costs.**
- ► Fixed costs are zero.

Question No: 27 (Marks: 1) - Please choose one

Discrimination based upon the quantity consumed is referred to as:

- ► **Second degree price discrimination**.
- ► Third-degree price discrimination.
- ► First-degree price discrimination.
- ► All of the given options.

2ND DEGREE PD

In this type, different prices charged to customers who purchase different quantities

Question No: 28 (Marks: 1) - Please choose one

The most important factor in determining the long-run profit potential in monopolistic competition is:

- ► **Free entry and exit.**
- ► The elasticity of the market demand curve.
- ► The elasticity of the firm's demand curve.
- ► The reaction of rival firms to a change in price.

https://www.google.com.pk/url?sa=t&rct=j&q=&esrc=s&source=web&cd=1&cad=rja&ved=0CC8QFjAA&url=http%3A%2F%2Ffbemoodle.emu.edu.tr%2Fmod%2Fresource%2Fview.php%3Fid%3D11343&ei=IQ6OUcmfEKHE7Ablu4Fg&usg=AFQjCNEPDOHa7Ldjrh8ANFioNbzdJyc-_g&sig2=ZWuuOoZztZKlIMMAhBT3Uw&bvm=bv.46340616,d.ZGU

Question No: 29 (Marks: 1) - Please choose one

Which of the following is NOT regarded as a source of inefficiency in monopolistic competition?

► The fact that price exceeds marginal cost.
► Excess capacity.
► **Product diversity.**
► The fact that long-run average cost is not minimized.

Question No: 30 (Marks: 1) - Please choose one

Monopolistically competitive firms have monopoly power because they:

► Are great in number.

► Have freedom of entry.

► Are free to advertise.

► **Face downward sloping demand curves.**

https://www.google.com.pk/url?sa=t&rct=j&q=&esrc=s&source=web&cd=1&cad=rja&ved=0CC8QFjAA&url=http%3A%2F%2Ffbemoodle.emu.edu.tr%2Fmod%2Fresource%2Fview.php%3Fid%3D11343&ei=IQ6OUcmfEKHE7Ablu4Fg&usg=AFQjCNEPDOHa7Ldjrh8ANFioNbzdJyc_g&sig2=ZWuuOoZztZKlIMMAhBT3Uw&bvm=bv.46340616,d.ZGU

Question No: 31 (Marks: 1) - Please choose one

A leftward shift in the demand curve for product E might be caused by:

► A decrease in income if E is an inferior good.
► An increase in income if E is a normal good.
► An increase in the price of a product that is a close substitute for E.
► **An increase in the price of a product that is complementary to E.**

Question No: 32 (Marks: 1) - Please choose one

Assume that a firm is a price taker in its input markets. If the firm's technology is characterized by diminishing marginal physical product of its variable input in the short run, the firm's short run:

► Marginal cost curve rises as output rises.
► Average cost curve rises as output rises.
► **Marginal cost curve falls as output rises.**
► Marginal cost curves and average cost curves rises as output rises.

Marginal Physical Product and Marginal Cost
The law of diminishing marginal returns says that as more units of the variable input are added, each one has fewer units of the fixed input to work with; consequently, output rises at a decreasing rate
As the marginal physical product curve rises, the marginal cost curve falls; and as the marginal physical product curve falls, the marginal cost curve rises

Question No: 33 (Marks: 1) - Please choose one

The "perfect information" assumption of perfect competition includes all of the following EXCEPT:

► Consumers know their preferences.
► Consumers know their income levels.
► Consumers know the prices available.
► **Consumers can anticipate price changes.**

http://homepage.ntu.edu.tw/~chensyu/micro2008/hw8.pdf

Question No: 34 (Marks: 1) - Please choose one

If the demand curve for a good is downward sloping, then the good:

► Must be inferior.
► Must be giffen.
► Can be normal or inferior.
► **Must be normal.**

Demand curve for a normal good is downward sloping due to the combination of income and substitution effect.
A good with an upward-sloping demand curve is called a Giffen good

Question No: 35 (Marks: 1) - Please choose one

Economics is different from other social sciences because it is primarily concerned with the study of _____, it is similar to other social sciences because they are all concerned with the study of _____.

► Limited resources, market behavior.
► **Scarcity, human behavior.**
► Social behavior, limited resources.
► Biological behavior, scarcity.

Question No: 36 (Marks: 1) - Please choose one

A normative economic statement:

► Is a statement of fact.
► Is a hypothesis used to test economic theory.
► **Is a statement of what ought to be, not what is**.
► Is a statement of what will occur if certain assumptions are true.

Question No: 37 (Marks: 1) - Please choose one

_____ questions have to do with explanation and prediction, _____ questions have to do with what ought to be.

► Positive; negative.
► Negative; normative.
► Normative; positive.
► **Positive; normative.**

Question No: 38 (Marks: 1) - Please choose one

If consumer incomes increase, the demand for product Y:

► Will necessarily remain unchanged.
► Will shift to the right if Y is a complementary good.
► **Will shift to the right if Y is a normal good.**
► Will shift to the right if Y is an inferior good.

The definition of a normal good is one for which demand increases (shifts to the right) when income increases.

http://highered.mcgraw-hill.com/sites/0073375691/student_view0/chapter3/quiz.html

Question No: 39 (Marks: 1) - Please choose one

Because of unusually warm weather, the supply of strawberries has substantially increased. This statement indicates that:

► The demand for strawberries will necessarily rise.
► The equilibrium quantity of strawberries will fall.
► **The quantity of strawberries that will be available at various prices has increased.**
► The price of strawberries will fall.

http://highered.mcgrawhill.com/sites/0073375691/student_view0/chapter3/quiz.html

Because of unusually good growing conditions, the supply of strawberries has substantially increased." This statement indicates that
The demand for strawberries will necessarily rise
The equilibrium quantity of strawberries will fall
The amount of strawberries that will be available at various prices has increased
The price of strawberries will rise

An increase in supply occurs when more is made available at each price. All else equal, the prices of strawberries will fall

Question No: 40 (Marks: 1) - Please choose one

The concept of a risk premium applies to a person that is:

► All of the given options.
► **Risk averse**.
► Risk neutral.
► Risk loving.

PAPER # 4

Question No: 1 (Marks: 1) - Please choose one

The concept of a risk premium applies to a person that is:

► All of the given options.
► **Risk averse.**
► Risk neutral.
► Risk loving.

Question No: 2 (Marks: 1) - Please choose one

Assume that the current market price is below the market clearing level. We would expect:

► A surplus to accumulate.
► Downward pressure on the current market price.
► **Upward pressure on the current market price.**
► Lower production during the next time period.

Price below the market clearing level indicates ceiling price and ceiling result shortage. A shortage means that quantity demanded is greater than quantity supplied. This will lead to upward pressure on price. As price rises, quantity demanded falls and quantity supplied rises. This will continue until quantity demanded is equal to quantity supplied

Question No: 3 (Marks: 1) - Please choose one

The "perfect information" assumption of perfect competition includes all of the following EXCEPT:

► Consumers know their preferences.
► Consumers know their income levels.
► Consumers know the prices available.
► **Consumers can anticipate price changes.**

Question No: 4 (Marks: 1) - Please choose one

If income elasticity is negative, the good is:

► Normal good.
► A substitute good.
► A complementary good.
► **Inferior good.**

If the sign of income elasticity of demand is positive, the good is normal and if sign is negative, the good is inferior.

Question No: 5 (Marks: 1) - Please choose one

The correlation between an asset's real rate of return and its risk (as measured by its standard deviation) is usually:

► **Positive.**
► Strictly linear.
► Flat.
► Negative.

The notion that there is a positive correlation between risk and return.

Question No: 6 (Marks: 1) - Please choose one

Insurance companies operate under the principle of:

► **Law of large numbers.**
► Law of small numbers.
► Law of zero numbers.
► All of the given options.

In each and every field of insurance the law of large number is essential.

Question No: 7 (Marks: 1) - Please choose one

A demand schedule is best described as:

► **A numerical tabulation of the quantity demanded of a good at different prices, ceteris paribus.**
► A graphical representation of the law of demand.
► A systematic listing of all the variables that might conceivably bring about a change in demand.
► A symbolic representation of the law of demand: P,Q and Q, P.

Question No: 8 (Marks: 1) - Please choose one

A firm in monopolistic competition does not achieve minimum efficient scale because:

► It is not a monopoly.
► It is in competition with other firms.
► **It is operating on the downward-sloping part of the average cost curve.**
► It produces at the minimum average cost.

Each firm in a monopolistically comp. market has excess capacity (operates on the downward sloping portion of the average total cost curve, below the efficient scale quantity and above the efficient scale price

Question No: 9 (Marks: 1) - Please choose one

Which of the following is NOT regarded as a source of inefficiency in monopolistic competition?

- ► The fact that price exceeds marginal cost.
- ► Excess capacity.
- ► **Product diversity.**
- ► The fact that long-run average cost is not minimized.

Inefficiency is that a monopolistically competitive firm has excess capacity. This occurs because the monopolistically competitive firm does not produce at the minimum point of its average cost curve
In monopolistic competition, price exceeds marginal cost, which is an indicator of inefficiency.
Inefficiency arises from product differentiation. so the inefficiency brings a gain for consumers by offering greater product variety.
Efficient scale
A term used in industrial organization to denote the smallest output that a plant (or firm) can produce such that its long run average costs are minimized.

Monopolistic competition is a market structure characterized by a large number of small firms producing similar but not identical products with relatively good resource mobility and extensive knowledge.

Question No: 10 (Marks: 1) - Please choose one

When a firm charges each customer the maximum price that the customer is willing to pay, the firm:

- ► Engages in a discrete pricing strategy.
- ► Charges the average reservation price.
- ► Engages in second-degree price discrimination.
- ► **Engages in first-degree price discrimination.**

Question No: 11 (Marks: 1) - Please choose one

The break-even point occurs when:

► Price < Average Variable Cost.
► Price < Average Total Cost.
► **Price = Average Total Cost.**
► Price > Average Variable Cost.

Price is greater than average total cost = firm makes profits
Price is less than average total cost = firm makes losses
Price is equal to average total cost = break even, no profit no loss

Question No: 12 (Marks: 1) - Please choose one

If a firm experiences economies of scale, then the:

► Long-run average total cost curve is equal to the economies of scope.
► **Long-run average total cost curve is positively sloped.**
► Long-run average total cost curve is horizontal.
► Long-run average total cost curve is negatively sloped.

In the case of economies of scale, long run total cost (LRTC) is an upward sloping curve but with falling slope. Note that the slope can never become zero or negative, though

Question No: 13 (Marks: 1) - Please choose one

Which of the following is an example of a natural monopoly?

► The trademark protecting Gatoraide.
► The talents of Tom Hanks.
► **The local water company.**
► The patent on an Intel processor.

Question No: 14 (Marks: 1) - Please choose one

A monopoly occurs when:

► Each firm produces a product that is slightly different from the other firms.
► **One firm sells a good that has no close substitutes and a barrier blocks entry for other firms.**
► There are many firms producing the same product.
► All of the given options.

When one firm sells a good or service that has no close substitutes and a barrier blocks the entry of new firms, the market is monopoly

Question No: 15 (Marks: 1) - Please choose one

If current output is less than the profit-maximizing output then the next unit produced:

► Will decrease profit.
► Will increase cost more than it increases revenue.

► **Will increase revenue more than it increases cost.**
► Will increase revenue without increasing cost.

http://homepage.ntu.edu.tw/~chensyu/micro2008/hw8.pdf

Question No: 16 (Marks: 1) - Please choose one

The total cost (TC) of producing computer software diskettes (Q) is given as: TC = 200 + 5Q. What is the variable cost?

► 200.
► **5Q.**
► 5.
► 5 + (200/Q).

Question No: 17 (Marks: 1) - Please choose one

Incremental cost is the same concept as:

► Average cost.
► **Marginal cost.**
► Fixed cost.
► Variable cost.

Question No: 18 (Marks: 1) - Please choose one

Fixed costs are fixed with respect to changes in:

► **Output.**
► Capital expenditures.
► Wages.
► Time.

Question No: 19 (Marks: 1) - Please choose one

When an isocost line is just tangent to an isoquant, we know that:

► **Output is being produced at minimum cost**.
► Output is not being produced at minimum cost.
► The two products are being produced at the medium input cost to the firm.
► The two products are being produced at the highest input cost to the firm.

http://www.google.com.pk/url?sa=t&rct=j&q=isocost+line+is+just+tangent+to+an+isoquant&source=web&cd=7&cad=rja&ved=0CEsQFjAG&url=http%3A%2F%2Fwww.gest.unipd.it%2F~birolo%2Fdidattica08%2Fmateriale07%2Fmateriale_Perloff%2Ftestbank-1%2Ftbch07.doc&ei=wneOUcr8Ke7g7Qbm0YHICA&usg=AFQjCNHHmT4GauwXS7W-D3HeTr-Xfukm5Q&bvm=bv.46340616,d.ZGU

Question No: 20 (Marks: 1) - Please choose one

A negatively sloped isoquant implies:

► Products with negative marginal utilities.

► Products with positive marginal utilities.
► Inputs with negative marginal products.
► **Inputs with positive marginal products.**

If both marginal products are positive, the slope of the isoquant *is* negative.

Firm uses two factors of production. Irrespective of how much of each factor is used, both factors always have positive marginal products which imply that
a. isoquants are relevant only in the long run
b. isoquants have negative slope
c. isoquants are convex
d. isoquants can become vertical or horizontal
e. none of the above

Question No: 21 (Marks: 1) - Please choose one

Diminishing marginal returns implies:

► Decreasing marginal costs.
► **Increasing marginal costs.**
► Decreasing average variable costs.
► Decreasing average fixed costs.

http://wps.pearsoned.co.uk/ema_uk_he_sloman_economics_6/41/10679/2733917.cw/content/index.html

If the isoquants are straight lines, then
a. inputs have fixed costs at all use rates.
b. the marginal rate of technical substitution of inputs is constant.
c. only one combination of inputs is possible.
d. there are constant returns to scale.

Question No: 22 (Marks: 1) - Please choose one

In economics, the "long run" is a time period in which:

► **All inputs are variable.**
► All inputs are paid for.
► All outputs are determined.
► All loans are repaid.

Question No: 23 (Marks: 1) - Please choose one

The following table shows a firm's Total Product of labor. What is the Marginal Product of labor between 20 and 30 units of labor?

Table

Quantity of Labor	Total Product
0	0
10	100
20	230
30	340
40	410
50	460

► 340 units.
► 220 units.
► 11 units.
► **110 units.**

Marginal product = 340-230=110

Question No: 24 (Marks: 1) - Please choose one

If Average Physical Product (APP) is increasing then which of the following must be true?

► **Marginal physical product is greater than average physical product.**
► Marginal physical product is less than average physical product.
► Marginal physical product is increasing.
► Marginal physical product is decreasing.

If the marginal physical product is above the average physical product, the average physical product will rise.

Question No: 25 (Marks: 1) - Please choose one

Assume Leisure is a normal good. If income effect exceeds substitution effect then a wage decrease will lead a person to:

► **Decrease hours of work.**
► Increase hours of work.
► Not change anything.
► All of the given options.

Question No: 26 (Marks: 1) - Please choose one

If a market basket is changed by adding more to at least one of the goods, then every consumer will:

► **Rank the market basket more highly after the change.**
► Rank the market basket more highly before the change.

► Rank the market basket just as desirable after the change.
► Be unable to decide whether he prefers the first market basket to the second or the second to the first.
http://www.hftutoring.com/notes/COMM_220_Multiple_Choice_Solutions.pdf

Question No: 27 (Marks: 1) - Please choose one

Suppose there are only two goods A and B, if more of good A is always preferred to less, and if less of good B is always preferred to more, then:

► Indifference curves slope downwards.
► **Indifference curves slope upwards.**
► Indifference curves may cross.
► Indifference curves could take the form of ellipses.

Question No: 28 (Marks: 1) - Please choose one

Aslam spends all of his money on racquetballs and food. What would happen to Aslam's budget line if his income increased by 10 percent holding prices constant?

► It would shift inward.
► It would rotate about the axis for food.
► It would rotate about the axis for racquetballs.
► **It would shift outward.**

If money income rises, the budget line will shift outwards/upward (parallel to the initial budget line).
Decrease in income will shift the budget line downward /left ward.
These shift are parallel and change in income do not affect the budget line's slope.

http://quizlet.com/4762932/econ-test-2-flash-cards/

Question No: 29 (Marks: 1) - Please choose one

Suppose the first four units of an output produced incur corresponding total costs of 400, 700, 900, and 1000. The marginal cost of the fourth unit of output is:

► 50.
► **100.**
► 150.
► 200.

1000- 900 = 100

Question No: 30 (Marks: 1) - Please choose one

Consumers will maximize satisfaction when:

► The price of each good is exactly equal to the price of every other good consumed.
► The price of each good is exactly equal to the total utility derived from the

consumption of every other good.

► **The marginal utility of the last dollar spent on each good is exactly equal to the marginal utility of the last dollar spent on any other good.**

► Marginal utility is equal to average utility.

http://highered.mcgrawhill.com/sites/0073511293/student_view0/chapter5/multiple_choice_quiz.html

Question No: 31 (Marks: 1) - Please choose one

Marginal utility is best described as:

► The total satisfaction gained from the total consumption of the good.

► **The change in satisfaction from consuming one additional unit of the good.**

► The additional satisfaction gained by consumption of the last good.

► The per unit satisfaction of the good consumed.

http://highered.mcgrawhill.com/sites/0073511293/student_view0/chapter5/multiple_choice_quiz.html

Question No: 32 (Marks: 1) - Please choose one

Cross price elasticity between coffee and tea is 1.5. It means that:

► **Given a 1% increase in coffee price, we would expect a 1.5% increase in tea demand.**

► Given a 1% increase in coffee price, we would expect a 1.5% decrease in tea demand.

► Given 1% increase in coffee price, there will be no change in tea demand.

► None of the given options.

Given a 1% increase in coffee price, we would expect a 1.5% increase in tea demand.
Given a 1% decrease in coffee price, we would expect a 1.5% decrease in tea demand

Question No: 33 (Marks: 1) - Please choose one

When the price of petrol rises by 12%, the quantity of petrol purchased falls by 8%. This shows that the demand for petrol is:

► Perfectly elastic.

► Unit elastic.

► Elastic.

► **Inelastic.**

PEoD = (% Change in Quantity Demanded)/(% Change in Price)
PEoD =8% /12% =0.67

If PEoD < 1 then Demand is Price Inelastic (Demand is not sensitive to price changes)

Question No: 34 (Marks: 1) - Please choose one

A price ceiling might be an appropriate government response to a:

► Period of falling farm prices due to unusually good harvests.

► Substantial increase in farm productivity due to applications of new technology in agriculture.

► **National security crisis leading to major shortages of essential goods.**

► Period of extraordinary large surpluses of farm goods.

Price ceiling keep prices from rising too high and lead to shortage of goods

Question No: 35 (Marks: 1) - Please choose one

Assume that steak and potatoes are complements. When the price of steak goes up, the demand curve for potatoes:

► **Shifts to the left.**

► Shifts to the right.

► Remains constant.

► Shifts to the right initially and then returns to its original position.

Price of steak goes up demand fall and demand for potatoes also decline because both are complements

Question No: 36 (Marks: 1) - Please choose one

An increase in supply is shown by:

► Shifting the supply curve to the left.

► **Shifting the supply curve to the right.**

► Upward movement along the supply curve.

► Downward movement along the supply curve.

Question No: 37 (Marks: 1) - Please choose one

In a free-market economy, the allocation of resources is determined by:

► Votes taken by consumers.

► A central planning authority.

► **Consumer preferences.**

► The level of profits of firms.

http://www.bized.co.uk/learn/economics/qbank/micro.htm

Question No: 38 (Marks: 1) - Please choose one

Which of the following might be considered to be a characteristic of a planned economy?

► **Price is relatively unimportant as a means of allocating resources.**
► Goods and services produced reflect consumer sovereignty.
► There is no incentive for people to work hard.
► All income is completely evenly distributed.

Resource planning decisions in a planned economy are made by the state planning process and prices tend to be relatively fixed. They do not change to reflect changes in supply and demand

http://www.bized.co.uk/learn/economics/qbank/micro.htm

Question No: 39 (Marks: 1) - Please choose one

Which of the following is a positive statement?

► When the price of a good goes up, consumers buy less of it.
► When the price of a good goes up, firms produce more of it.
► When the Federal government sells bonds, interest rates rise and private investment is reduced.
► **All of the given options.**

Question No: 40 (Marks: 1) - Please choose one

Microeconomics is the branch of economics that deals with which of the following topics?

► The behavior of individual consumers.
► Unemployment and interest rates.
► The behavior of individual firms and investors.
► **The behavior of individual consumers and behavior of individual firms and investors.**

PAPER # 5

Question No: 1
In a free-market economy, the allocation of resources is determined by:
► Votes taken by consumers.
► A central planning authority.
► **Consumer preferences.**
► The level of profits of firms.

Question No: 2
Land is best described as:

► Produced factors of production.
► "Organizational" resources.
► Physical and mental abilities of people.
► **"Naturally" occurring resources.**

Question No: 3
Our economy is characterized by:

► **Unlimited wants and needs.**
► Unlimited material resources.
► No energy resources.
► Abundant productive labor.

Question No: 4
A market is said to be in equilibrium when:

► Demand equals output.
► There is downward pressure on price.
► **The amount consumers wish to buy at the current price equals the amount producers wish to sell at that price**.
► All buyers are able to find sellers willing to sell to them at the current price.

Question No: 5
We know that the demand for a product is elastic:

► **When price rises, total revenue rises.**
► When price rises, total revenue falls.
► When income rises, quantity demanded rises.
► When income falls, quantity demanded rises.

Question No: 6
The extra value that consumers receive above what they pay for that good is called:
► Producer surplus.
► Utility.
► Marginal utility.
► **Consumer surplus.**

Question No: 7
Law of diminishing marginal utility indicates that the slope of the marginal utility curve is:
► Horizontal.
► Vertical.
► **Negative**.
► Positive.

Question No: 8
As long as all prices remain constant, an increase in money income results in:

► An increase in the slope of the budget line.
► A decrease in the slope of the budget line.
► **An increase in the intercept of the budget line**.
► A decrease in the intercept of the budget line.

Question No: 9

If isoquants are straight lines, it means that:
► Only one combination of inputs is possible.
► There is constant returns to scale.
► Inputs have fixed costs at all use rates.
► **The marginal rate of technical substitution of inputs is constant.**

http://homepage.ntu.edu.tw/~chensyu/micro2008/hw6.pdf

Question No: 10
At the profit-maximizing level of output, marginal profit:
► Is positive.
► Is increasing.
► **Is zero.**
► Is also maximized.

Question No: 11
In monopoly, which of the following is TRUE at the output level, where price = marginal cost?
► The monopolist is maximizing profit.
► The monopolist is not maximizing profit and should increase output.
► **The monopolist is not maximizing profit and should decrease output**.
► The monopolist is earning a positive profit.

Which of the following is true at the output level where P=MC?

a. The monopolist is maximizing profit.
b. The monopolist is not maximizing profit and should increase output.
c. **The monopolist is not maximizing profit and should decrease output.**
d. The monopolist is earning a positive profit.

Question No: 12
A firm is charging a different price for each unit purchased by a consumer. This is called:
► **First-degree price discrimination.**
► Second-degree price discrimination.
► Third-degree price discrimination.
► None of the given options.

A policy of **first degree (or perfect) price discrimination** prices each unit sold at the consumer's maximum willingness to pay. This willingness to pay is directly observable by the monopolist

Question No: 13
If a sales tax on beer leads to reduced tax revenue, this means:
► Elasticity of demand is < 1.
► **Elasticity of demand is > 1.**
► Demand is upward-sloping.
► Demand is perfectly inelastic.

http://wps.aw.com/aw_perloff_microecon_4/44/11319/2897721.cw/content/index.html

Question No: 14
Which of the following is considered a market structure?
► Monopoly.

► Perfect competition.
► Oligopoly.
► **All of the given are considered market structures.**

Question No: 15
A natural monopoly is most likely to exist when:
► There are large barriers to entry.
► There are long term patents.
► **There are large economies of scale.**
► There is government regulation of the industry.

A natural monopoly is a monopoly that exists because the cost of producing the product (i.e., a good or a service) is lower due to economies of scale

Question No: 16
An individual whose attitude towards risk is known as:
► Risk averse.
► **Risk loving.**
► Risk neutral.
► None of the given options.

Question No: 17 , FIG missing , Mcq repeated- check above
In the above figure, the marginal utility of income is:

► **Increasing as income increases.**
► Constant for all levels of income.
► Diminishes as income increases.
► None of the given options.

Question No: 18
Suppose the price of rail tickets decreases, what will happen to the demand for airline travel?
► **The demand curve for airline travel shifts left.**
► The demand curve for airline travel shifts right.
► The supply curve of airline travel shifts left.
► The supply curve of airline travel shifts right.

Rail tickets price decrease so demand for rail tickets increase and airline travel decline

Question No: 19
What is the assumption of constructing a production possibilities curve?

► Economic resources are underutilized.
► Resources are equally productive in many alternative uses.
► **All available resources are employed efficiently.**
► Production technology is allowed to vary.

Question No: 20

Production possibilities curve will shift downward if there is:
► Immigration of skilled workers into the nation.
► An increase in the size of the working-age population.
► **A decrease in the size of the working-age population.**
► Increased production of capital goods.

PPF will shift inward if the labor force shrinks

Question No: 21
Suppose the total utilities for the first four units of a good consumed are 13, 23, 33, and 43 respectively. What is the marginal utility of the third unit?
► **10.**
► 13.
► 20.
► 33.

43 – 33 = 10

Question No: 22
Which of the following is TRUE about an indifference curve?
► **It is a collection of market baskets that are equally desirable to the consumer**.
► It is a collection of market baskets that the consumer can buy.
► It is a curve whose elasticity is constant for every price.
► It is a curve which passes through the origin and includes all of the market baskets that the consumer regards as being equivalent.

http://web.uvic.ca/~okhan/Practice%20Question.pdf

Question No: 23
Which of the following is TRUE for a Giffen good?
► Its marginal utility is zero.
► Its demand curve is perfectly elastic.
► Its substitution effect is positive.
► **Its demand curve is positively sloped**.

Giffen good has a positively sloped demand curve

Question No: 24

What is TRUE about the relationship between average product (AP) and marginal product (MP)?

► **If AP exceeds MP, then AP is falling**.
► If AP is at a maximum, then MP is also at maximum.
► If AP = MP, then total product is at a maximum.
► If Total Product is declining, then AP is negative.

If the marginal physical product is below the average physical product, the average physical product will fall

Question No: 25

The total cost (TC) function is given as: TC = 200 + 5Q. What is the fixed cost?

► 5Q.
► 5.
► 5 + (200/Q).
► **200.**

Question No: 26

Which of the following is NOT included in the perfect information assumption of perfect competition?

► Consumers know their preferences.
► Consumers know their income levels.
► Consumers know the prices available.
► **Consumers can anticipate price changes.**

Question No: 27

What is the reason that monopolist has no supply curve?

► **Because the quantity supplied at any particular price depends on the monopolist's demand curve.**
► Because the monopolist's marginal cost curve changes considerably over time.
► Because the relationship between price and quantity depends on both marginal cost and average cost.
► Because although there is only a single seller at the current price, it is impossible to know how many sellers would be in the market at higher prices.

Question No: 28

What will happen to the isocost line if the price of both goods decreases proportionality?

► It shifts farther away from the origin of the graph**.**
► **It shift inward.**
► It shifts outward.
► None of the given options.

Higher levels of total cost shift the isocost line outward and lower levels of total cost shift the isocost line inward.

Question No: 29
The total cost (TC) function is given as TC = 500 + 30Q. What is the average total cost?
► 500
► **30+ (500/Q)**
► 30Q+500Q
► 30

Question No: 30
Average total costs are the sum of:
► Fixed costs and marginal costs
► Average variable costs and marginal costs
► **Average fixed costs and average variable costs**
► Average marginal costs and average variable costs

Question No: 31
What will happen if current output is more than the profit-maximizing output?
► The next unit produced will increase profit.
► **The next unit produced will decrease revenue more than it increases cost.**
► The next unit produced will decrease cost more than it increases revenue.
► The next unit produced will increase revenue without increasing cost.

Question No: 32
At the profit-maximizing level of output, the marginal cost is equal to:
► Average revenue
► Total revenue
► **Marginal revenue**
► None of the given options

Question No: 33
An increase in quantity demand is shown by:
► Shifting the demand curve to the left.
► Shifting the demand curve to the right.
► Upward movement along the demand curve.
► **Downward movement along the demand curve.**

A change in quantity demanded is a change in the specific quantity of a good that buyers are willing and able to buy. This change in quantity demanded is caused by a change in the demand price. It is illustrated by a movement along a given demand curve
Upward movement in the demand is also known as contraction of demand. Contraction of demand refers to fall in demand of a commodity

Downward movement in demand is a increase in quantity demanded

Question No: 34
Slope and elasticity of demand have

► A direct relation.
► **An inverse relationship.**
► No relation between slope and elasticity.
► None of the given options.

Slope and elasticity of demand have an inverse relationship. When slope is high elasticity of. demand is low and vice versa

PAPER # 6

Question No: 1

If the quantity demanded of a product is greater than the quantity supplied of a product, then:

► **There is a shortage of the product**.
► There is a surplus of the product.
► The product is a normal good.
► The product is an inferior good.

Question No: 2

If pen and ink are complements, then an increase in the price of pen will cause:

► An increase in the price of ink.
► **Less ink to be demanded at each price.**
► A decrease in the demand for pen.
► A rightward shift in the demand curve for ink.

Question No: 3

A new technology which reduces costs for firms:

► **Shifts the supply curve to the right**.
► Shifts the supply curve to the left.
► Reduces the equilibrium quantity.
► Raises the equilibrium price.

Supply increase

Question No: 4

If the quantity supplied of oranges exceeds the quantity demanded then:

► There is a shortage of oranges.
► **Market forces will cause the price to fall.**
► Market forces will cause the price to rise.
► The market is in equilibrium.

Supply increase, surplus of oranges market forces will cause the price to fall

Question No: 5

A demand curve is price inelastic when:

► **Changes in demand are proportionately smaller than changes in price**.
► Changes in demand are proportionately greater than changes in price.
► Changes in demand are equal to changes in price.
► None of the given options.

Question No: 6
If the income elasticity of demand for boots is 0.2, a 10% increase in consumer's income will lead to a:
► 20 percent decrease in the quantity of boots demanded.
► **2 percent increase in the quantity of boots demanded**.
► 0.2 percent increase in the quantity of boots demanded.
► 20 percent increase in the quantity of boots demanded.

For example, if, in response to a 10% increase in income, the demand for a good increased by 20%, the income elasticity of demand would be 20%/10% = 2.

2/10=0.2

A positive income elasticity of demand is associated with normal goods; an increase in income will lead to a rise in demand. **If income elasticity of demand of a commodity is less than 1, it is a necessity good. If the elasticity of demand is greater than 1, it is a luxury good or a superior good.** A negative income elasticity of demand is associated with inferior goods

Question No: 7
Marginal utility is best described as:
► The total satisfaction gained from the total consumption of the good.
► **The change in satisfaction from consuming one additional unit of the good**.
► The additional satisfaction gained by consumption of the last good.
► The per unit satisfaction of the good consumed.

Question No: 8
Increase in pension benefits leads to income and substitution effect which:
► Encourage workers to retire later.
► Encourage workers to work more hours.
► Have no effect on incentive to retire.
► **Encourage workers to retire earlier.**

The income associated with retiring earlier is higher when pension benefits increase: Income Effect.
An increase in pension benefits reduces the price of retirement, increasing the demand for leisure, encouraging the worker to retire earlier: Substitution Effect.

Question No: 9
Assume Leisure is a normal good. If income effect exceeds substitution effect then a wage decrease will lead a person to:
► **Decrease hours of work.**
► Increase hours of work.
► Not change anything.

► All of the given options.

A person will work more hours when wages are higher. Higher wages induce both income effect and substitution effect

Income effect

As wage rate rises individual real income rises this lead to increase in the consumption of all normal goods, if leisure is a normal good the higher wage rate will induce the individual to consume a larger quantity of leisure time and reduce hours of works. This is income effect resulting from a wage increase

Substitution effect

Opportunity cost of leisure time rises as the wage rate increases, as leisure time become more costly individuals consume less leisure time and spend more time at work, this is the substitution effect resulting form a higher wage.

When the wage rate increases, the price of leisure increases. The increase in wage rate causes the worker to spend less time in leisure and more time in work. We call this the **substitution effect** of an increase in the wage rate

Net effect

If leisure is a normal good, as increase in the wage rate will cause the quantity of labor supplied to

Increase: if the substitution effect is larger than the income effect

Decrease: if the income effect is larger than the substitution effect

The substitution effect of a higher wage encourages the worker to work more, and the income effect encourages the worker to work less. If the substitution effect is stronger than the income effect, a worker will work more as a result of the wage increase. However, if the income effect is stronger than the substitution effect, the worker will work less as a result of the wage increase.

Question No: 10
If a simultaneous and equal percentage decrease in the use of all physical inputs leads to a larger percentage decrease in physical output, a firm's production function is said to exhibit:

► Decreasing returns to scale.

► Constant returns to scale.
► Increasing returns to scale.
► Diseconomies of scale.

Question No: 11
A graph showing all the combinations of capital and labour available for a given total cost is the:
► Budget constraint.
► Expenditure set.
► Isoquant.
► **Isocost.**

http://wps.pearsoned.co.uk/ema_uk_he_sloman_economics_6/41/10679/2733917.cw/content/index.html

The isocost line represents all combination of two inputs which have the same total cost.

The Isoquant curve contains all combinations of 2 inputs that produce the same total output.

Question No: 12
Increasing returns to scale in production means:
► More than twice as much of only one input is required to double output.
► Isoquants must be linear.
► More than 10% as much of all inputs are required to increase output 10%.
► **Less than twice as much of all inputs are required to double output.**

Question No: 13
In monopolist market, a new entrant firm should produce where:
► Marginal Cost < Marginal Revenue.
► Marginal Cost > Marginal Revenue.
► **Marginal Cost = Marginal Revenue.**
► Marginal Cost = Average Revenue.

A new entrant firm in the market has to face high costs. New entrant firm should charge the same or lower price than the monopolist other wise people will not purchase from new entrant firm.
But in order to ensure that the new entrant will not enter the market, he can charge the price lower than earlier price.

Question No: 14
The market structure in which there is interdependence among firms is:
► Monopolistic competition.
► **Oligopoly.**
► Perfect competition.
► Monopoly.

Question No: 15
If the cross price elasticity of demand between two goods X and Y is positive; it means that goods are:
► Independent.
► Complements.
► Substitutes.
► Inferior.

Question No: 16
If the cross price elasticity of demand of two goods is -1.5, then both goods are:
► Normal.
► Inferior.
► Complements.
► Substitutes.

Question No: 17
Suppose an increase in income causes demand curve to shift to rightward. In this case, what will happen at any given price?
► The price elasticity of demand will remain unchanged.
► The price elasticity of demand will decrease in absolute terms.
► The price elasticity of demand will increase in absolute terms.
► The price elasticity of demand will increase, decrease or stay the same. It cannot be determined.

If an increase in income results in a rightward parallel shift of the demand curve, then at any given price, the price elasticity of demand will have
(a) Increased in absolute terms.
(b) Decreased in absolute terms.
(c) remained unchanged.
(d) Increased, decreased or stayed the same. It cannot be determined.

http://www.econ.washington.edu/user/haideh/Perloff-tb03-Ec300.pdf

Question No: 18
The supply curve is positively sloped because:
► As the price increases, consumers demand less.
► As the price increases, suppliers can earn higher levels of profit or justify higher marginal costs to produce more.
► None of the given options.
► As the price increases, so do costs.

Question No: 19
Assume that pen and ink are complements. When the price of pen goes up, the demand curve for ink:
► Shifts to the left.

► Shifts to the right.
► Remains constant.
► Shifts to the right initially and then returns to its original position.

Question No: 20
What is meant by the term utility?
► Useless.
► Require.
► Necessary.
► Satisfaction.

Utility is the usefulness, benefit or satisfaction derived from the consumption of goods and services

Question No: 21
Which of the following is TRUE about the marginal product of labour in any production process?
► It is total output divided by total labour inputs.
► It is total output minus the total capital stock.
► It is the change in total output resulting from a 'small' change on the labour input.
► It is total output produced by labour inputs.

http://www.kevinhinde.com/elearning/prod_costs/prod_costmchoice.htm

Question No: 22
Suppose that 36 units of output are produced by using 12 units of labor. Which of the following is TRUE in this context?
► The marginal product of labor is 3.
► The total product of labor is 1/3.
► The average product of labor is 3.
► None of the given options.

The average product of labor is the total product of labor divided by the number of units of labor employed or Q/L

36/12 = 3

Question No: 23
Which of the following occur when an isocost line is just tangent to an isoquant?
► Output is being produced at minimum cost.
► Output is not being produced at minimum cost.
► The two products are being produced at the medium input cost to the firm.
► The two products are being produced at the highest input cost to the firm.
http://web.cjcu.edu.tw/~lcc/Courses/1_tb13.pdf

Question No: 24

Which of the following is the basic difference between oligopoly and monopolistic competition?

► Products are differentiated in oligopoly.
► There are no barriers to entry in oligopoly.
► There are barriers to entry in oligopoly.
► An oligopoly includes downward sloping demand curves facing the firm.

Freedom of entry in monopolistic competition=Unrestricted
Freedom of entry in Oligopoly = Restricted

Question No: 25

What will happen to the isocost line if the price of both goods decreases proportionality?

► It shifts farther away from the origin of the graph.
► It shift inward.
► It shifts outward.
►None of the given options.

Higher levels of total cost shift the isocost line outward and lower levels of total cost shift the isocost line inward.

An isocost line will be shifted further away from the origin

a. If the prices of both inputs increases
b. If total cost increases
c. If there is an advance in technology
d. All of the above are correct

Question No: 26

A price maker is:

► A firm that accepts different prices from different customers.
► A monopolistically competitive firm.
► An oligoplistic firm.
► A firm that can individually influence the market price.

Question No: 27

Concentration ratio is used to assess:

► The level of competition in an industry.
► The degree of control over prices.
► The technological gaps between the firms.
► Marginal cost and marginal benefit analysis.

Concentration ratio is used to assess the level of competition in an industry

Question No: 28
At the profit-maximizing level of output, marginal cost equals to:
► Average revenue
► Total revenue
► **Marginal revenue**
► None of the given options

Question No: 29
The long run average fix cost for a monopolist firm starts to decrease as the firm
► Increases its price.
► Decreases its output.
► Increases its output.
► **None of the given options**.

Question No: 30
It is not possible to identify any single equilibrium in
► Perfect competition.
► Monopoly.
► **Oligopoly.**
► Duopoly.
It is not possible to identify any single equilibrium in oligopoly. Theory of firm is not clearly discussed & established as the theory of firm in the other three market structures. Reason for that is the firms are interdependent.

Question No: 31
In cartels, there are a small number of sellers and usually involve
► Heterogeneous products.
► Large competition.
► **Homogeneous products.**
► Less demand in market.

Cartel
A cartel is a formal (explicit) agreement among firms. Cartels usually occur in an oligopolistic industry, where there are a small number of sellers and usually involve homogeneous products.

Question No: 32
Consumers can make about the rational decision by using:
► Total utility and marginal utility approach**.**
► Income and consumption analysis.
► **Cost and benefit analysis.**
► Working hours and leisure time.
Consumers can decide about the rational decision by using cost and benefit analysis

Question No: 33

Since bread and butter are complements. When the price of bread goes down, the demand curve for butter:

► **Shifts to the left.**
► Shifts to the right.
► Remains constant.
► Shifts to the right initially and then returns to its original position.

Question No: 34

If the cross price elasticity of demand between two goods A and B is negative; it means that goods are

► Independent.
► Inferior.
► **Complements.**
► Substitutes.

PAPER # 7

1- Government authorities have managed to reduce the unemployment rate from 8% to 4% in a hypothetical economy. As a result:
► The economy's production possibilities curve will shift outward.
► The economy's production possibilities curve will become steeper.
► The economy will move downward along its production possibilities curve.
► The economy will move from a point inside to a point closer to its production possibilities curve.

2- When government sets the price of a good and that price is above the equilibrium price, the result will be:
► A surplus of the good.
► A shortage of the good.
► An equilibrium.
► None of the given options.

3- If the income elasticity of demand for boots is 0.2, a 10% increase in consumer's income will lead to a:
► 20 percent decrease in the quantity of boots demanded.
► 2 percent increase in the quantity of boots demanded.
► 0.2 percent increase in the quantity of boots demanded.
► 20 percent increase in the quantity of boots demanded.

4- The numerical measurement of a consumer's preference is called:
► Use.
► Pleasure.
► Utility.
► Satisfaction.

5- Marginal utility is best described as:
► The total satisfaction gained from the total consumption of the good.
► The change in satisfaction from consuming one additional unit of the good.
► The additional satisfaction gained by consumption of the last good.
► The per unit satisfaction of the good consumed.

6- The law of diminishing marginal utility states:
► The supply curve slopes upward.
► Your utility grows at a slower and slower rate as you consume more and more units of a good.

► The elasticity of demand is infinite.
► None of the given options.

7- Consumers will maximize satisfaction when:
► The price of each good is exactly equal to the price of every other good consumed.
► The price of each good is exactly equal to the total utility derived from the consumption of every other good.
► **The marginal utility of the last dollar spent on each good is exactly equal to the marginal utility of the last dollar spent on any other good**.
► Marginal utility is equal to average utility.

This state that a person will derive a maximum level of TU from consuming a particular bundle of goods when the utility derived from the last dollar spent on each good is the same

8- As long as all prices remain constant, an increase in money income results in:
► An increase in the slope of the budget line.
► A decrease in the slope of the budget line.
► **An increase in the intercept of the budget line.**
► A decrease in the intercept of the budget line.

9- Which of the following is TRUE about price-consumption curve for good X?
► Nominal income falls as the price of X falls.
► The absolute price of X falls, but the relative price between X and the composite good Y stays the same.
► It is always downward sloping for a normal good.
► **It represents only those market baskets that are optimal for the given price ratio and preference pattern and therefore a demand curve can be plotted from it.**

Price Consumption Curve:

Holding income and the prices of other goods constant, the price consumption curve for a good is the set of optimal bundles as the price of the good varies
A price consumption line connects the utility maximizing consumption bundles for various prices. Second, plot the price changes with corresponding changes in the quantity of X consumed. Connect the price-quantity coordinates to create the demand curve.

Income Consumption Curve:

Holding the price of all goods constant, the income consumption curve for a good is the set of optimal bundles as income varies

Upward-sloping if good X is normal

Downward-sloping if good X is inferior

Engel Curve:

The curve that plots the relationship between the quantity of a good consumed and income

10- _____ arises when an increase in all inputs leads to a more-than-proportional increase in the level of output. _____ means that as inputs are added to the production process, output increases proportionally.

► **Economies of scale; constant returns to scale.**
► Constant returns to scale; decreasing returns to scale.
► Decreasing returns to scale; economies of scale.
► Economies of scale; decreasing returns to scale.

11- The rate at which a firm can substitute capital for labour and hold output constant is the:

► Law of diminishing marginal returns.
► Marginal rate of substitution.
► **Marginal rate of factor substitution.**
► Marginal rate of production.

12- Fixed costs are fixed with respect to changes in:

► **Output.**
► Capital expenditures.
► Wages.
► Time.

13- A price taker is:

► A firm that accepts different prices from different customers.
► A monopolistically competitive firm.
► **A firm that cannot influence the market price**.
► An oligopolistic firm.

14- If a firm experiences economies of scale, then the:

► Long-run average total cost curve is equal to the economies of scope.

► **Long-run average total cost curve is positively sloped.**
► Long-run average total cost curve is horizontal.
► Long-run average total cost curve is negatively sloped.

15- The break-even point occurs when:
► Price < Average Variable Cost.
► Price < Average Total Cost.
► **Price = Average Total Cost.**
► Price > Average Variable Cost.

16- Compared to the equilibrium price and quantity sold in a competitive market, a monopolist will charge a _____ price and sell a _____ quantity.
►Higher; larger.
►Lower; larger.
►**Higher; smaller.**
► Lower; smaller.

Monopolists produce lower quantities at higher prices compared to perfectly competitive firms

17- The principle economic difference between a competitive and a non-competitive market is:
► The number of firms in the market.
► **The extent to which any firm can influence the price of the product.**
► The size of the firms in the market.
► The annual sales made by the largest firms in the market.

18- Usually the shape of production possibilities curve is:
► **Concave**
► Convex.
► Linear.
► Positive.

PPFs are normally drawn as bulging upwards ("concave")

19- For price making firm, at the profit-maximizing level of output, what is TRUE of the total revenue (TR) and total cost (TC) curves?
► **They must intersect with TC cutting TR from below**.
► They must intersect with TC cutting TR from above.
► They must be tangent to each other.

► They must have the same slope.

http://quizlet.com/21886592/intermediate-microeconomics-flash-cards/

20- A person with a diminishing marginal utility of income is said to be:
► **Risk averse person**.
► Risk neutral person.
► Risk loving person.
► None of the given options.

21- What questions are related with explanation? What questions are related with what ought to be?
► Positive, negative.
► Negative, normative.
► Normative, positive.
► **Positive, normative.**

22- Production possibilities curve will shift upward if there is:
► A reduction in unemployment.
► **An increase in the production of capital goods.**
► A reduction in discrimination.
► All of the given options.

23- What will happen to the demand for product X, if there is an increase in consumer's income?
► It will shift to the right if X is a complementary good.
► **It will shift to the right if X is a normal good**.
► It will shift to the right if X is an inferior good.
► It will necessarily remain unchanged.

Normal good, income increase, demand increase, and shift right

24- What will happen if there is an increase in the raw material costs, other things remaining the same?
►**The supply curve will shift to the left.**
► The supply curve will shift to the right.
►Output will increase regardless of the market price and the supply curve will shift upward.
►Output will decrease and the market price will also decrease.

In resource price of supply cause the supply curve shift to left, decrease in supply

25- Suppose the total costs of first four units of an output produced are 20, 40, 60, and 80 respectively. What is the marginal cost of the second unit of output?

► 10.

► **20.**

► 30.

► 40.

40-20 = 20

26- Which of the following determines the largest amount of output that a firm can produce with a given combination of inputs?

► Marginal product of labor.

► Gains from specialization.

► Cost function.

► **Production function.**

27- Suppose that 36 units of output are produced by using 12 units of labor. Which of the following is TRUE in this context?

► The marginal product of labor is 3.

► The total product of labor is 1/3.

► **The average product of labor is 3.**

► None of the given options.

28- Which of the following best defines the marginal rate of technical substitution?

► **The rate at which a producer is able to exchange, without affecting the quantity of output produced, a little bit of one input for a little bit of another input.**

► The rate at which a producer is able to exchange, without affecting the total cost of inputs, a little bit of one input for a little bit of another input.

► The rate at which a producer is able to exchange, without affecting the total inputs used, a little bit of one output for a little bit of another output.

► A measure of the ease or difficulty with which a producer can substitute one technique of production for another.

29-Usually, for electric sales, the electric power company uses block pricing strategy. It is an example of:

► First-degree price discrimination.

► **Second-degree price discrimination.**

► Third-degree price discrimination.

► Block pricing is not a type of price discrimination.

30- The total cost (TC) function is given as TC = 500 + 30Q. What is the average total cost?

► 500
► **30+ (500/Q)**
► $30Q^2+500Q$
► 30

31-If marginal cost is Rs.15,000/- and marginal revenue is Rs.20,000/-. The firm should:

► Reduce output until marginal revenue equals marginal cost.
► Do nothing without information about your fixed costs.
► **Expand output until marginal revenue equals marginal cost**.
► None of the given options.

32- It is not possible to identify any single equilibrium in

► Perfect competition.
► Monopoly.
► **Oligopoly**.
► Duopoly.

33- Theory of firm is not clearly discussed & established in

► Monopoly.
► Perfect competition.
► **Oligopoly.**
► None of the given options.

It is not possible to identify any single equilibrium in oligopoly. Theory of firm is not clearly discussed & established as the theory of firm in the other three market structures

34-If you sum the marginal utilities obtained by consumption from one unit to five units of any commodity, you will get:

► The marginal utility for the consumption of the fifth unit.
► The marginal utility for the consumption of the sixth unit.
► **The total utility for the consumption of the first five units**.
► The average utility for the consumption of the first five units.

PAPER # 8

1-In pure capitalism, freedom of enterprise means that:

► **Businesses are free to produce products that consumers want.**
► Consumers are free to buy goods and services that they want.
► Resources are distributed freely to businesses.
► Government is free to direct the actions of businesses.

Freedom of enterprise means that entrepreneurs and businesses have the freedom to obtain and use resources, to produce products of their choice, and to sell these products in the markets of their choice

http://www.mcgrawhill.ca/college/mcconnell8/olc/macro_olc/ma8_qq03.html?Rf1=&Rf1=&Rf1=&As2=1

2-The demand curve for chicken is downward-sloping. Suddenly the price of chicken rises from Rs.130 per kg to Rs.140 per kg. This will cause:

► The demand curve for chiken to shift to the left.
► The demand curve for chiken to shift to the right.
► Quantity demanded of chiken to increase.
► **Quantity demanded for chiken to derease.**

3-The supply curve is upward-sloping because:

► As the price increases, consumers demand less.
► **As the price increases, suppliers can earn higher levels of profit or justify higher marginal costs to produce more.**
► None of the given options.
► As the price increases, so do costs.
http://www.econweb.com/MacroWelcome/sandd/quiz/

4-If the quantity supplied of oranges exceeds the quantity demanded then:

► There is a shortage of oranges.
► **Market forces will cause the price to fall.**
► Market forces will cause the price to rise.
► The market is in equilibrium.

5-A price ceiling might be an appropriate government response to a:

► Period of falling farm prices due to unusually good harvests.
► Substantial increase in farm productivity due to applications of new technology in agriculture.
► **National security crisis leading to major shortages of essential goods.**
► Period of extraordinary large surpluses of farm goods.

6-Assume that the government sets a ceiling on the interest rate that banks charge on loans. If the ceiling is set below the market equilibrium interest rate, the result will be:

► A surplus of credit.
► **A shortage of credit.**
► Greater profits for banks issuing credit.
► A perfectly inelastic supply of credit in the market place.

7-In order to calculate the price elasticity of supply, you need to know:

► **Two prices and two quantities supplied.**
► The slope of the supply curve.
► The equilibrium price and quantity in the market.
► The quantity supplied at two different prices, all else equal.

Price elasticity of supply is the percentage change in quantity supplied with respect to the percentage change in price.

8-When the price of petrol rises by 12%, the quantity of petrol purchased falls by 8%. This shows that the demand for petrol is:

► Perfectly elastic.
► Unit elastic.
► Elastic.
► **Inelastic.**

PEoD = (% Change in Quantity Demanded)/(% Change in Price)
8/12= 0.6□
Elasticity = zero : perfectly inelastic demand
Zero < elasticity < one: inelastic demand.
Elasticity > one : elastic demand

9-The numerical measurement of a consumer's preference is called:

► **Use.**
► Pleasure.
► Utility.
► Satisfaction.

10-According to the utility model of consumer demand, the law of diminishing marginal utility indicates that the demand curve is:

► Vertical.
► U-shaped.
► **Upward-sloping.**
► Downward-sloping.

11-If your demand price for one unit of a good is $100 and the market price is $75, your consumer's surplus is:

► **$25.**
► $50.
► $75.
► $100.

12-Other things being equal, expected income can be used as a direct measure of well-being:

► No matter what a person's preference to risk.
► If and only if individuals are not risk-loving.
► If and only if individuals are risk averse.
► **If and only if individuals are risk neutral.**

Risk averse individual has, a constant marginal utility of income but a diminishing marginal utility of risk

13-If diminishing marginal utility holds and a person consumes less of a good then which of the following will happen; all else being equal?

► Marginal utility will decline.
► The price of the good will rise.
► **Marginal utility will rise.**
► Expenditure on the good will increase.

http://www.google.com.pk/url?sa=t&rct=j&q=f+diminishing+marginal+utility+holds+and+a+person+consumes+less+of+a+good+then+which+of+the+following+will+happen%3B+all+else+being+equal%3F++%E2%96%BA+Marginal+utility+will+decline.+%E2%96%BA+The+price+of+the+good+will+rise.+%E2%96%BA+Marginal+utility+will+rise.+%E2%96%BA+Expenditure+on+the+good+will+increase.+&source=web&cd=1&cad=rja&ved=0CC0QFjAA&url=http%3A%2F%2Fecon2.econ.iastate.edu%2Fclasses%2Fecon101%2Fmonchuk%2FPractice%2520Exam%2520%25232%2520-%2520compiled.pdf&ei=b36PUfOfFq2O7AbwmYCYDA&usg=AFQjCNHz-MO7J3-I_KlK69nCU6tax0ESoQ&bvm=bv.46340616,d.ZGU

14-Suppose there are only two goods A and B, if more of good A is always preferred to less, and if less of good B is always preferred to more, then:

► Indifference curves slope downwards.
► **Indifference curves slope upwards**.
► Indifference curves may cross.
► Indifference curves could take the form of ellipses.

15-If a consumer's marginal rate of substitution equals 2 eggs for 1 hamburger then:

► The consumer's indifference curve must be positively sloped.

► The consumer's indifference curve must be convex with respect to the origin of the graph.
► **The ratio of the consumer's marginal utility of 1 egg to that of 1 hamburger must equal ½.**
► All of the given options.

http://www.google.com.pk/url?sa=t&rct=j&q=If+a+consumer%E2%80%99s+marginal+rate+of+substitution+equals+2+eggs+for+1+hamburger+then%3A++%E2%96%BA+The+consumer%E2%80%99s+indifference+curve+must+be+positively+sloped.+%E2%96%BA+The+consumer%E2%80%99s+indifference+curve+must+be+convex+with+respect+to+the+origin+of+the+graph.+%E2%96%BA+The+ratio+of+the+consumer%E2%80%99s+marginal+utility+of+1+egg+to+that+of+1+hamburger+must+equal+%C2%BD.+%E2%96%BA+All+of+the+given+options&source=web&cd=1&cad=rja&ved=0CC0QFjAA&url=http%3A%2F%2Fweb.uvic.ca%2F~okhan%2FSolutions(Midterm).doc&ei=0n6PUcXGHMeL7AbH64CADw&usg=AFQjCNFKNqA1wqVHtIR8-SOOhozXrndl5A&bvm=bv.46340616,d.ZGU

16-An indifference curve is:
► **A collection of market baskets that are equally desirable to the consumer**.
► A collection of market baskets that the consumer can buy.
► A curve whose elasticity is constant for every price.
► A curve which passes through the origin and includes all of the market baskets that the consumer regards as being equivalent.
http://web.uvic.ca/~okhan/Practice%20Question.pdf

17-Increase in pension benefits leads to income and substitution effect which:
► Encourage workers to retire later.
► Encourage workers to work more hours.
► Have no effect on incentive to retire.
► **Encourage workers to retire earlier.**

18-The substitution effect of a wage increase will lead a person to:
► **Work more.**
► Take more leisure.
► Not change anything.
► None of the given options.

When the wage rate increases, the price of leisure increases. The increase in wage rate causes the worker to spend less time in leisure and more time in work. We call this the **substitution effect** of an increase in the wage rate

19-Which of the following statements about indifference curves is NOT correct?
► Indifference curves are generally negatively sloped.

► Without utility being quantifiable we can say that one indifference curve is higher than (or preferred to) another but we cannot say by how much.
► Two indifference curves cannot intersect unless they are identical throughout.
► **Two different indifference curves can intersect but only once.**

20-The income effect of a price change:
► Is always positive.
► Is always negative.
► **May be positive or negative.**
► Is associated with a change in nominal income.

Income effect may be positive or negative, since the good may be normal or inferior.

http://www.udel.edu/johnmack/frec444/444lec04.htm

21-When the substitution effect of a lowered price is counteracted by the income effect, the good in question is:
► **An inferior good.**
► A substitute good.
► An independent good.
► A normal good.
http://web.uvic.ca/~okhan/Practice%20Question.pdf

22-Which of the following statements describes the presence of diminishing returns holding at least one factor constant?
► The marginal product of a factor is positive and rising.
► **The marginal product of a factor is positive but falling.**
► The marginal product of a factor is falling and negative.
► The marginal product of a factor is constant.

The law of diminishing returns states that as one more unit of a variable factor is added to a given fixed factor, the productivity of that extra unit falls.

http://www.kevinhinde.com/elearning/prod_costs/prod_costmchoice.htm

23-Diminishing marginal returns implies:
► Decreasing marginal costs.
► **Increasing marginal costs.**
► Decreasing average variable costs.
► Decreasing average fixed costs.

The law of diminishing marginal returns states that as you increase the quantity of a variable factor together with a fixed factor, the returns (in terms of output) become less and less.

24-An isocost line reveals the:
► Cost of inputs needed to produce along an isoquant.
► Cost of inputs needed to produce along an expansion path.
► Input combinations that can be purchased with a given outlay of funds.
► Output combinations that can be produced with a given outlay of funds.
http://www.google.com.pk/url?sa=t&rct=j&q=&esrc=s&source=web&cd=1&cad=rja&ved=0CC0QFjAA&url=http%3A%2F%2Fmarriottschool.net%2Femp%2FPJB%2FManEc300%2FMidterm%2520and%2520Key%252004.doc&ei=N4ePUaHTFYWV7AaOiYDIBw&usg=AFQjCNGTeNqlURLfRppem7cAJqWxgjjbWQ&bvm=bv.46340616,d.ZGU

25-Costs determine all of the following EXCEPT:
► Demand for a product.
► Firm's behaviour.
► How firms should expand?
► Firm's profitability.

26-If current output is less than the profit-maximizing output then which of the following must be TRUE?
► Total revenue is less than total cost.
► Average revenue is less than average cost.
► Marginal revenue is less than marginal cost.
► Marginal revenue is greater than marginal cost.

http://homepage.ntu.edu.tw/~chensyu/micro2008/hw8.pdf

If current output is less than the profit-maximizing output, then the next unit produced
a. will decrease profit.
b. will increase cost more than it increases revenue.
c. will increase revenue more than it increases cost.
d. will increase revenue without increasing cost.
e. may or may not increase profit.

27-In which market structure, each firm produces an identical product and there is freedom of entry and exit?
► Monopoly.
► Oligopoly.
► Perfect competition.
► Monopolistic competition.

http://www.glennvice.com/lahcfall03/econ1/quizzes/1q9.htm

28-For a monopolist, changes in demand will lead to changes in:

► Price with no change in output.
► Output with no change in price.
► **Both price and quantity**.
► None of the given options.

http://tutor2u.net/economics/content/topics/monopoly/monopoly_profits.htm
A change in demand will cause a change in price, output and profits.

. For a monopolist, changes in demand will lead to changes in

a. price with no change in output.

b. output with no change in price.

c. both price and quantity.

d. any of the above can be true

https://pantherfile.uwm.edu/ssa2/www/Econ301/ch10.htm

29-The maximum price that a consumer is willing to pay for a good is called:
► The reservation price.
► The market price.
► **The first-degree price.**
► The block price.

30-Which of the following is NOT regarded as a source of inefficiency in monopolistic competition?
► The fact that price exceeds marginal cost.
► Excess capacity.
► **Product diversity.**
► The fact that long-run average cost is not minimized.

31-Which of the following would most likely shift the production possibilities curve for a nation outward?
► A reduction in unemployment.
► **An increase in the production of capital goods.**
► A reduction in discrimination.
► An increase in the production of consumer goods.

32-You observe that the price of houses and the number of houses purchased both rise over the course of the year. You conclude that:
► **The demand for houses has increased.**

► The demand curve for houses must be upward-sloping.
► The supply of houses has increased.
► Housing construction costs must be decreasing.

33-If the income elasticity of demand is 1/2, the good is:
► A luxury.
► A normal good (but not a luxury).
► An inferior good.
► A Giffen good.

If income elasticity of demand of a commodity is less than 1, it is a necessity good For normal necessities *(*income elasticity of demand *is* positive but less than 1*)*

34-In monopoly, which of the following is NOT true?
► Products are differentiated.
► There is freedom of entry and exit into the industry in the long run.
► The firm is a price maker.
► There is one main seller.

Restricted or completely blocked

35-The principle economic difference between a competitive and a non-competitive market is:
► The number of firms in the market.
► The extent to which any firm can influence the price of the product.
► The size of the firms in the market.
► The annual sales made by the largest firms in the market.

36-The amount of output that a firm decides to sell has no effect on the market price in a competitive industry because:

► The market price is determined (through regulation) by the government.
► The firm supplies a different good than its rivals.
► The firm's output is a small fraction of the entire industry's output.
► The short run market price is determined solely by the firm's technology.

https://pantherfile.uwm.edu/ssa2/www/Econ301/ch8.htm

37-The basic difference between oligopoly and monopolistic competition is that.
► Products are differentiated in oligopoly.
► There are no barriers to entry in oligopoly.
► There are barriers to entry in oligopoly.

► An oligopoly includes downward sloping demand curves facing the firm.

38-Because of unusually warm weather, the supply of strawberries has substantially increased. This statement indicates that:
► The demand for strawberries will necessarily rise.
► The equilibrium quantity of strawberries will fall.
► The quantity of strawberries that will be available at various prices has increased.
► The price of strawberries will fall.

39- The marginal rate of substitution between food and shelter for a given point on an indifference curve:

► Is equal to the absolute value of the slope of the indifference curve at that point.
► Is equal to the rate at which the consumer is willing to exchange the two goods in the market place.
► Reflects the relative values the consumer attaches to the two good.
► Is described, in part, by each of the given statements.

40-Suppose the first four units of an output produced incur corresponding total costs of 100,300, 600, 1000.The marginal cost of the third unit of output is:
► 100.
► 150.
► 200.
► 300.

600-300=300

PAPER#9

Question No: 1
In pure capitalism, the role of government is best described as:
► Significant.
► Extensive.
► **Nonexistent.**
► Limited.

Question No: 2
Ceteris paribus means:
► Equal access to public transportation.
► **Other things being equal.**
► Other things not being equal.
► All things considered.

Question No: 3
While moving from left to right, the typical production possibilities curve has:
► **An increasingly steep negative slope.**
► A decreasingly steep negative slope.
► An increasingly steep positive slope.
► A constant and negative slope.

As resources are typically not perfectly adaptable to production of alternative goods, increased production of one good will require increasing sacrifices of the other

http://highered.mcgraw-hill.com/sites/1113273082/student_view0/chapter1/quiz_1.html

Question No: 4
A market is said to be in equilibrium when:
► Demand equals output.
► There is downward pressure on price.
► **The amount consumers wish to buy at the current price equals the amount producers wish to sell at that price.**
► All buyers are able to find sellers willing to sell to them at the current price.

Question No: 5
A demand curve is price inelastic when:
► **Changes in demand are proportionately smaller than changes in price.**
► Changes in demand are proportionately greater than changes in price.
► Changes in demand are equal to changes in price.
► None of the given options.

Question No: 6
Which of the following will be TRUE if demand is inelastic?
► The coefficient of elasticity is greater than one.
► The percentage change in quantity demanded is same as the percentage change in the price.
► An increase in price will increase total revenue.
► None of the given options.

Question No: 7
As more of a good is consumed, then total utility typically:
► Increases at a decreasing rate.
► Decreases as long as marginal utility is negative.
► Decreases as long as marginal utility is positive.
► Is negative as long as marginal utility is decreasing.

Question No: 8
The numerical measurement of a consumer's preference is called:
► Use.
► Pleasure.
► Utility.
► Satisfaction.

Question No: 9
Marginal utility is best described as:
► The total satisfaction gained from the total consumption of the good.
► The change in satisfaction from consuming one additional unit of the good.
► The additional satisfaction gained by consumption of the last good.
► The per unit satisfaction of the good consumed.

Question No: 10
When the marginal utility of a good is zero, this implies that:
► The consumer would not spend any additional income to buy more of that good.
► Consumption of additional units would have positive marginal utility.
► Total utility is minimized.
► Total utility is also zero.

Question No: 11
Suppose that the price of a pizza is $10 and price of a jeans is $30. If ratio of marginal utility of pizza to marginal utility of jeans is 1/4 then to maximize total utility, a consumer should:

► Buy more pizzas and fewer jeans.
► Buy fewer pizzas and more jeans.
► Continue to buy the same quantities of pizza and jeans.

► Spend more time consuming pizza.

THE EQUI-MARGINAL PRINCIPLE

In the case of more than two goods, optimum consumption point can be arrived at by using the equimarginal principle. This state that a person will derive a maximum level of TU from consuming a particular bundle of goods when the utility derived from the last dollar spent on each good is the same:

MUa/ Pa = MUb/ Pa = MUc/Pc …….

Question No: 12

Which of the following is TRUE about price-consumption curve for good X?

► Nominal income falls as the price of X falls.

► The absolute price of X falls, but the relative price between X and the composite good Y stays the same.

► It is always downward sloping for a normal good.

► It represents only those market baskets that are optimal for the given price ratio and preference pattern and therefore a demand curve can be plotted from it.

Question No: 13

A production function:

► Relates inputs with output.

► Generates a curve that is upward sloping.

► Shows diminishing marginal product of an input, since it gets flatter as output rises.

► All of the given options.

Question No: 14 _____ arises when an increase in all inputs leads to a more-than-proportional increase in the level of output. _____ means that as inputs are added to the production process, output increases proportionally.

► Economies of scale; constant returns to scale.

► Constant returns to scale; decreasing returns to scale.

► Decreasing returns to scale; economies of scale.

► Economies of scale; decreasing returns to scale.

Question No: 15

The budget line is the boundary between:

► Preferred and non preferred consumption combinations.

► Affordable and unaffordable consumption combinations.

► Income and expenditure.

► One point on a budget line.

Budget line marks the boundary between affordable and unaffordable.

Question No: 16

Marginal profit is equal to:

► Marginal revenue minus marginal cost

► Marginal revenue plus marginal cost.
► Marginal cost minus marginal revenue.
► Marginal revenue times marginal cost.

Question No: 17
Revenue is equal to:
► Price times quantity.
► Price times quantity minus total cost.
► Price times quantity minus average cost.
► Price times quantity minus marginal cost.

Question No: 18
A perfectly competitive firm maximizes profit by finding the level of production at which:
► Price = Marginal Cost.
► Price = Average Total Cost.
► Average Total Cost = Marginal Cost.
► Price < Marginal Cost.

Question No: 19
When a firm charges each customer the maximum price that the customer is willing to pay, the firm:
► Engages in a discrete pricing strategy.
► Charges the average reservation price.
► Engages in second-degree price discrimination.
► Engages in first-degree price discrimination.

Question No: 20
A market with few entry barriers and with many firms that sell differentiated products is:
► Purely competitive.
► A monopoly.
► Monopolistically competitive
► Oligopolistic.

Question No: 21
The textbook for your class was not produced in a perfectly competitive industry because:
► There are so few firms in the industry that market shares are not small, and firm's decisions have an impact on market price**.**
► Upper-division microeconomics texts are not all alike.
► It is not costless to enter or exit the textbook industry.
► All of the given options.

http://webs.wofford.edu/mcarthurjr/eco_301/quizzes/eco301PQ08.html

Question No: 22
A person with a diminishing marginal utility of income is said to be:
► **Risk averse person.**
► Risk neutral person.
► Risk loving person.
► None of the given options.

Question No: 23
Which of the following is TRUE in a planned economy?
► Goods and services produced reflect consumer sovereignty.
► **Price is relatively unimportant as a means of allocating resources.**
► There is no incentive for people to work hard.
► All income is completely evenly distributed.
http://www.bized.co.uk/learn/economics/qbank/micro.htm

Resource allocation decisions are made by the process of planning and prices change relatively little.

Question No: 24
What is the assumption of constructing a production possibilities curve?
► Economic resources are underutilized.
► Resources are equally productive in many alternative uses.
► **All available resources are employed efficiently.**
► Production technology is allowed to vary.

Question No: 25

Suppose the total utilities for the first four units of a good consumed are 13, 23, 33, and 43 respectively. What is the marginal utility of the third unit?

► **10.**
► 13.
► 20.
► 33.

33-23=10

Question No26
The total cost (TC) function is given as: TC = 200 + 5Q. What is the fixed cost?
► 5Q.
► 5.
► 5 + (200/Q).
► **200.**
TC = FC + VC

Question No: 27

Which of the following is TRUE for the total cost of producing a given level of output?

► It is maximized when a corner solution exists.

► **It is minimized when the ratio of marginal product to input price is equal for all inputs**.

► It is minimized when the marginal products of all inputs are equal.

► It is minimized when marginal product multiplied by input price is equal for all inputs.

http://faculty.arts.ubc.ca/sseverinov/Econ301/301pracfin.pdf

Question No: 28

"Each firm produces an identical product and there is freedom of entry and exit". This is TRUE for which of the following market structures?

► For monopoly.

► For oligopoly.

► **For perfect competition.**

► For monopolistic competition.

Question No: 29

Usually, for electric sales, the electric power company uses block pricing strategy. It is an example of:

► First-degree price discrimination.

► **Second-degree price discrimination.**

► Third-degree price discrimination.

► Block pricing is not a type of price discrimination.

Question No: 30

If average physical product (APP) is decreasing then which of the following must be true?

► Marginal physical product is more than the average physical product.

► **Marginal physical product is less than the average physical product.**

► Marginal physical product is decreasing.

► Marginal physical product is increasing.

If the marginal physical product is below the average physical product, the average physical product will fall.

Question No: 31

Which of the following statement describes decreasing returns to scale?

► Increasing the inputs by 1/4% leads to a 1/2% increase in output.

► **Increasing inputs by 1/2 leads to an increase in output of 1/6.**

► Doubling the inputs used leads to double the output.

► None of the given options.

½=0.5 , 1 /6 = 0.167

¼% =25, 1 /2% = 50

4/100 = 0.04, 1/0.04 =25

Question No: 32
If different firms in the oligoplistic structures do not cooperate with each other is known as
► Collusive oligopoly.
► Cartel.
► Price leadership.
► **Non-collusive oligopoly.**

Question No: 33
Consumers can make about the rational decision by using:
► Total utility and marginal utility approach.
► Income and consumption analysis.
► **Cost and benefit analysis.**
► Working hours and leisure time.

Question No: 34
What might be the reason of a rightward shift in the demand curve for product X?
► An increase in income if X is a normal good.
► A decrease in income if X is an inferior good**.**
► An increase in the price of a product that is complementary to X.
► **An increase in the price of a product that is substitute to X.**

Normal goods are goods whose quantity demanded goes up as consumer income increases. [Increase in income shift demand right ward]
Inferior goods are goods whose quantity demanded goes down as consumer income increases. And quantity demanded goes up as consumer income decrease [decrease in income shift demand to rightward]

Due to increase in price of product that is substitute to X , that product demand decrease due to increase in price now consumer demand X , and demand for X shift rightward.

PAPER # 10

Question No: 1
Land is best described as:

- ► Produced factors of production.
- ► "Organizational" resources.
- ► Physical and mental abilities of people.
- ► **Naturally occurring resources.**

Question No: 2
While moving from left to right, the typical production possibilities curve has:

- ► **A increasingly steep negative slope.**
- ► A decreasingly steep negative slope.
- ► An increasingly steep positive slope.
- ► A constant and negative slope.

As resources are typically not perfectly adaptable to production of alternative goods, increased production of one good will require increasing sacrifices of the other

http://highered.mcgraw-hill.com/sites/1113273082/student_view0/chapter1/quiz_1.html

Question No: 3
When government sets the price of a good and that price is above the equilibrium price, the result will be:

- ► **A Surplus of the good**
- ► A shortage of the good.
- ► An equilibrium.
- ► None of the given options.

Question No: 4

If pen and ink are complements, then an increase in the price of pen will cause:

- ► An increase in the price of ink.
- ► **Less ink to be demanded at each price.**
- ► A decrease in the demand for pen.
- ► A rightward shift in the demand curve for ink.

Question No: 5
An increase in supply is shown by:

- ► Shifting the supply curve to the left.
- ► **Shifting the supply curve to the right**
- ► Upward movement along the supply curve.
- ► Downward movement along the supply curve.

Question No: 6

When an industry's raw material costs increase, other things remaining the same:

► The supply curve shifts to the right.

► Output increases regardless of the market price and the supply curve shifts upward.

► Output decreases and the market price also decrease.

► **The supply curve shifts to the left**

Question No: 7

Sugar can be refined from sugar beets. When the price of those beets falls:

► The demand curve for sugar would shift right.

► The demand curve for sugar would shift left.

► **The supply curve for sugar would shift right**

► The supply curve for sugar would shift left.

Question No: 8

The price elasticity of demand measures the responsiveness of quantity demanded to:

► Quantity demanded.

► Quantity supplied.

► **Price**

► Output.

PЄd = Percentage change in Quantity Demanded/Percentage change in Price

Question No: 9

Since the fish that are caught each day go bad very quickly, the daily catch will be offered for sale no matter what price it brings. As a result, we know that:

► None of the given options.

► The daily supply curve for fish slopes upward.

► **The daily supply curve for fish is perfectly inelastic**

► The daily supply curve for fish is perfectly elastic.

Question No: 10

In order to calculate the price elasticity of supply, you need to know:

► **The Prices and two quantities supplied**

► The slope of the supply curve.

► The equilibrium price and quantity in the market.

► The quantity supplied at two different prices, all else equal.

Question No: 11
Suppose the first four units of an output produced incur corresponding total costs of 50, 150, 300, and 500. The marginal cost of the second unit of output is:

- ► 50.
- ► **100**
- ► 150.
- ► 200.

150- 50 =100

Question No: 12
Law of diminishing marginal utility indicates that the slope of the marginal utility curve is:

- ► Horizontal.
- ► Vertical.
- ► **Negative**
- ► Positive.

Question No: 13
Assume that the total utilities for the fifth and sixth units of a good consumed are 83 and 97, respectively. The marginal utility for the sixth unit is:

- ► -14.
- ► **14**
- ► 83.
- ► 97.

97- 83 = 14

Question No: 14
Suppose that the price of a pizza is $10 and price of jeans is $30. If ratio of marginal utility of pizza to marginal utility of jeans is 1/4 then to maximize total utility, a consumer should:

- ► Buy more pizzas and fewer jeans.
- ► **Buy fewer pizzas and more jeans.**
- ► Continue to buy the same quantities of pizza and jeans.
- ► Spend more time consuming pizza.

Question No: 15
Which of the following is NOT an assumption of ordinal utility analysis?

► Consumers are consistent in their preferences.
► **Consumers can measure the total utility received from any given basket of good.**
► Consumers are non-satiated with respect to the goods they confront.

► All of the given options are true

http://web.uvic.ca/~okhan/Practice%20Question.pdf

Question No: 16
Assume leisure is a normal good. If income effect equals substitution effect then a wage rate increase will lead a person to:

► Increase hours of work.
► **Decrease hours of work**
► Not change hours of work.
► None of the given options.

Question No: 17
Ali initially leased one-room space and started a small day care centre with only 4 children and one staff member. But he found that the cost per child is very high. He wants to expand the centre. Which of the following will happen when Ali expand the centre?

► **Economies of scale.**
► Diseconomies of scale.
► Decreasing returns to the labor inputs.
► Increasing returns to the labor inputs.

Question No: 18
A graph showing all the combinations of capital and labour available for a given total cost is the:
► Budget constraint.
► Expenditure set.
► Isoquant.
► **Isocost**

Question No: 19
An isoquant curve shows:

► All the alternative combinations of two input that yield the same maximum total output.

► All the alternative combinations of two products that can be produced by using a given set of inputs fully and in the best possible way.

► All the alternative combinations of two products among which a producer is indifferent because they yield the same profit.

► None of the given options.

http://homepage.ntu.edu.tw/~chensyu/micro2008/hw6.pdf

Isoquant:

Isoquant is a concept used in production it indicates various combinations of two factors of production for example labor and capital which give the same level of output per unit of time

An isoquant represents different combinations of factors of production that a firm can employ to produce the same level of output.

COMBINATIONS	UNITS OF CAPITAL	UNITS OF LABOUR	TOTAL OUTPUT
A	50	1	1500
B	45	2	1500
C	41	3	1500
D	38	4	1500

Isocost

Isocost curve shows the various combinations of L and K, each of which costs the producer the same amount of money.

Question No: 20

L-shaped isoquant:

► Indicate that capital and labor cannot be substituted for each other in production

► Is impossible.

► Indicate that the firm could switch from one output to another costlessly.

► Indicate that the firm could not switch from one output to another.

http://homepage.ntu.edu.tw/~chensyu/micro2008/hw6.pdf

Question No: 21

Costs determine all of the following EXCEPT:

► Demand for a product

► Firm's behaviour.

► How firms should expand?

► Firm's profitability.

Question No: 22

Total costs are the sum of:

► Marginal costs and variable costs.

► **Fixed costs and variable costs.**

► Fixed costs and marginal costs.

► Average variable costs and marginal costs.

Question No: 23

To find the profit maximizing level of output, a firm finds the output level where:

► Price equals marginal cost.

► Marginal revenue and average total cost.

► Price equals marginal revenue.

►**None of the given option.**

Question No: 24

The good produced by a monopoly:

► Has perfect substitutes.

► Has no substitutes at all.

► **Has no close substitutes.**

► Can be easily duplicated.

A monopoly or a firm within monopolistic competition that has the power to influence the price it charges as the good it produces does not have perfect substitutes

http://www.glennvice.com/lahcfall03/econ1/quizzes/1q9.htm

Question No: 25

A perfectly competitive firm maximizes profit by finding the level of production at which:

► **Price = Marginal Cost.**

► Price = Average Total Cost.

► Average Total Cost = Marginal Cost.

► Price < Marginal Cost.

Perfectly competitive firm's economic profit is maximized at the output level such that marginal revenue equals marginal cost.
Perfect competitive firm chooses its profit maximizing output level by setting marginal cost equal to the market pirce.

Question No: 26

The monopolist has no supply curve because:

► **The quantity supplied at any particular price depends on the monopolist's demand curve**

► The monopolist's marginal cost curve changes considerably over time.

► The relationship between price and quantity depends on both marginal cost and average cost.

► Although there is only a single seller at the current price, it is impossible to know how many sellers would be in the market at higher prices.

Question No: 27

In monopoly, which of the following is TRUE at the output level, where price = marginal cost?

► The monopolist is maximizing profit.

► The monopolist is not maximizing profit and should increase output.

► **The monopolist is not maximizing profit and should decrease output**.

► The monopolist is earning a positive profit.

Question No: 28

Following are the disadvantages of monopoly EXCEPT:

► Monopolists earn higher profits.

► **Monopolists produce high quality goods at higher prices**

► Most of the "surplus" (producer + consumer surplus) accrues to monopolists.

► Monopolists do not pay sufficient attention to increasing efficiency.

Question No: 29

When a firm charges each customer the maximum price that the customer is willing to pay, the firm:

► Engages in a discrete pricing strategy.

► Charges the average reservation price.

► Engages in second-degree price discrimination.

► **Engages in first-degree price discrimination.**

Question No: 30

Third-degree price discrimination involves:

► Charging each consumer the same two part tariff.

► Charging lower prices the greater the quantity purchased.

► The use of increasing block rate pricing.

► **Charging different prices to different groups based upon differences in elasticity of demand**

Question No: 31

Which of the following is true in long run equilibrium for a firm in a monopolistic competitive industry?

► The demand curve is tangent to marginal cost curve.
► **The demand curve is tangent to average cost curve.**
► The marginal cost curve is tangent to average cost curve.
► The demand curve is tangent to marginal revenue curve.

http://books.google.com.pk/books?id=Zqap9Ih7Li0C&pg=PA231&lpg=PA231&dq=long+run+equilibrium+for+a+firm+in+a+monopolistic+competitive+demand+curve+is+tangent+to+average+cost+curve&source=bl&ots=jSonBQLaA-&sig=aChg_zXg8l4gIBPumeyewfdM680&hl=en&sa=X&ei=1ayPUYWUEu-P7Abqx4Ew&ved=0CDEQ6AEwAQ#v=onepage&q=long%20run%20equilibrium%20for%20a%20firm%20in%20a%20monopolistic%20competitive%20demand%20curve%20is%20tangent%20to%20average%20cost%20curve&f=false
In the long run, equilibrium *of a* monopolistically competitive industry, the **...** The typical firm's demand curve *is just* tangent *to its* average *total* cost curve

Question No: 32
Which of the following would most likely shift the production possibilities curve for a nation outward?

► A reduction in unemployment.
► **An increase in the production of capital goods.**
► A reduction in discrimination.
► A increase in the production of consumer goods.

Question No: 33
A demand schedule is best described as:

► **A numerical tabulation of the quantity demanded of a good at different prices, ceteris paribus**
► A graphical representation of the law of demand.
► A systematic listing of all the variables that might conceivably bring about a change in demand.
► A symbolic representation of the law of demand: P,Q and Q, P.

Question No: 34
A partial explanation for the inverse relationship between price and quantity demanded is that a:

► Lower price shifts the supply curve to the left.
► Higher price shifts the demand curve to the left.
► Lower price shifts the supply curve to the right
► **Higher price reduces the real incomes of buyers.**

The demand curve is the relationship between price and quantity demanded, all else equal. A change in price changes quantity demanded, but does not shift the demand curve. One explanation for the inverse relationship between price and quantity demanded along the curve is that a higher price reduces the purchasing power of buyers' incomes. For normal goods, this drop in purchasing power will reduce desired purchases.

Question No: 35

The total utility curve for a risk neutral person will be:

► **Straight line**
► Convex.
► Concave.
► None of the given options.

The total utility curve for a risk neutral person will be a straight line while that of a risk averse person will be convex. The greater the convexity (curvature) the more risk averse the person will be.

Question No: 36

A welfare loss occurs in monopoly where:

► **The price is greater than the marginal cost**.
► The price is greater than the marginal benefit
► The price is greater than the average revenue.
► The price is greater than the marginal revenue.

http://global.oup.com/uk/orc/busecon/economics/gillespie_econ2e/01student/mcqs/unit12/

A welfare loss occurs in monopoly where the price is greater than the marginal cost.

The marginal revenue curve in monopoly lies below and diverges from the demand curve
A monopolist faces: a monopolist faces a downward sloping demand curve

In monopoly in long run equilibrium:

The firm is productively efficient
The firm is allocatively inefficient
The firm produces where marginal cost is less than marginal revenue
The firm produces at the socially optimal level

Question No: 37

Which of the following is NOT a factor of production?

► Labour.
► Land.
► Capital.
► **Investment**

Question No: 38

Which of the following does NOT refer to macroeconomics?

► The study of the aggregate level of economic activity.
► **The study of the economic behavior of individual decision making units such as consumers, resource owners, and business firms**
► The study of the cause of unemployment.
► The study of the cause of inflation.

Question No: 39
Demand is elastic when the elasticity of demand is:
► Greater than 0 but less than 1.
► **Greater than 1**
► Less than 0.
► Equal to 1.

Elasticity > one : elastic demand

EXTRA

1- A perfectly competitive firm's economic profit is maximized at the output level such that
A) Marginal revenue equals marginal cost.
B) Total revenue equals total variable cost.
C) Marginal revenue is equal to total revenue.
D) Total revenue equals total cost and marginal cost.

2- In the short run, a perfectly competitive firm might
A) Set its price above marginal cost.
B) Set its price above marginal revenue.
C) continue production even though it is incurring an economic loss.
D) Adjust the size of its fixed inputs.

3-Which of the following is a short-run decision for a firm?
A) Whether to increase or decrease its number of machines
B) Whether to produce or shut down
C) Whether to enter or exit an industry
D) None of the above are short-run decisions.

4-A nation's production possibilities curve might shift to the left (inward) as a result of:
Technological advancement
Increase in the size of the labor force
The depletion of its soil fertility due to over planting and overgrazing
Investing in more capital goods.

5-Government authorities have managed to reduce the unemployment rate from 6% to 4% in a hypothetical economy. As a result:

a. the economy's production possibilities curve has shifted outward

b. the economy has moved downward along its production possibilities curve

c. the economy has moved from a point inside to a point closer to its production possibilities curve

d. the economy's production possibilities curve has become steeper

If the economy were to reduce its unemployment it would come closer to reaching its existing productive capacity. The economy would thus be operating closer to its given production possibilities frontier

6- Which of following is a key assumption of a perfectly competitive market?
a. Firms can influence market price
b. Commodities have few sellers
c. It is difficult for new sellers to enter the market.
d. Each seller has a very small share of the market.

7- The "perfect information" assumption of perfect competition includes all of the following except one. Which one?
a. Consumers know their preferences.
b. Consumers know their income levels.
c. Consumers know the prices available.
d. Consumers can anticipate price changes.
e. Firms know their costs, prices and technology.

8-If current output is less than the profit-maximizing output, then the next unit produced
a. will decrease profit.
b. will increase cost more than it increases revenue.
c. will increase revenue more than it increases cost.
d. will increase revenue without increasing cost.
e. may or may not increase profit.

9-If current output is less than the profit-maximizing output, which must be true?
a. Total revenue is less than total cost.
b. Average revenue is less than average cost.
c. Average revenue is greater than average cost.
d. Marginal revenue is less than marginal cost.
e. Marginal revenue is greater than marginal cost

10-A firm never operates
a. at the minimum of its ATC curve.
b. at the minimum of its AVC curve.
c. on the downward-sloping portion of its ATC curve.
d. on the downward-sloping portion of its AVC curve.

11-The supply curve for a competitive firm is
a. its entire MC curve.
b. the upward-sloping portion of its MC curve.

c. its MC curve above the minimum point of the AVC curve.
d. its MC curve above the minimum point of the ATC curve.
.

12-A firm's producer surplus equals its economic profit when
a. average variable costs are minimized.
b. average fixed costs are minimized.
c. marginal costs equal marginal revenue.
d. fixed costs are zero.

13-If the market price for a competitive firm's output doubles then
a. the profit maximizing output will double
b. the marginal revenue doubles
c. at the new profit maximizing output, price has increased more than marginal cost
d. at the new profit maximizing output, price has risen more than marginal revenue

14-The demand curve facing a perfectly competitive firm is
a. the same as the market demand curve.
b. downward-sloping and less flat than the market demand curve.
c. downward-sloping and more flat than the market demand curve.
d. perfectly horizontal.

15-At the profit-maximizing level of output, marginal profit
a. is also maximized.
b. is zero.
c. is positive.
d. is increasing.

16-Marginal profit is equal to

a. marginal revenue minus marginal cost.
b. marginal revenue plus marginal cost.
c. marginal cost minus marginal revenue.
d. marginal revenue times marginal cost.

17-Which of the following statements is true regarding the differences between economic and accounting costs?
a. Accounting costs include all implicit and explicit costs.
b. Economic costs include implied costs only.
c. Accountants consider only implicit costs when calculating costs.
d. Accounting costs include only explicit costs.

18-Prospective sunk costs

a. are relevant to economic decision-making.
b. are considered as investment decisions.
c. rise as output rises.
d. do not occur when output equals zero.

19-Incremental cost is the same concept as _____ cost.
a. average
b. marginal
c. fixed
d. variable

20-Which of the following costs always declines as output increases?
a. average cost
b. marginal cost
c. fixed cost
d. average fixed cost
e. average variable cost

21-The total cost (TC) of producing computer software diskettes (Q) is given as: TC = 200 + 5Q. What is the variable cost?
a. 200
b. 5Q
c. 5
d. 5 + (200/Q)
e. none of the above

22-When an isocost line is just tangent to an isoquant, we know that

a. output is being produced at minimum cost.
b. output is not being produced at minimum cost.
c. the two products are being produced at the least input cost to the firm.
d. the two products are being produced at the highest input cost to the firm

23-The total cost (TC) of producing computer software diskettes (Q) is given as: TC = 200 + 5Q. What is the average fixed cost?
a. 500
b. 5Q
c. 5
d. none of the above

AFC = TFC/Q

24-The total cost (TC) of producing computer software diskettes (Q) is given as: TC = 200 + 5Q. What is the average total cost?

a. 500
b. 5Q
c. 5
d. 5 + (200/Q)

25-The total cost (TC) of producing computer software diskettes (Q) is given as: TC = 200 + 5Q. What is the marginal cost?

a. 200
b. 5Q
c. 5
d. 5 + (200/Q)

26-The total cost (TC) of producing computer software diskettes (Q) is given as: TC = 200 + 5Q. What is the fixed cost?

a. 200
b. 5Q
c. 5
d. 5 + (200/Q)

27-Which of the following is a positive statement?

a. Intermediate microeconomics should be required of all economics majors to build a solid foundation in economic theory.
b. The minimum wage should not be increased because this action would increase unemployment
c. Smoking should be restricted on all airline flights.
d. All automobile passengers should be required to wear seatbelts in order to protect them against injury.
e. None of the above.

28-Which of the following is a positive statement?

- When the price of a good goes up, consumer buy less of it
- When the price of good goes up, firms produce more of it
- When the federal government sells bonds, interest rates rise and private investment is reduce

- **All of the above**

29-The key assumption underlying the theory of the firm is that

A firm is assumed to maximize sales revenue

Managers are assumed to maximize the number of employees in their department

Firm are assumed to maximize profit

None of the above

30-The slope of an indifference curve reveals

Those preferences are complete

The marginal rate of substitution of one good for another good

The ratio of market prices

That preference is transitive

31-_____ question have to do with explanation and prediction, _____ question have to with what ought to be.

Positive, negative

Negative, normative

Affirmative, positive

Positive ,normative

32-Which of the following inputs are variable in the long run

Labor

Capital and equipment

Plant size

All of the given

33-The negative slope of the production possibilities curve illustrates that:

Some resources are always unemployed

An economy can produce more of one thing only by producing less of something else

Opportunity costs are constant

Business can sell more when prices are low

Each point on the production possibilities curve represents some maximum output of the two goods—the economy has achieved maximum production of one good for a given amount of the other. Increased production of any good requires sacrificing some of the other; the production possibilities curve will exhibit an inverse relationship between the two goods

34-Microeconomics:

Is particularly subject to the "fallacy of composition"

Is concerned with the economy as a whole

Studies how supply and demand determine prices in individual markets

Describes the aggregate flows of output and income

35-The scarcity problem:

Can be eliminated if all countries adopt laissez-faire capitalism

Will persist so long as productive resources are limited

Persists only in the developing countries

Will be eliminated if full employment is achieved

Feedback: The problem of scarcity arises because resources are limited relative to human wants. This condition will persist because our productive resources are limited while our wants are without limit

36-You should decide to study an extra hour tonight

If the marginal cost of studying an extra hour exceeds its marginal benefit

If the marginal benefit of studying an extra hour exceeds its marginal cost

If you got a lower than expected grade on your last exam

Because studying harder will improve your test scores

Feedback: Purposeful behavior in the face of scarcity entails comparing marginal benefit to marginal cost. Any activity whose marginal benefit exceeds its marginal cost should be expanded

https://www.google.com.pk/url?sa=t&rct=j&q=&esrc=s&source=web&cd=1&cad=rja&ved=0CC8QFjAA&url=http%3A%2F%2Ffbemoodle.emu.edu.tr%2Fmod%2Fresource%2Fview.php%3Fid%3D11343&ei=IQ6OUcmfEKHE7Ablu4Fg&usg=AFQjCNEPDOHa7Ldjrh8ANFioNbzdJyc-_g&sig2=ZWuuOoZztZKlIMMAhBT3Uw&bvm=bv.46340616,d.ZGU

37-A market with few entry barriers and with many firms that sell differentiated products is

A) Purely competitive.
B) A monopoly.
C) Monopolistically competitive.
D) oligopolistic.

38-Monopolistically competitive firms have monopoly power because they

A) Face downward sloping demand curves.
B) Are great in number.
C) Have freedom of entry.
D) Are free to advertise.

39-A monopolistically competitive firm in long-run equilibrium:
A) Will make negative profit.
B) Will make zero profit.
C) Will make positive profit.
D) Any of the above are possible.

40-Which of the following is true for both perfect and monopolistic competition?
A) Firms produce a differentiated product.
B) Firms face a downward sloping demand curve.
C) Firms produce a homogeneous product.
D) There is freedom of entry and exit in the long run.

41-Which of the following is true for both perfectly competitive and monopolistically competitive firms in the long run?
A) P = MC.
B) MC = ATC.
C) P > MR.
D) Profit equals zero.

42-Which of the following is true in long-run equilibrium for a firm in monopolistic competition?
A) MC = ATC.
B) MC > ATC.
C) MC < ATC.
D) Any of the above may be true.

43-The market structure in which strategic considerations are most important is
A) Monopolistic competition.
B) oligopoly.
C) pure competition.
D) pure monopoly.

44-If a firm in a perfectly competitive market suffers an economic loss,
A) Price is less than its marginal cost.
B) Price is less than its marginal revenue.
C) Price is less than its average total cost.
D) None of the above

45-A monopoly may arise due to:
A) A patent
B) Net work externalities.
C) Large economies of scale
D) all of the above.

46-When drawing demand and supply curves, economists are assuming that the primary influence on production and purchasing decisions is

Price

The cost of production

The overall state of the economy

Consumer incomes

Although there are many determinants of quantity demanded and quantity supplied, the demand and supply curves show the relationship between price and quantity, all other factors held constant. The primary factor is assumed to be the price

47-An improvement in production technology for a specific good will cause

Increase in demand and an increase in price

Increase in demand and a drop in price

Drop in price and increase in quantity demanded

Increase in supply and an increase in price

The improved technology will increase the supply of the product, thereby lowering the price and increasing the quantity demanded

48-When an economist says that the demand for a product has increased, this means that

Quantity demanded is greater at each possible price
Firms make less of the product available for sale
Consumers respond to a lower price by buying more
The demand curve becomes steeper

Demand is defined as the relationship between price and quantity demanded, all else equal. An "increase in demand" occurs if this relationship exhibits greater quantity demanded at each possible price

4-9-Decrease in the price of a product will increase the amount of it demanded because

Supply curves are up sloping

The lower price will decrease real incomes

The lower price induces consumers to use this product instead of similar products

Firms produce more at lower prices
A lower price makes this product a more desirable alternative relative to other similar products whose prices have not changed. This is the "substitution effect**.**

50-Goods X and Y are complements while goods X and Z are substitutes. If the supply of good X increases

The demand for both Y and Z will increase
The demand for Y will increase while the demand for Z will decrease
The demand for Y will decrease while the demand for Z will increase
The demand for both Y and Z will decrease

The increased supply of X will decrease its price, increasing the demand for complementary good Y and decreasing the demand for substitute good Z.

51- **Which of the following definitions is correct?**

A. Accounting profit + economic profit = normal profit.

B. Economic profit - accounting profit = explicit costs.

C. Economic profit = accounting profit - implicit costs.

D. Economic profit - implicit costs = accounting profits.

52- **Diseconomies of scale:**
A. pertains to the long run.
B. is synonymous with diminishing returns.
C. pertains to the short run.
D. is synonymous with increasing returns.

53-Other things equal, if the fixed costs of a firm were to increase by $100,000 per year, which of the following would happen?
A. Marginal costs and average variable costs would both rise.
B. Average fixed costs and average variable costs would rise.
C. Average fixed costs and average total costs would rise.
D. Average fixed costs would rise, but marginal costs would fall.

54-The short-run average total cost curve is U-shaped because:
A. average fixed costs decline continuously as output increases.

B. of increasing and diminishing returns.
C. of economies and diseconomies of scale.
D. minimum efficient scale is encountered.

55-Which of the following will not shift a country's production possibilities frontier outward?
An advance in technology
An increase in the labour force
An increase in the capital stock
A reduction in unemployment

56-Which of the following is part of the opportunity cost of going on holiday?
The money you spent on a theatre show
The money you could have made if you had stayed at home and worked
The money you spent on airline tickets
The money you spent on food

57-Economic growth is depicted by
A shift in the production possibilities frontier outward
A movement from inside the curve toward the curve
A shift in the production possibilities frontier inward
A movement along a production possibilities frontier toward capital goods

58-What is meant by allocative efficiency?

Getting the right goods to the right people at the right price
Producing using the optimum factor combination
Ensuring that sufficient is spent on research and development to ensure the development of new goods and service
Giving appropriate incentives for firms and consumers

59-Which of the following goods or services would not be provided by a pure free-market economy?
Public transport system
Pensions
National Defense
Education

60-A rational person does not act unless
The action produces marginal costs that exceed marginal benefits
The action produces marginal benefits that exceed marginal costs
The action makes money for the person
None of these answers

61-Which of the following statements would you consider to be a normative one?

Faster economic growth should result if an economy has a higher level of investment
Changing the level of interest rates is a better way of managing the economy than using taxation and government expenditure
Higher levels of unemployment will lead to higher levels of inflation

The average level of growth in the economy was faster in the 1990s than the 1980s

62-Obtaining the highest value from available resources at the lowest possible cost refers to:

A. **Economic Efficiency**
B. Economic Equity
C. Economic Freedom
D. Economic Security

63-When the Marginal Utility perceived by a consumers is "Zero", then the total utility is:

A. Minimum
B. **Maximum**
C. Medium
D. Not defined

64-When the Price Elasticity of a good is greater than 1, it is said that:

A. **A 1% increase in price will cause a reduction in demand of more than 1%**
B. A 1% increase in price will cause a reduction in demand of less than 1%
C. A 1% increase in price will cause a increase in demand of more than 1%
D. Both B and C

65-Which of the following is regarded as a general determinant of price elasticity of demand?

A. Nature of the Good (luxury versus necessity)
B. Availability of Close Substitutes
C. Share of Consumer's Budget and Passage of Time
D. **All of the above**

66- Price ceiling

Is set below market equilibrium levels and results in a surplus.

Is set above market equilibrium levels and results in a surplus.

Is set below market equilibrium levels and results in a shortage.

Is set above market equilibrium levels and results in a surplus.

67-A price floor

Is set below market equilibrium levels and results in a surplus.

Is set above market equilibrium levels and results in a surplus.

Is set below market equilibrium levels and results in a shortage.

Is set above market equilibrium levels and results in a surplus.

68-If price elasticity of demand in the use of public transportation is approximately 3.5, this means that:

A. If we increase the bus fare by one percent, demand would fall by 3.5%
B. If we increase the bus fare by one percent, demand would rise by 3.5%
C. If we reduce the bus fare by one percent, demand would rise by 3.5%
D. **A and C**

69-_____ is the extra value that consumers receive above what they pay for that good.

Producer surplus

Utility

Marginal utility

Consumer surplus

70-If goods X and Y are substitutes, an increase in the price of Y will cause _____ in the demand for good X.
An increase
A decrease
No change
An inversion

71-Which of the following groups of goods are complements?

Steak and steak sauce
Gasoline and cars
CD-ROM's and computers
All of the above

72-**The income effect explains that when the price of a good increases, consumers will consume**

Less of the more expensive good and more of some other good.
More of the more expensive good and less of some other good.
More of the good because their real incomes are lower after the price increase.
less of the good because their real incomes are lower after the price increase.

The income effect explains that when the price of a good increases, consumers will consume less of the good because their real incomes are lower after the price increase

73-The substitution effect explains that when the price of a good increases, consumers will consume
Less of the more expensive good and more of some other good.
More of the more expensive good and less of some other good.
More of the good because their real incomes are lower after the price increase.
Less of the good because their real incomes are lower after the price increase.

The substitution effect explains why when the price of a good increases, consumers will consume less of the more expensive good and more of some other good

74-The demand curve generally slopes downward because:
A higher price increases the consumer's desired level of consumption.
A higher price decreases the consumer's desired level of consumption.
That's just the way that it is.
None of the above.

75-The law of diminishing marginal utility states:
The supply curve slopes upward.
Your utility grows at a slower and slower rate as you consume more and more units of a good.
The elasticity of demand is infinite.
None of the above.

76-An upward sloping indifference curve defined over two goods violates which of the following assumptions from the theory of consumer behavior?
(a) Transitivity.
(b) Preferences are complete.
(c) More is preferred to less.
(d) all of the above.

77-Indifference curves are convex to the origin because of:
(a) Transitivity of consumer preferences.
(b) The assumption of a diminishing marginal rate of substitution.
(c) The assumption that more is preferred to less.
(d) The assumption of completeness..

78-If a profit-maximizing firm marginal revenue is greater than its marginal cost, the firm
(a) Must be making economic profit
(b) Will decrease its output
(c) Will increase its output
(d) Must be experiencing economic loses

79-A perfect competitive firm will produce output in the short run even if it makes losses, i.e., even if P < ATC because
(a) As long as P _ MC, the .firm can still operate as it is losing its fixed cost.
(b) As long as P _ AV C, the firm can still operate as it can minimizes its losses.
(c) If P < ATC, there is accounting profits
(d) Fixed costs are avoidable in the short run.

80-Economic costs of an input include
A) Only implicit costs.
B) Only explicit costs.
C) Both implicit and explicit costs.
D) Whatever management wishes to report the shareholders.

81-Which of the following best describes an inferior good?
A good for which price and quantity demanded are directly related
A good for which price and quantity demanded are inversely related
A good for which income and quantity demanded are directly related
A good for which income and quantity demanded are inversely related

82-A leftward shift in the demand curve for product E might be caused by
A decrease in income if E is an inferior good
An increase in income if E is a normal good
An increase in the price of a product that is a close substitute for E
An increase in the price of a product that is complementary to E

83-At the equilibrium price:
There will be a shortage
There will be neither a shortage nor a surplus
There will be a surplus
There are forces that cause the price to change

84-If consumer incomes increase, the demand for product Y
Will necessarily remain unchanged
Will shift to the right if Y is a complementary good
Will shift to the right if Y is a normal good
Will shift to the right if Y is an inferior good

85-If the supply of a product decreases and the demand for that product simultaneously increases, then equilibrium
Price must rise
Price must fall
Quantity must rise
Quantity must fall

86-When an economist says that the demand for a product has increased, this means that:
Quantity demanded is greater at each possible price
Firms make less of the product available for sale
Consumers respond to a lower price by buying more
The demand curve becomes steeper

87-Which of the following is true at the output level where P=MC?

The monopolist is maximizing profit.
The monopolist is not maximizing profit and should increase output.
The monopolist is not maximizing profit and should decrease output.
The monopolist is earning a positive profit.

88-As the manager of a firm you calculate the marginal revenue is $152 and marginal cost is $200. You should

Expand output.
Do nothing without information about your fixed costs.
Reduce output until marginal revenue equals marginal cost.
Expand output until marginal revenue equals zero.
Reduce output beyond the level where marginal revenue equals zero

89-Monopoly power results from the ability to

Set price equal to marginal cost.
Equate marginal cost to marginal revenue.
Set price above average variable cost.
Set price above marginal cost.

90-Which of the following is NOT true regarding monopoly?

Monopoly is the sole producer in the market.
Monopoly price is determined from the demand curve.
Monopolist can charge as high a price as it likes.
Monopoly demand curve is downward sloping.

91- In long-run equilibrium, the perfectly competitive firm produces:
Where P=MC=AC.
At the lowest point on its long-run average cost curve.
Where its long-run average cost curve is tangent to its horizontal demand curve.
At a level of output such that all of the above are true.

92- Pure monopoly:
Is characterized by a single supplier.
Is a market structure in which there are no close substitute products available.
Exists when entry and survival of potential competitors is extremely unlikely.
Is characterized by all of the above.

93-All the following shift the demand curve for automobiles to the right except:

The local factory gives a big raise to its employees
A brand new automobile dealership opens in town.
The price of gasoline falls.
None of the Above

94- If the cost of computer components falls,
The demand curve for computers shifts to the left.
Then the demand curve for computers shifts to the right
The supply curve for computers shifts to the right
The supply curve for computers shifts to the left

95-The law of diminishing returns refers to diminishing
a. total returns.
b. marginal returns.
c. average returns.
d. all of these.

96-The slope of the total product curve is the
a. average product.
b. slope of a line from the origin to the point.
c. marginal product.
d. marginal rate of technical substitution.

97-An upward sloping isoquant
a. can be derived from a production function with one input
b. can be derived from a production function that uses more than one input where reductions in
the use of any input always reduces output
c. cannot be derived from a production function when a firm is assumed to maximize profits
d. can be derived whenever one input to production is available at zero cost to the firm
e. none of the above

98-The short run is
a. less than a year.
b. three years.
c. however long it takes to produce the planned output.
d. a time period in which at least one input is fixed.
e. a time period in which at least one set of outputs has been decided upon

99-A production function defines the output that can be produced
a. at the lowest cost, given the inputs available.
b. with the fewest amount of inputs.
c. if the firm is technically efficient.
d. in a given time period if no additional inputs are hired.
e. as technology changes over time.

100-A function that indicates the maximum output per unit of time that a firm can produce, for every combination of inputs with a given technology, is called
a. an isoquant.
b. a production possibility curve.
c. a production function.
d. an isocost function.

101-The marginal product of an input is
a. total product divided by the amount of the input used to produce this amount of output.
b. the addition to total output that adds nothing to total revenue.
c. the addition to total output that adds nothing to profit.
d. the addition to total output due to the addition of one unit of all other inputs.
e. the addition to total output due to the addition of the last unit of an input, holding all other inputs constant.

102-The law of diminishing returns assumes that
a. there is at least one fixed input.
b. all inputs are changed by the same percentage.
c. additional inputs are added in smaller and smaller increments.
d. all inputs are held constant.

103-According to the law of diminishing returns
a. the total product of an input will eventually be negative.
b. the total product of an input will eventually decline.
c. the marginal product of an input will eventually be negative.
d. the marginal product of an input will eventually decline.

104-The law of diminishing returns applies to
a. the short run only.
b. the long run only.
c. both the short and the long run.
d. neither the short nor the long run.

105-A straight-line isoquant
a. is impossible.
b. would indicate that the firm could switch from one output to another costlessly.
c. would indicate that the firm could not switch from one output to another.
d. would indicate that capital and labor cannot be substituted for each other in production.
e. would indicate that capital and labor are perfect substitutes in production.

106-An L-shaped isoquant
a. is impossible.
b. would indicate that the firm could switch from one output to another costlessly.
c. would indicate that the firm could not switch from one output to another.
d. would indicate that capital and labor cannot be substituted for each other in production.
e. would indicate that capital and labor are perfect substitutes in production.

107-A production function in which the inputs are perfectly substitutable would have isoquants that are
a. convex to the origin.
b. L-shaped.
c. linear.
d. concave to the origin.

108-Which would not increase the productivity of labor?
a. An increase in the size of the labor force.
b. An increase in the quality of capital.
c. An increase in the quantity of capital.
d. An increase in technology.
e. An increase in the efficiency of energy.

109-Elasticity of demand is zero if the consumer demand curve is

Stable
Horizontal
Upward-sloping
Vertical

110-A commodity with a positive income elasticity implies that the commodity

Requires complementary goods
Has no substitutes
Is an inferior good
Is a normal good

111-The demand for college education is
Elastic because of the choices available between public and private universities
Perfectly inelastic because you've got to get a college degree
Inelastic because there is not much choice available
All of the above

112-If elasticity of demand for golf clubs is unit elastic then
A 5 percent subsidy will cause sales to decline by 15 percent

A 10 percent increase in sale tax will decrease demand by 10 percent
Golf clubs will always be demand at all prices
A 5 percent increase in sales tax will cause the sales to decrease by 1 percent

113-Consider two commodities X and Y if the cross elasticity of demand is positive it mean the goods are
Inferior
Complements
Substitutes
Independent

114-The consumer of apple juice will pay the entire portion of a 10 percent specific tax if
A demand is perfectly elastic
Supply in inelastic
Demand is perfectly inelastic
Both A and B

1. When a firm has decreasing average costs over the entire range of market demand it is:
   A) a natural monopoly.
   B) an oligopoly.
   C) rent seeking.
   D) in a contestable market.

Answer: A

2) To maximize profit, an unregulated natural monopoly will produce at a level where:
   A) marginal revenue is greater than marginal cost.
   B) marginal revenue is greater than average revenue.
   C) marginal revenue is less than marginal cost.
   D) marginal revenue is equal to marginal cost.

Answer: D

12) A firm charges a price below its average total cost so that it drives out its competition. This is an example of:
   A) a tie-in sales.
   B) duopoly pricing.
   C) price discrimination.
   D) predatory pricing.

Answer: D

66) Other things being equal, as the diminishing marginal returns begin to occur, the marginal revenue product of labor:

A) decreases as more workers are used.

B) increases as more workers are used.

C) remains unchanged as more workers are used.

D) none of the above

Answer: A

65) The marginal product of labor is the:

A) change in labor necessary to produce an additional unit of output.

B) cost of additional labor necessary to produce an additional unit of output.

C) change in output resulting from adding an additional unit of labor.

D) change in revenue resulting from adding an additional unit of labor.

Answer: C

115-The income effect of a price change
a. is always positive.
b. is always negative.
c. may be positive or negative.
d. is associated with a change in nominal income.
e. is caused by changes in consumer tastes

116- If a good is normal, then the demand curve for that good must be
a. downward sloping.
b. upward sloping.
c. perfectly elastic.
d. completely inelastic.

117-When the substitution effect of a lowered price is counteracted by the income effect, the good in question is
a. an inferior good.
b. a substitute good.
c. an independent good.
d. a normal good.

118-If MUx/Px exceeds MUy/Py, then the consumer should
a. consume more of good X and less of good Y

b. consume less of good X and more of good Y
c. consume less of both goods X and Y
d. not change the consumption levels of X and Y

119-An increase in the price of a loaf of bread will
b. reduce the minimum number of loaves any individual consumer can purchase
c. increase the minimum number of loaves any individual consumer can purchase
d. increase the maximum number of loaves any individual consumer can purchase
e. reduce the maximum number of loaves any individual consumer can purchase

120-Which of the following formulas is *not* correct?
a. ATC = AVC + (TFC/Q)
b. TVC = TC/Q
c. TC = TFC + TVC
d. AFC = TFC/Q
e. TVC = AVC × Q

121-The market demand curve is
b. a relationship between total income and total quantity demanded
c. the horizontal sum of the individual demand curves of all consumers in the market
d. the vertical sum of the individual demand curves of all consumers in the market
e. the sum of the prices paid at each quantity demanded

122-Among all the combinations of goods attainable by a consumer, the one that maximizes total utility is the one that
a. maximizes the marginal utilities per dollar of each good.
b. maximizes the marginal utilities per pound (or other physical unit) of each good.
c. equates the marginal utilities per dollar of each good.
d. equates the marginal utilities per pound (or other physical unit) of each good.

123-An elasticity coefficient of -1 means that
a. the demand curve is perfectly inelastic.
b. the demand curve is perfectly elastic.
c. the relative changes in price and quantity are equal.
d. expenditures on the good would increase if prices were reduced.

124-The most important determinant of price elasticity is
a. the slope of the demand curve.
b. the availability of substitutes.
c. the price of other goods.
d. the income of the consumer.

125-The demand curve facing a perfectly competitive firm is
a. the same as the market demand curve.
b. downward-sloping and less flat than the market demand curve.
c. downward-sloping and more flat than the market demand curve.
d. perfectly horizontal.

126-If the market price for a competitive firm's output doubles then
a. the profit maximizing output will double
b. the marginal revenue doubles
c. at the new profit maximizing output, price has increased more than marginal cost
d. at the new profit maximizing output, price has risen more than marginal revenue

127-If price is between AVC and ATC, the best and most practical thing for a perfectly competitive firm to do is
a. raise prices.
b. lower prices to gain revenue from extra volume.
c. shut down immediately, but not liquidate the business.
d. continue operating, but plan to go out of business.

128-An improvement in technology would result in
a. upward shifts of MC and reductions in output.
b. upward shifts of MC and increases in output.
c. downward shifts of MC and reductions in output.
d. downward shifts of MC and increases in output.

129-The supply curve for a competitive firm is
a. its entire MC curve.
b. the upward-sloping portion of its MC curve.
c. its MC curve above the minimum point of the AVC curve.
d. its MC curve above the minimum point of the ATC curve

130- firm never operates
a. at the minimum of its ATC curve.
b. at the minimum of its AVC curve.
c. on the downward-sloping portion of its ATC curve.
d. on the downward-sloping portion of its AVC curve.

131-If a competitive firm's marginal cost curve is U-shaped then
a. its short run supply curve is the downward-sloping portion of the marginal cost curve
b. its short run supply curve is the upward-sloping portion of the marginal cost curve
c. its short run supply curve is the upward-sloping portion of the marginal cost curve that lies above the short run average variable cost curve
d. its short run supply curve is the upward-sloping portion of the marginal cost curve that lies above the short run average total cost curve

132-If current output is less than the profit-maximizing output, which must be true?
a. Total revenue is less than total cost.
b. Average revenue is less than average cost.
c. Average revenue is greater than average cost.
d. Marginal revenue is less than marginal cost.
e. Marginal revenue is greater than marginal cost.

133-Which of following is a key assumption of a perfectly competitive market?
a. Firms can influence market price
b. Commodities have few sellers
c. It is difficult for new sellers to enter the market.
d. Each seller has a very small share of the market.

134-For a firm buying labor competitively, the marginal input cost is equal to the:
- **► Wage.**
- ► Interest rate.
- ► Price of output.
- ► Cost of raw materials.

135-The total cost (TC) function is given as: TC = 200 + 5Q. What is the average total cost?
- ► 5Q.
- ► 5.
- **► 5 + (200/Q).**
- ► None of the given options.

- An L Shaped isoquant would indicate that the capital and labor cannot be substituted for the each other in production
- A straight line isoquant would indicate that capital and labor are perfect substitutes in production

- Marginal rate of technical substitution is equal to the absolute value of the slope of an isoquant, or the ratio of the marginal products of the inputs

- The law of diminishing returns applies to the short run only

- The law of diminishing returns assumes that there is at least one fixed input

PAPER # 11

Question No: 1 (Marks: 1) - Please choose one

Microeconomics is the branch of economics that deals with which of the following topics?

► The behavior of individual consumers.

► Unemployment and interest rates.

► The behavior of individual firms and investors.

► The behavior of individual consumers and behavior of individual firms and investors.

Question No: 2 (Marks: 1) - Please choose one

A market is said to be in equilibrium when:

► Demand equals output.

► There is downward pressure on price.

► The amount consumers wish to buy at the current price equals the amount producers wish to sell at that price.

► All buyers are able to find sellers willing to sell to them at the current price.

Question No: 3 (Marks: 1) - Please choose one

In order to calculate the price elasticity of supply, you need to know:

► Two prices and two quantities supplied.

► The slope of the supply curve.

► The equilibrium price and quantity in the market.

► The quantity supplied at two different prices, all else equal.

Question No: 4 (Marks: 1) - Please choose one

A demand curve is price elastic when:

► Changes in demand are proportionately greater than changes in price.

► Changes in demand are equal to changes in price.

► None of the given options.

► Changes in demand are proportionately smaller than changes in price.

Question No: 5 (Marks: 1) - Please choose one

Which of the following will be TRUE if demand is inelastic?

► The coefficient of elasticity is greater than one.

► The percentage change in quantity demanded is same as the percentage change in the price.

► An increase in price will increase total revenue.

► None of the given options.

Question No: 6 (Marks: 1) - Please choose one

Which of the following is regarded as a general determinant of price elasticity of demand?

► Nature of the good (luxury versus necessity).

► Availability of close substitutes.

► Share of consumer's budget and passage of time.

► **All of the given options.**

Question No: 7 (Marks: 1) - Please choose one

The substitution effect of a wage increase will lead a person to:

► **Work more.**

► Take more leisure.

► Not change anything.

► None of the given options.

Question No: 8 (Marks: 1) - Please choose one

A production function:

► **Relates inputs with output.**

► Generates a curve that is upward sloping.

► Shows diminishing marginal product of an input, since it gets flatter as output rises.

► All of the given options.

Question No: 9 (Marks: 1) - Please choose one

If isoquants are straight lines, it means that:

► Only one combination of inputs is possible.

► There is constant returns to scale.

► Inputs have fixed costs at all use rates.

► **The marginal rate of technical substitution of inputs is constant.**

Question No: 10 (Marks: 1) - Please choose one

A firm maximizes profit by operating at the level of output where:

► Average revenue equals average cost.

► Average revenue equals average variable cost.

► Total costs are minimized.

► **Marginal revenue equals marginal cost.**

Question No: 11 (Marks: 1) - Please choose one

Producer surplus in a perfectly competitive industry is:

► The difference between profit at the profit-maximizing and profit-minimizing level of output**.**

► The difference between revenue and total cost.

► **The difference between revenue and variable cost.**

► The difference between revenue and fixed cost.

Producer surplus in a perfectly competitive industry is:

a. The difference between profit at the profit-maximizing output and profit at the profit-minimizing output.
b. The difference between total revenue and total cost.
c. The difference between total revenue and variable cost.
d. The difference between total revenue and fixed cost.
e. The same thing as total revenue.

https://www.google.com.pk/url?sa=t&rct=j&q=&esrc=s&source=web&cd=1&cad=rja&ved=0CC4QFjAA&url=https%3A%2F%2Fwww.msu.edu%2Fcourse%2Fec%2F301%2FMatraves%2FReview2.doc&ei=M6uTUZO3E4zT4QSt24GQAg&usg=AFQjCNFQwrm_JV3Gh6LclIWI1DJh30ZLww&bvm=bv.46471029,d.bGE

Question No: 12 (Marks: 1) - Please choose one

The good produced by a monopoly:

► Has perfect substitutes.

► Has no substitutes at all.

► Has no close substitutes.

► Can be easily duplicated.

Question No: 13 (Marks: 1) - Please choose one

A market with few entry barriers and with many firms that sell differentiated products is:

► Purely competitive.

► A monopoly.

► Monopolistically competitive.

► Oligopolistic.

Question No: 14 (Marks: 1) - Please choose one

Which of the following is true in long run equilibrium for a firm in a monopolistic competitive industry?

► The demand curve is tangent to marginal cost curve.

►The demand curve is tangent to average cost curve.

► The marginal cost curve is tangent to average cost curve.

► The demand curve is tangent to marginal revenue curve.

Question No: 15 (Marks: 1) - Please choose one

Which of the following best expresses the law of demand?

► A higher price reduces demand.

► A lower price reduces demand.

► **A higher price reduces quantity demanded.**

► A lower price shifts the demand curve to the right.

Question No: 16 (Marks: 1) - Please choose one

You observe that the price of houses and the number of houses purchased both rise over the course of the year. You conclude that:

► **The demand for houses has increased.**

► The demand curve for houses must be upward-sloping.

► The supply of houses has increased.

► Housing construction costs must be decreasing.

Question No: 17 (Marks: 1) - Please choose one

Insurance companies operate under the principle of:

► **Law of large numbers.**

► Law of small numbers.

► Law of zero numbers.

► All of the given options.

Question No: 18 (Marks: 1) - Please choose one

If income elasticity is negative, the good is:

► Normal good.

► A substitute good.

► A complementary good.

► Inferior good.

Inferior good is one whose consumption decreases with increase in income

Question No: 19 (Marks: 1) - Please choose one

In monopoly, which of the following is NOT true?

► Products are differentiated.

► There is freedom of entry and exit into the industry in the long run.

► The firm is a price maker.

► There is one main seller.

Question No: 20 (Marks: 1) - Please choose one

No dig ????????

In the above figure, the marginal utility of income is:

► Increasing as income increases.

► Constant for all levels of income.

► Diminishes as income increases.

► None of the given options.

Question No: 21 (Marks: 1) - Please choose one

How many points you need to know to calculate the price elasticity of demand on the same demand curve?

► One.

► Two.

► Three.

► Four.

Question No: 22 (Marks: 1) - Please choose one

What is the assumption of constructing a production possibilities curve?

► Economic resources are underutilized.

► Resources are equally productive in many alternative uses.

► All available resources are employed efficiently.

► Production technology is allowed to vary.

Question No: 23 (Marks: 1) - Please choose one

Production possibilities curve will shift downward if there is:

► Immigration of skilled workers into the nation.

► An increase in the size of the working-age population.

► A decrease in the size of the working-age population.

► Increased production of capital goods**.**

Question No: 24 (Marks: 1) - Please choose one

Which of the following will happen if the current market price is set below the market clearing level?

► There will be a surplus to accumulate.

► There will be downward pressure on the current market price.

► There will be upward pressure on the current market price.

► There will be lower production during the next time period.

Question No: 25 (Marks: 1) - Please choose one

The total cost (TC) function is given as: TC = 200 + 5Q. What is the variable cost?

► 5Q.

► 5.

► 5 + (200/Q).

► 200.

TC = FC + VC
TC=200 +5Q

Question No: 26 (Marks: 1) - Please choose one

If average physical product (APP) is decreasing then which of the following must be true?

► Marginal physical product is more than the average physical product.

► Marginal physical product is less than the average physical product.

► Marginal physical product is decreasing.

► Marginal physical product is increasing.

RELATIONSHIP BETWEEN APP AND MPP
If the marginal physical product equals the average physical product, the average physical product will not change.
If the marginal physical product is above the average physical product, the average physical product will rise.
If the marginal physical product is below the average physical product, the average physical product will fall.

Question No: 27 (Marks: 1) - Please choose one

Which of the following statement describes decreasing returns to scale?

► Increasing the inputs by 1/4% leads to a 1/2% increase in output.

► Increasing inputs by 1/2 leads to an increase in output of 1/6.

► Doubling the inputs used leads to double the output.

► None of the given options.

Question No: 28 (Marks: 1) - Please choose one

All the factors of production become variable in:

► Law of increasing return.

► Long run.

► Law of decreasing cost.

► Short run.

Question No: 29 (Marks: 1) - Please choose one

Indifference curves that are concave to the origin reflect:

► **An increasing marginal rate of substitution**

► A decreasing marginal rate of substitution

► A constant marginal rate of substitution

► A marginal rate of substitution that first decreases then increases

Concave indifference curve
•if indifference curve bows toward the origin (concave)
• then (unusually) increasing *MRS*

Question No: 30 (Marks: 1) - Please choose one

The total cost (TC) function is given as TC = 500 + 30Q. What is the average total cost?

► 500

► **30+ (500/Q)**

► $30Q^2+500Q$

► 30

Question No: 31 (Marks: 1) - Please choose one

Which of the following is not included in the key ingredients of any market structure?

► Number of firms in the market/industry

► Extent of barriers to entry

► **Perfect knowledge**

► Degree of control over price

Question No: 32 (Marks: 1) - Please choose one

At the profit-maximizing level of output, marginal cost equals to:

► Average revenue

► Total revenue

► **Marginal revenue**

► None of the given options

The profit maximizing or best level of output is given where MR=MC.

Question No: 33 (Marks: 1) - Please choose one

Monopolists produce lower quantities at higher prices compared to perfectly competitive firms, because monopolists do not produce where

► Marginal cost = marginal revenue

► Average revenue = marginal cost

► Price = average variable cost

► **Price = marginal cost**

Monopolists produce lower quantities at higher prices compared to perfectly competitive firms. This is because monopolists do not produce where P=MC (the point of allocative efficiency) nor at P= AC minimum (the point of cost efficiency)

Question No: 34 (Marks: 1) - Please choose one

An increase in quantity demand is shown by:

► Shifting the demand curve to the left.

► Shifting the demand curve to the right.

► Upward movement along the demand curve.

► **Downward movement along the demand curve.**

PAPER # 12

Question No: 1 (Marks: 1) - Please choose one

Aslam decides to stay at home and study for his exam rather than going out with his friends to a movie. His dilemma is an example of:

► The economic perspective.
► Marginal analysis.
► Allocative efficiency.
► **Opportunity cost.**

Question No: 2 (Marks: 1) - Please choose one

At the equilibrium price:

► There will be a shortage.
► **There will be neither a shortage nor a surplus.**
► There will be a surplus.
► There are forces that cause the price to change.

Question No: 3 (Marks: 1) - Please choose one

The price elasticity of demand measures the responsiveness of quantity demanded to:

► Quantity demanded.
► Quantity supplied.
► **Price.**
► Output.

Question No: 4 (Marks: 1) - Please choose one

We know that the demand for a product is elastic:

► **When price rises, total revenue rises.**
► **When price rises, total revenue falls.**
► When income rises, quantity demanded rises.
► When income falls, quantity demanded rises.

Question No: 5 (Marks: 1) - Please choose one

The law of diminishing marginal utility states:

► The supply curve slopes upward.
► **Your utility grows at a slower and slower rate as you consume more and**

more units of a good.

► The elasticity of demand is infinite.

► None of the given options.

Question No: 6 (Marks: 1) - Please choose one

Consumers will maximize satisfaction when:

► The price of each good is exactly equal to the price of every other good consumed.

► The price of each good is exactly equal to the total utility derived from the consumption of every other good.

► The marginal utility of the last dollar spent on each good is exactly equal to the marginal utility of the last dollar spent on any other good.

► Marginal utility is equal to average utility.

Question No: 7 (Marks: 1) - Please choose one

Indifference curves that are convex to the origin reflect:

► An increasing marginal rate of substitution.

► A decreasing marginal rate of substitution.

► A constant marginal rate of substitution.

► A marginal rate of substitution that first decreases, then increases.

http://books.google.com.pk/books?id=IbvULY0ojiEC&pg=PA125&lpg=PA125&dq=convex+to+the+origin+Indifference+curves&source=bl&ots=2VNziJptGe&sig=_evW5ietQsHYcwxS52TCrSCtKWk&hl=en&ei=liLJTtWfIcW2hQep1YC_Dw&sa=X&oi=book_result&ct=result&resnum=8&ved=0CEYQ6AEwBzge#v=onepage&q=convex%20to%20the%20origin%20Indifference%20curves&f=false

Indifference curves are convex to origin : indidderence curves for normal goods are not only negatively sloping but are also convex to the orgin . the convexity of indifference curves implies

- That the two goods are imperfect substitutes for one another
- That the marginal rate of susstitution (MRS) between the two goods decrease as a consumer moves along an indifference curve.

Question No: 8 (Marks: 1) - Please choose one

Suppose there are only two goods A and B, if more of good A is always preferred to less, and if less of good B is always preferred to more, then:

► Indifference curves slope downwards.

► **Indifference curves slope upwards.**
► Indifference curves may cross.
► Indifference curves could take the form of ellipses.

Question No: 9 (Marks: 1) - Please choose one

Increase in pension benefits leads to income and substitution effect which:

► Encourage workers to retire later.
► Encourage workers to work more hours.
► Have no effect on incentive to retire.
► **Encourage workers to retire earlier.**

Question No: 10 (Marks: 1) - Please choose one

Increasing returns to scale in production means:

► More than twice as much of only one input is required to double output.
► Isoquants must be linear.
► More than 10% as much of all inputs are required to increase output 10%.
► **Less than twice as much of all inputs are required to double output.**

Question No: 11 (Marks: 1) - Please choose one

In the short run, a firm should shut down when:

► Production losses are less than fixed costs.
► Only normal profits are earned.
► **Production losses exceed fixed costs.**
► Fixed costs are zero.

Question No: 12 (Marks: 1) - Please choose one

Second-degree price discrimination is the practice of charging:

► The reservation price to each customer.
► **Different prices for different blocks of the same good or service.**
► Different groups of customers different prices for the same products.
► Each customer the maximum price that he or she is willing to pay.

Question No: 13 (Marks: 1) - Please choose one

The market structure in which strategic considerations are most important is:

► Monopolistic competition.
► **Oligopoly.**
► Pure competition.
► Pure monopoly.

Question No: 14 (Marks: 1) - Please choose one

Which of the following best expresses the law of demand?

► A higher price reduces demand.
► A lower price reduces demand.
► **A higher price reduces quantity demanded.**
► A lower price shifts the demand curve to the right.

Law of demand:
The law of demand states that if the price of a certain commodity rises, its quantity demanded will go down, and vice-versa.

Question No: 15 (Marks: 1) - Please choose one

If a sales tax on beer leads to reduced tax revenue, this means:

► Elasticity of demand is < 1.
► **Elasticity of demand is > 1.**
► Demand is upward-sloping.
► Demand is perfectly inelastic.

http://wps.aw.com/wps/grader

Question No: 16 (Marks: 1) - Please choose one

The textbook for your class was not produced in a perfectly competitive industry because:

► There are so few firms in the industry that market shares are not small, and firm's decisions have an impact on market price**.**
► Upper-division microeconomics texts are not all alike.
► It is not costless to enter or exit the textbook industry.
► **All of the given options.**

Question No: 17 (Marks: 1) - Please choose one

Which of the following is true about supply curve under monopoly?

► It is same as the competitive market supply curve.
► It is the portion of marginal cost curve where marginal costs exceed the minimum value of average variable costs.
► It is the result of market power and production costs.
► **None of the given statements is true.**

Question No: 18 (Marks: 1) - Please choose one

If other things remaining the same, expected income can be used as a direct measure of well-being in which of the following situations?

► It can be used no matter what a person's preference to risk.
► It can be used if and only if individuals are not risk-loving.
► It can be used if and only if individuals are risk averse.
► **It can be used if and only if individuals are risk neutral.**

Question No: 19 (Marks: 1) - Please choose one

Which of the following will happen if the cost of computer components falls?

► The demand curve for computers shifts to the right.
► The demand curve for computers shifts to the left.
► **The supply curve for computers shifts to the right.**
► The supply curve for computers shifts to the left.

Question No: 20 (Marks: 1) - Please choose one

What will happen if there is an increase in the raw material costs, other things remaining the same?

► **The supply curve will shift to the left.**
► The supply curve will shift to the right.
► Output will increase regardless of the market price and the supply curve will shift upward.
► Output will decrease and the market price will also decrease.

Question No: 21 (Marks: 1) - Please choose one

Suppose the total utilities for the first four units of a good consumed are 13, 23, 33, and 43 respectively. What is the marginal utility of the third unit?

► **10.**
► 13.
► 20.
► 33.

43-33 =10

Question No: 22 (Marks: 1) - Please choose one

Which of the following is TRUE for a Giffen good?

► Its marginal utility is zero.
► Its demand curve is perfectly elastic.

► Its substitution effect is positive.

► **Its demand curve is positively sloped.**

http://www.oup.com/uk/orc/bin/9780199286416/01student/questions/lipsey_student_ch05/page_01.htm

Question No: 23 (Marks: 1) - Please choose one

Which of the following occur when an isocost line is just tangent to an isoquant?

► **Output is being produced at minimum cost.**

► Output is not being produced at minimum cost.

► The two products are being produced at the medium input cost to the firm.

► The two products are being produced at the highest input cost to the firm.

Question No: 24 (Marks: 1) - Please choose one

Indifference curves that are concave to the origin reflect:

► **An increasing marginal rate of substitution**

► A decreasing marginal rate of substitution

► A constant marginal rate of substitution

► A marginal rate of substitution that first decreases then increases

Question No: 25 (Marks: 1) - Please choose one

What will happen to the isocost line if the price of both goods decreases proportionality?

► It shifts farther away from the origin of the graph.

► **It shift inward.**

► It shifts outward.

► None of the given options.

Higher levels of total cost shift the isocost line outward and lower levels of total cost shift the isocost line inward.

Question No: 26 (Marks: 1) - Please choose one

Average total costs are the sum of:

► Fixed costs and marginal costs

► Average variable costs and marginal costs

► **Average fixed costs and average variable costs**

► Average marginal costs and average variable costs

AVC + AFC = ATC or AC

Question No: 27 (Marks: 1) - Please choose one

At the profit-maximizing level of output, the marginal cost is equal to:

► Average revenue

► Total revenue

► **Marginal revenue**
► None of the given options

Question No: 28 (Marks: 1) - Please choose one

The amount of output for maximum profit that a firm decides to sell has an effect on the market price in a monopolistic competitive industry because:

► The firm supplies a different good than its rivals.
► **The firm's output is a considerable fraction of the entire industry's output.**
► The short run market price is determined solely by the firm's technology.
► None of the given options.

Question No: 29 (Marks: 1) - Please choose one

When new firms enter in perfectly competitive industry for profits, the supply starts to:

► Increase in response to demand.
► **Increase in response to price.**
► Decrease in response to demand.
► Decrease in response to price.

New firm enter in the industry the market supply curve shift rightward as aconsequence equilibrium price falls.

Question No: 30 (Marks: 1) - Please choose one

Maximum number of firms in an oligopoly is about

► 2

► 10
► 15
► **20**

Small number of firms (about 2-20) in the market
Minimum =2
Maximum =20

Question No: 31 (Marks: 1) - Please choose one

Resources are governed by both government and individuals in

► Dictatorship.
► Command or planned economy.
► **A mixed economy.**
► Capitalist economy.

In Pakistan, there is mixed economic system. Resources are governed by both government and Individuals.

Question No: 32 (Marks: 1) - Please choose one

The demand curve for eggs is downward-sloping. Suddenly the price of eggs decreases from Rs.60/- per dozen to Rs.50/- per dozen. This will cause:

- ► The demand curve for eggs to shift leftward.
- ► Quantity demanded of eggs to decrease.
- ► The demand curve for eggs to shift rightward.
- ► **Quantity demanded of eggs to increase.**

Question No: 33 (Marks: 1) - Please choose one

An increase in quantity demand is shown by:

- ► Shifting the demand curve to the left.
- ► Shifting the demand curve to the right.
- ► Upward movement along the demand curve.
- ► **Downward movement along the demand curve.**

Question No: 34 (Marks: 1) - Please choose one

If a 7% price reduction causes quantity demanded to rise by 10% then:

- ► Demand is inelastic.
- ► **Demand is elastic.**
- ► Demand is perfectly elastic.
- ► Total revenue will remain constant.

PAPER # 13

Question No: 1 (Marks: 1) - Please choose one

Our economy is characterized by:

► **Unlimited wants and needs.**
► Unlimited material resources.
► No energy resources.
► Abundant productive labor.

Question No: 2 (Marks: 1) - Please choose one

A good for which income and quantity demanded are inversely related is known as:

► **Inferior good.**
► Complementary good.
► Normal good.
► None of the given options.

Inferior goods are goods whose quantity demanded goes down as consumer income increases.

Question No: 3 (Marks: 1) - Please choose one

If the equilibrium price of bread is $2 and the government imposes a $1.50 price ceiling on the price of bread:

► The demand for bread will decrease because suppliers will reduce their supply.
► A surplus of bread will emerge.
► More bread will be produced to meet the increased demand.
► **There will be a shortage of bread.**

Question No: 4 (Marks: 1) - Please choose one

In order to calculate the price elasticity of supply, you need to know:

► **Two prices and two quantities supplied.**
► The slope of the supply curve.
► The equilibrium price and quantity in the market.
► The quantity supplied at two different prices, all else equal.

Question No: 5 (Marks: 1) - Please choose one

When the price of petrol rises by 12%, the quantity of petrol purchased falls by 8%. This shows that the demand for petrol is:

► Perfectly elastic.
► Unit elastic.

► Elastic.
► **Inelastic.**

Question No: 6 (Marks: 1) - Please choose one

Suppose your local public golf course increases the greens fees for using the course. If the demand for golf is relatively inelastic, you would expect:

► A decrease in total revenue received by the course.
► **An increase in total revenue received by the course.**
► No change in total revenue received by the course.
► An increase in the amount of golf played on the course.

Question No: 7 (Marks: 1) - Please choose one

Which of the following will be TRUE if demand is inelastic?

► The coefficient of elasticity is greater than one.
► The percentage change in quantity demanded is same as the percentage change in the price.
► **An increase in price will increase total revenue.**
► None of the given options.

.

Question No: 8 (Marks: 1) - Please choose one

Cross-price elasticity measures whether:

► Goods are normal or inferior.
► **Two goods are substitutes or complements.**
► Demand is elastic or inelastic.
► Supply is steeper than demand or vice versa.

Question No: 9 (Marks: 1) - Please choose one

The substitution effect of a wage increase will lead a person to:

► **Work more.**
► Take more leisure.
► Not change anything.
► None of the given options.

Question No: 10 (Marks: 1) - Please choose one

A production function:

► **Relates inputs with output.**
► Generates a curve that is upward sloping.
► Shows diminishing marginal product of an input, since it gets flatter as output

rises.

► All of the given options.

Question No: 11 (Marks: 1) - Please choose one

Which of the following is considered to be a variable cost in the long run?

► Expenditures for wages.
► Expenditures for research and development.
► Expenditures for raw materials.
► **All of the given options.**

Question No: 12 (Marks: 1) - Please choose one

_____ arises when an increase in all inputs leads to a more-than-proportional increase in the level of output. _____ means that as inputs are added to the production process, output increases proportionally.

► **Economies of scale; constant returns to scale.**
► Constant returns to scale; decreasing returns to scale.
► Decreasing returns to scale; economies of scale.
► Economies of scale; decreasing returns to scale.

Question No: 13 (Marks: 1) - Please choose one

A graph showing all the combinations of capital and labour available for a given total cost is the:

► Budget constraint.
► Expenditure set.
► Isoquant.
► **Isocost.**

The isocost line represents all combination of two inputs which have the same total cost. The Isoquant curve contains all combinations of 2 inputs that produce the same total output.

Question No: 14 (Marks: 1) - Please choose one

Fixed costs are fixed with respect to changes in:

► **Output.**
► Capital expenditures.
► Wages.
► Time.

Question No: 15 (Marks: 1) - Please choose one

Discrimination based upon the quantity consumed is referred to as:

► **Second degree price discrimination.**
► Third-degree price discrimination.
► First-degree price discrimination.
► All of the given options.

1ST DEGREE PD
In this type, everyone charged according to what he can pay.
2ND DEGREE PD
In this type, different prices charged to customers who purchase different quantities.
3RD DEGREE PD
In this type, seller charge different prices to different customers in different markets.

Question No: 16 (Marks: 1) - Please choose one

The maximum price that a consumer is willing to pay for a good is called:

► The reservation price.
► The market price.
► **The first-degree price.**
► The block price.

Question No: 17 (Marks: 1) - Please choose one

A schedule which shows the various amounts of a product consumers are willing and able to purchase at each price in a series of possible prices during a specified period of time is called:

► Supply schedule.
► **Demand schedule.**
► Quantity supplied schedule.
► Quantity demanded schedule.

Question No: 18 (Marks: 1) - Please choose one

Which of the following is considered a market structure?

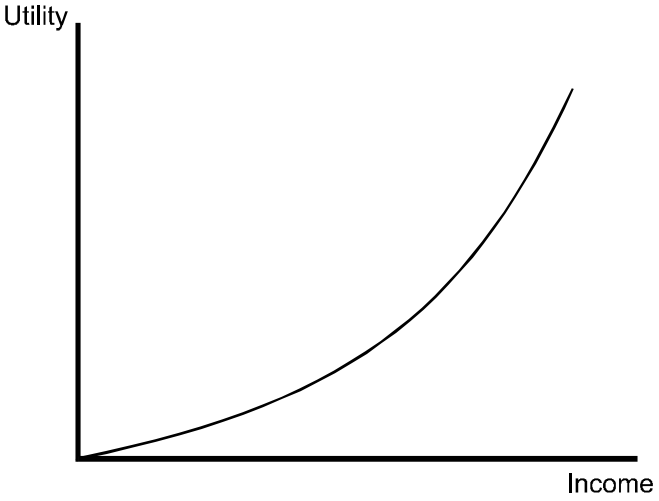
► Monopoly.
► Perfect competition.
► Oligopoly.

► **All of the given are considered market structures.**

MARKET STRUCTURES
Economists have identified four broad market structures:

• Perfect competition
• Monopoly
• Monopolistic competition
• Oligopoly

Question No: 19 (Marks: 1) - Please choose one



In the above figure, the marginal utility of income is:

► **Increasing as income increases.**
► Constant for all levels of income.
► Diminishes as income increases.
► None of the given options.

Question No: 20 (Marks: 1) - Please choose one

A person with a diminishing marginal utility of income is said to be:

► **Risk averse person.**
► Risk neutral person.
► Risk loving person.
► None of the given options.

Question No: 21 (Marks: 1) - Please choose one

What is meant by the negative slope of a production possibilities curve?

► It means that some resources are always unemployed.
► **It means that an economy can produce more of one thing only by producing less of something else.**
► It means that opportunity costs are constant.
► It means that business can sell more when prices are low.

http://glencoe.mcgraw-hill.com/sites/0025694212/student_view0/chapter1/quiz.html

Question No: 22 (Marks: 1) - Please choose one

Suppose the total costs of first four units of an output produced are 20, 40, 60, and 80 respectively. What is the marginal cost of the second unit of output?

► 10.
► **20.**
► 30.
► 40.

Marginal costs indicate by how much the **total costs** changes because of modification in the production level **by one unit**.

40-20=20

Question No: 23 (Marks: 1) - Please choose one

The total cost (TC) function is given as: TC = 200 + 5Q. What is the average total cost?

► 5Q.
► 5.
► **5 + (200/Q).**
► None of the given options.

AVC + AFC = ATC or AC

Question No: 24 (Marks: 1) - Please choose one

In which of the following situations, a monopoly occurs?

► When each firm produces a product that is slightly different from the other firms.
► **When one firm sells a good that has no close substitutes and a barrier blocks entry for other firms.**
► When there are many firms producing the same product.
► In all of the given situations.

Monopoly
Number of firms= 1
Freedom of entry= Restricted or completely blocked
Nature of product = unique /No close substitutes

Question No: 25 (Marks: 1) - Please choose one

Which of the following is the basic difference between oligopoly and monopolistic competition?

► Products are differentiated in oligopoly.
► There are no barriers to entry in oligopoly.
► **There are barriers to entry in oligopoly.**

► An oligopoly includes downward sloping demand curves facing the firm.

Question No: 26 (Marks: 1) - Please choose one

Suppose that 90 units of output are produced by using 15 units of labor. Which of the following is TRUE in this context?

► The marginal product of labor is 6.
► The total product of labor is 1/6.
► **The average product of labor is 6.**
► None of the given options.

Average Product: This is the amount of output produced per worker, found by dividing the total product by the number of workers.
90/15=6

Question No: 27 (Marks: 1) - Please choose one

Which of the following statement describes decreasing returns to scale?

► Increasing the inputs by 1/4% leads to a 1/2% increase in output.
► **Increasing inputs by 1/2 leads to an increase in output of 1/6.**
► Doubling the inputs used leads to double the output.
► None of the given options.

¼% = 1/4/100 = 25 , ½ = 1/2/100 = 50
½ =0.5 , 1/6 =0.167

Question No: 28 (Marks: 1) - Please choose one

At the profit-maximizing level of output, the marginal cost is equal to:

► Average revenue
► Total revenue
► **Marginal revenue**
► None of the given options

Profit is maximized at the point where MC=MR.

Question No: 29 (Marks: 1) - Please choose one

The amount of output for maximum profit that a firm decides to sell has an effect on the market price in a monopolistic competitive industry because:

► The firm supplies a different good than its rivals.
► **The firm's output is a considerable fraction of the entire industry's output.**
► The short run market price is determined solely by the firm's technology.
► None of the given options.

Question No: 30 (Marks: 1) - Please choose one

The characteristics of a monopolistically competitive market are almost the same as in

► Monopoly.
► Oligopoly.
► **Perfect competition.**

► Duopoly.

The characteristics of a monopolistically competitive market are almost the same as in perfect competition, with the exception of heterogeneous products, and that monopolistic competition involves a great deal of non-price competition

Question No: 31 (Marks: 1) - Please choose one

In price discrimination price elasticity of demand for different customers should be

► Same.
► Unit elastic.
► Infinite elastic.
► **Different.**

Question No: 32 (Marks: 1) - Please choose one

Resources are governed by both government and individuals in

► Dictatorship.
► Command or planned economy.
► **A mixed economy.**
► Capitalist economy.

Question No: 33 (Marks: 1) - Please choose one

Since bread and butter are complements. When the price of bread goes down, the demand curve for butter:

► Shifts to the left.
► **Shifts to the right.**
► Remains constant.
► Shifts to the right initially and then returns to its original position.

Question No: 34 (Marks: 1) - Please choose one

If the current market price is set above the market clearing level then which of the following will happen:

► **There will be downward pressure on the current market price.**
► There will be upward pressure on the current market price.
► There will be lower production during the next time period.
► There will be a surplus to accumulate.

PAPER # 14

Question No: 1 (Marks: 1) - Please choose one

If pen and ink are complements, then an increase in the price of pen will cause:

► An increase in the price of ink.
► **Less ink to be demanded at each price.**
► A decrease in the demand for pen.
► A rightward shift in the demand curve for ink.

Question No: 2 (Marks: 1) - Please choose one

A good for which income and quantity demanded are inversely related is known as:

► **Inferior good.**
► Complementary good.
► Normal good.
► None of the given options.

Question No: 3 (Marks: 1) - Please choose one

At the equilibrium price:

► There will be a shortage.
► **There will be neither a shortage nor a surplus.**
► There will be a surplus.
► There are forces that cause the price to change.

Question No: 4 (Marks: 1) - Please choose one

A market is said to be in equilibrium when:

► Demand equals output.
► There is downward pressure on price.
► **The amount consumers wish to buy at the current price equals the amount producers wish to sell at that price.**
► All buyers are able to find sellers willing to sell to them at the current price.

Question No: 5 (Marks: 1) - Please choose one

We know that the demand for a product is elastic:

- ► When price rises, total revenue rises.
- ► **When price rises, total revenue falls.**
- ► When income rises, quantity demanded rises.
- ► When income falls, quantity demanded rises.

Question No: 6 (Marks: 1) - Please choose one

Which of the following is regarded as a general determinant of price elasticity of demand?

- ► Nature of the good (luxury versus necessity).
- ► Availability of close substitutes.
- ► Share of consumer's budget and passage of time.
- ► **All of the given options.**

Question No: 7 (Marks: 1) - Please choose one

As more of a good is consumed, then total utility typically:

- ► **Increases at a decreasing rate.**
- ► Decreases as long as marginal utility is negative.
- ► Decreases as long as marginal utility is positive.
- ► Is negative as long as marginal utility is decreasing.

The amount of a person's total utility corresponds to the person's level of consumption. Usually, the more the person consumes, the larger his or her total utility will be. Marginal utility is the additional satisfaction, or amount of utility, gained from each extra unit of consumption.
Total utility tends to increase at a decreasing rate, as the first units of the good provide the highest utility and additional units eventually generate less utility (diminishing marginal utility

20) Which of the following is NOT an assumption of marginal utility theory?
A) A consumer derives utility from the goods consumed.
B) Each additional unit of consumption yields additional utility.
C) Consumers maximize their total utility.
D) As more of a good is consumed, the decrease in the marginal utility from the good means that the total utility from the good decreases also.

Question No: 8 (Marks: 1) - Please choose one

Which of the following is the term that economists use to describe how consumers

rank different goods and services?

- ► Satisfaction index.
- ► Goodness.
- ► **Utility.**
- ► None of the given options.

Question No: 9 (Marks: 1) - Please choose one

The extra value that consumers receive above what they pay for that good is called:

- ► Producer surplus.
- ► Utility.
- ► Marginal utility.
- ► **Consumer surplus.**

Question No: 10 (Marks: 1) - Please choose one

A risk-averse individual has:

- ► **A diminishing marginal utility of income.**
- ► An increasing marginal utility of risk.
- ► An increasing marginal utility of income.
- ► A diminishing marginal utility of risk.

Question No: 11 (Marks: 1) - Please choose one

As long as all prices remain constant, an increase in money income results in:

- ► An increase in the slope of the budget line.
- ► A decrease in the slope of the budget line.
- ► **An increase in the intercept of the budget line.**
- ► A decrease in the intercept of the budget line.

Question No: 12 (Marks: 1) - Please choose one

Assume leisure is a normal good. If income effect equals substitution effect then a wage rate increase will lead a person to:

- ► Increase hours of work.
- ► **Decrease hours of work.**
- ► Not change hours of work.
- ► None of the given options.

Question No: 13 (Marks: 1) - Please choose one

The budget line is the boundary between:

► Preferred and non preferred consumption combinations.
► **Affordable and unaffordable consumption combinations.**
► Income and expenditure.
► One point on a budget line.

Question No: 14 (Marks: 1) - Please choose one

An isoquant curve shows:

► **All the alternative combinations of two inputs that yield the same maximum total product.**
► All the alternative combinations of two products that can be produced by using a given set of inputs fully and in the best possible way.
► All the alternative combinations of two products among which a producer is indifferent because they yield the same profit.
► None of the given options.

Question No: 15 (Marks: 1) - Please choose one

A perfectly competitive firm maximizes profit by finding the level of production at which:

► **Price = Marginal Cost.**
► Price = Average Total Cost.
► Average Total Cost = Marginal Cost.
► Price < Marginal Cost.

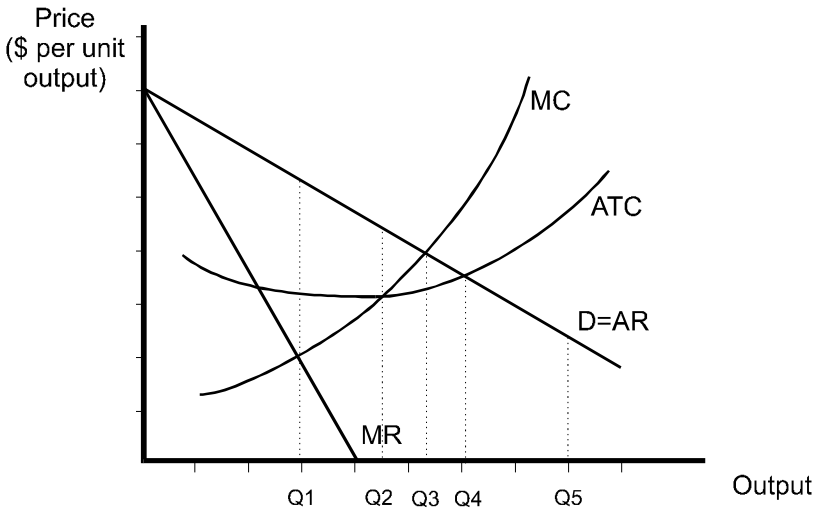
Question No: 16 (Marks: 1) - Please choose one

Compared to the equilibrium price and quantity sold in a competitive market, a monopolist will charge a _____ price and sell a _____ quantity.

► Higher; larger.
► Lower; larger.
► **Higher; smaller.**
► Lower; smaller.

Question No: 17 (Marks: 1) - Please choose one

For the monopolist shown below, the profit maximizing level of output is:



► **Q1.**
► Q2.
► Q3.
► Q4.

The profit maximizing or best level of output is given where MR=MC.

Question No: 18 (Marks: 1) - Please choose one

A market with few entry barriers and with many firms that sell differentiated products is:

► Purely competitive.
► A monopoly.
► **Monopolistically competitive.**
► Oligopolistic.

Question No: 19 (Marks: 1) - Please choose one

If the income elasticity of demand is 1/2, the good is:

► A luxury.
► **A normal good (but not a luxury).**
► An inferior good.
► A Giffen good.

Question No: 20 (Marks: 1) - Please choose one

Which of the following is NOT a factor of production?

- ► Labour.
- ► Land.
- ► Capital.
- ► **Investment.**

Question No: 21 (Marks: 1) - Please choose one

Under monopoly, when the demand curve is downward sloping, marginal revenue is:

- ► Equal to price.
- ► Equal to average cost.
- ► **Less than price.**
- ► More than price.

For any firm facing a downward sloping demand curve, marginal revenue will be less than price

http://www2.econ.iastate.edu/classes/econ101/vandewetering/chapter13notes.htm

Question No: 22 (Marks: 1) - Please choose one

Production possibilities curve will shift downward if there is:

- ► Immigration of skilled workers into the nation.
- ► An increase in the size of the working-age population.
- ► **A decrease in the size of the working-age population.**
- ► Increased production of capital goods.

Question No: 23 (Marks: 1) - Please choose one

Production possibilities curve will shift upward if there is:

- ► A reduction in unemployment.
- ► **An increase in the production of capital goods.**
- ► A reduction in discrimination.
- ► All of the given options.

Question No: 24 (Marks: 1) - Please choose one

Which of the following occur when an isocost line is just tangent to an isoquant?

- ► **Output is being produced at minimum cost.**
- ► Output is not being produced at minimum cost.
- ► The two products are being produced at the medium input cost to the firm.
- ► The two products are being produced at the highest input cost to the firm.

At point R, Isoquant curve is tangent to the budget line (Isocost). This is the optimal combination of factors of production.

Question No: 25 (Marks: 1) - Please choose one

Which of the following is TRUE about L-shaped isoquant?

► It indicates that the firm could switch from one output to another costlessly.

► It indicates that the firm could not switch from one output to another.

► It indicates that capital and labor cannot be substituted for each other in production.

► It is impossible.

Question No: 26 (Marks: 1) - Please choose one

Suppose that 90 units of output are produced by using 15 units of labor. Which of the following is TRUE in this context?

► The marginal product of labor is 6.

► The total product of labor is 1/6.

► The average product of labor is 6.

► None of the given options.

Question No: 27 (Marks: 1) - Please choose one

The following table shows a firm's total product of labor. What is the marginal product of labor between second and third unit of labor?

Table

Quantity of Labor	Total Product
1	0
2	100
3	230

► 100 units

► 130 units

► 110 units

► 230 units

230-100=130

Question No: 28 (Marks: 1) - Please choose one

What will happen to the isocost line if the price of both goods decreases proportionality?

► It shifts farther away from the origin of the graph.

► It shift inward.

► It shifts outward.

► None of the given options.

Question No: 29 (Marks: 1) - Please choose one

What will happen if current output is more than the profit-maximizing output?

► The next unit produced will increase profit.

► The next unit produced will decrease revenue more than it increases cost.

► The next unit produced will decrease cost more than it increases revenue.

► The next unit produced will increase revenue without increasing cost.

Question No: 30 (Marks: 1) - Please choose one

A price maker is:

- ► A firm that accepts different prices from different customers.
- ► A monopolistically competitive firm.
- ► An oligoplistic firm.
- ► **A firm that can individually influence the market price.**

Question No: 31 (Marks: 1) - Please choose one

A reduced price may be offered if you buy two t-shirts instead of just one. This is an example of

- ► Perfect competition.
- ► First-degree price discrimination.
- ► Monopoly.
- ► **Second-degree price discrimination.**

Question No: 32 (Marks: 1) - Please choose one

In cartels, there are a small number of sellers and usually involve

- ► **Heterogeneous products.**
- ► Large competition.
- ► Homogeneous products.
- ► Less demand in market.

Question No: 33 (Marks: 1) - Please choose one

If the current market price is set above the market clearing level then which of the following will happen:

- ► **There will be downward pressure on the current market price.**
- ► There will be upward pressure on the current market price.
- ► There will be lower production during the next time period.
- ► There will be a surplus to accumulate.

Question No: 34 (Marks: 1) - Please choose one

If an increase in price increases the total revenue then:

- ► Demand is elastic.
- ► **Demand is inelastic.**
- ► Supply is elastic.
- ► Supply is inelastic.

PAPER # 15

Question No: 1 (Marks: 1) - Please choose one

In a free-market economy, the allocation of resources is determined by:

► Votes taken by consumers.
► A central planning authority.
► **Consumer preferences.**
► The level of profits of firms.

Question No: 2 (Marks: 1) - Please choose one

Ceteris paribus means:

► Equal access to public transportation.
► **Other things being equal.**
► Other things not being equal.
► All things considered.

Question No: 3 (Marks: 1) - Please choose one

If pen and ink are complements, then an increase in the price of pen will cause:

► An increase in the price of ink.
► **Less ink to be demanded at each price.**
► A decrease in the demand for pen.
► A rightward shift in the demand curve for ink.

Question No: 4 (Marks: 1) - Please choose one

A good for which income and quantity demanded are inversely related is known as:

► **Inferior good.**
► Complementary good.
► Normal good.
► None of the given options.

Question No: 5 (Marks: 1) - Please choose one

Which of the following is calculated as the percentage change in quantity demanded of a given good with respect to the percentage change in the price of another good?

► Price elasticity of demand.
► Income elasticity of demand.
► **Cross price elasticity of demand.**
► Price elasticity of supply.

Question No: 6 (Marks: 1) - Please choose one

In order to calculate the price elasticity of supply, you need to know:

► **Two prices and two quantities supplied.**
► The slope of the supply curve.
► The equilibrium price and quantity in the market.
► The quantity supplied at two different prices, all else equal.

Question No: 7 (Marks: 1) - Please choose one

A demand curve is price elastic when:

► **Changes in demand are proportionately greater than changes in price.**
► Changes in demand are equal to changes in price.
► None of the given options.
► Changes in demand are proportionately smaller than changes in price.

Question No: 8 (Marks: 1) - Please choose one

As more of a good is consumed, then total utility typically:

► **Increases at a decreasing rate.**
► Decreases as long as marginal utility is negative.
► Decreases as long as marginal utility is positive.
► Is negative as long as marginal utility is decreasing.

Question No: 9 (Marks: 1) - Please choose one

Which of the following is the term that economists use to describe how consumers rank different goods and services?

► Satisfaction index.
► Goodness.
► **Utility.**
► None of the given options.

Question No: 10 (Marks: 1) - Please choose one

If your demand price for one unit of a good is $100 and the market price is $75, your consumer's surplus is:

► **$25.**
► $50.
► $75.
► $100.

Question No: 11 (Marks: 1) - Please choose one

Assume leisure is a normal good. If income effect equals substitution effect then a

wage rate increase will lead a person to:

► Increase hours of work.
► **Decrease hours of work.**
► Not change hours of work.
► None of the given options.

Question No: 12 (Marks: 1) - Please choose one

A normal good can be defined as one which consumers purchase more of as:

► Prices fall.
► Prices rise.
► Incomes fall.
► **Incomes increase.**

Normal goods are goods whose quantity demanded goes up as consumer income increases.

Question No: 13 (Marks: 1) - Please choose one

Diminishing marginal returns implies:

► Decreasing marginal costs.
► **Increasing marginal costs.**
► Decreasing average variable costs.
► Decreasing average fixed costs.

Question No: 14 (Marks: 1) - Please choose one

If isoquants are straight lines, it means that:

► Only one combination of inputs is possible.
► There is constant returns to scale.
► Inputs have fixed costs at all use rates.
► **The marginal rate of technical substitution of inputs is constant.**

Question No: 15 (Marks: 1) - Please choose one

A firm maximizes profit by operating at the level of output where:

► Average revenue equals average cost.
► Average revenue equals average variable cost.
► Total costs are minimized.
► **Marginal revenue equals marginal cost.**

Question No: 16 (Marks: 1) - Please choose one

Producer surplus in a perfectly competitive industry is:

► The difference between profit at the profit-maximizing and profit-minimizing level of output.
► The difference between revenue and total cost.
► **The difference between revenue and variable cost.**

► The difference between revenue and fixed cost.

When the demand curve is downward sloping, marginal revenue is:

a. Equal to price.
b. Equal to average revenue.
c. Less than price.
d. More than price.
e. Equal to marginal cost.

Question No: 17 (Marks: 1) - Please choose one

Monopolistically competitive firms have monopoly power because they:

► Are great in number.

► Have freedom of entry.

► Are free to advertise.

► Face downward sloping demand curves

Question No: 18 (Marks: 1) - Please choose one

Which of the following can be thought of as a barrier to entry?

► Scale economies.
► Patents.
► Strategic actions by incumbent firms.
► All of the given options.

Question No: 19 (Marks: 1) - Please choose one

The price elasticity of demand for any good must be less than or equal to zero unless:

► The good is a necessity.
► The good is a luxury.
► The good is a Giffen good.
► None of the given options.

Question No: 20 (Marks: 1) - Please choose one

The amount of output that a firm decides to sell has no effect on the market price in a competitive industry because:

► The market price is determined (through regulation) by the government.
► The firm supplies a different good than its rivals.

► **The firm's output is a small fraction of the entire industry's output.**
► The short run market price is determined solely by the firm's technology.

Question No: 21 (Marks: 1) - Please choose one

Because of unusual warm weather, the supply of strawberries has substantially increased. This statement indicates that:

► The demand for strawberries will necessarily rise.
► The equilibrium quantity of strawberries will fall.
► **The quantity of strawberries that will be available at various prices has increased.**
► The price of strawberries will fall.

Question No: 22 (Marks: 1) - Please choose one

Under monopoly, when the demand curve is downward sloping, marginal revenue is:

► Equal to price.
► Equal to average cost.
► **Less than price.**
► More than price.

Question No: 23 (Marks: 1) - Please choose one

Suppose the price of rail tickets decreases, what will happen to the demand for airline travel?

► **The demand curve for airline travel shifts left.**
► The demand curve for airline travel shifts right.
► The supply curve of airline travel shifts left.
► The supply curve of airline travel shifts right.

Question No: 24 (Marks: 1) - Please choose one

Which of the following will happen if two indifference curves cross each other?

► The assumption of a diminishing marginal rate of substitution will be violated.
► **The assumption of transitivity will be violated.**
► The assumption of completeness will be violated.
► Consumers will minimize their satisfaction.

Question No: 25 (Marks: 1) - Please choose one

Which of the following determines the largest amount of output that a firm can produce with a given combination of inputs?

► Marginal product of labor.
► Gains from specialization.
► Cost function.
► **Production function.**

Question No: 26 (Marks: 1) - Please choose one

Which of the following is TRUE about an isocost line?

► It shows the cost of inputs needed to produce along an isoquant.

► It shows the cost of inputs needed to produce along an expansion path.

► **It shows the input combinations that can be purchased with a given outlay of funds.**

► It shows the output combinations that can be produced with a given outlay of funds.

Question No: 27 (Marks: 1) - Please choose one

Which of the following is TRUE for the total cost of producing a given level of output?

► It is maximized when a corner solution exists.

► **It is minimized when the ratio of marginal product to input price is equal for all inputs.**

► It is minimized when the marginal products of all inputs are equal.

► It is minimized when marginal product multiplied by input price is equal for all inputs.

Question No: 28 (Marks: 1) - Please choose one

In which of the following situations, a monopoly occurs?

► When each firm produces a product that is slightly different from the other firms.

► **When one firm sells a good that has no close substitutes and a barrier blocks entry for other firms.**

► When there are many firms producing the same product.

► In all of the given situations.

Question No: 29 (Marks: 1) - Please choose one

The shape of isoquant which indicates capital and labor cannot be substituted for each other in production is

► Concave.

► Convex.

► **L-shaped.**

► None of the given options.

Question No: 30 (Marks: 1) - Please choose one

At the profit-maximizing level of output, the marginal cost is equal to:

► Average revenue

► Total revenue

► **Marginal revenue**

► None of the given options

Question No: 31 (Marks: 1) - Please choose one

Monopolistic competition is also characterized by a large number of buyers and sellers and absence of

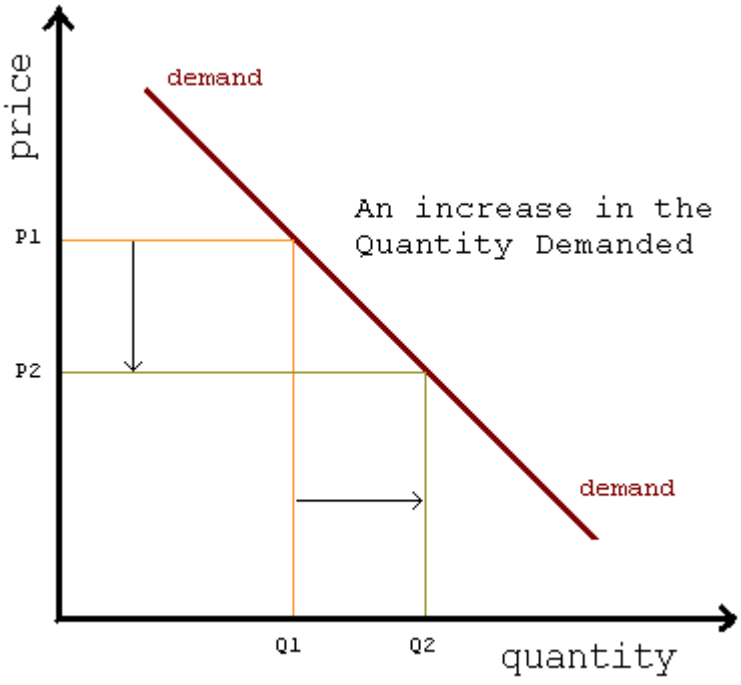
- ► Competition.
- ► **Entry barriers.**
- ► Price discrimination.
- ► All of the given options.

Question No: 32 (Marks: 1) - Please choose one

An increase in quantity demand is shown by:

- ► Shifting the demand curve to the left.
- ► Shifting the demand curve to the right.
- ► Upward movement along the demand curve.
- ► **Downward movement along the demand curve.**

When the price **decreases** from P_1 to P_2, the quantity demanded **increases** from Q_1 to Q_2.



Changes in things other than the price of the good or service may lead to changes the demand. So to an economist, demand is not the same as the quantity demanded.



Question No: 33 (Marks: 1) - Please choose one

Since bread and butter are complements. When the price of bread goes down, the demand curve for butter:

- ► Shifts to the left.
- ► **Shifts to the right.**
- ► Remains constant.
- ► Shifts to the right initially and then returns to its original position.

Question No: 34 (Marks: 1) - Please choose one

Slope and elasticity of demand have

- ► A direct relation.
- ► **An inverse relationship.**
- ► No relation between slope and elasticity.
- ► None of the given options.

Slope and elasticity of demand have *an* inverse relationship. When *slope* is high elasticity of. demand is low and vice versa

PAPER # 16

Marks:Question No: 1 (Marks: 1) - Please choose one

Which of the following is a normative statement?

► Intermediate microeconomics should be required of all economics majors in order to build a solid foundation in economic theory.
► The minimum wage should not be increased, because to do so would increase unemployment.
► Smoking should be restricted on all airline flights.
► **All of the given options.**

Question No: 2 (Marks: 1) - Please choose one

Ceteris paribus means:

► Equal access to public transportation.
► **Other things being equal.**
► Other things not being equal.
► All things considered.

Ceteris paribus *simply* means "all things being equal"

Question No: 3 (Marks: 1) - Please choose one

An increase in supply is shown by:

► Shifting the supply curve to the left.
► **Shifting the supply curve to the right.**
► Upward movement along the supply curve.
► Downward movement along the supply curve.

Question No: 4 (Marks: 1) - Please choose one

Which of the following is calculated as the percentage change in quantity demanded of a given good with respect to the percentage change in the price of another good?

► Price elasticity of demand.
► Income elasticity of demand.
► **Cross price elasticity of demand.**
► Price elasticity of supply.

Cross price elasticity of demand is the percentage change in quantity demanded of a specific good, with respect to the percentage change in the price of another related good.

Question No: 5 (Marks: 1) - Please choose one

In order to calculate the price elasticity of supply, you need to know:

► **Two prices and two quantities supplied.**
► The slope of the supply curve.
► The equilibrium price and quantity in the market.
► The quantity supplied at two different prices, all else equal.

Question No: 6 (Marks: 1) - Please choose one

Which of the following is the term that economists use to describe how consumers rank different goods and services?

► Satisfaction index.
► Goodness.
► **Utility.**
► None of the given options.

Question No: 7 (Marks: 1) - Please choose one

If a consumer's marginal rate of substitution equals 2 eggs for 1 hamburger then:

► The consumer's indifference curve must be positively sloped.
► The consumer's indifference curve must be convex with respect to the origin of the graph.
► **The ratio of the consumer's marginal utility of 1 egg to that of 1 hamburger must equal ½.**
► All of the given options.

Question No: 8 (Marks: 1) - Please choose one

As long as all prices remain constant, an increase in money income results in:

► An increase in the slope of the budget line.
► A decrease in the slope of the budget line.
► **An increase in the intercept of the budget line.**
► A decrease in the intercept of the budget line.

Question No: 9 (Marks: 1) - Please choose one

The income effect of a price change:

► Is always positive.
► Is always negative.
► **May be positive or negative.**
► Is associated with a change in nominal income.

Question No: 10 (Marks: 1) - Please choose one

Which of the following is considered to be a variable cost in the long run?

- ► Expenditures for wages.
- ► Expenditures for research and development.
- ► Expenditures for raw materials.
- ► **All of the given options.**

Question No: 11 (Marks: 1) - Please choose one

_____ arises when an increase in all inputs leads to a more-than-proportional increase in the level of output. _____ means that as inputs are added to the production process, output increases proportionally.

- ► **Economies of scale; constant returns to scale.**
- ► Constant returns to scale; decreasing returns to scale.
- ► Decreasing returns to scale; economies of scale.
- ► Economies of scale; decreasing returns to scale.

Question No: 12 (Marks: 1) - Please choose one

If isoquants are straight lines, it means that:

- ► Only one combination of inputs is possible.
- ► There is constant returns to scale.
- ► Inputs have fixed costs at all use rates.
- ► **The marginal rate of technical substitution of inputs is constant.**

Question No: 13 (Marks: 1) - Please choose one

Costs determine all of the following EXCEPT:

- ► **Demand for a product.**
- ► Firm's behaviour.
- ► How firms should expand?
- ► Firm's profitability.

Question No: 14 (Marks: 1) - Please choose one

At the profit-maximizing level of output, marginal profit:

- ► Is positive.
- ► Is increasing.
- ► **Is zero.**
- ► Is also maximized.

Question No: 15 (Marks: 1) - Please choose one

A perfectly competitive firm maximizes profit by finding the level of production at which:

- ► **Price = Marginal Cost.**

► Price = Average Total Cost.
► Average Total Cost = Marginal Cost.
► Price < Marginal Cost.

Question No: 16 (Marks: 1) - Please choose one

As compared to existing firms, a new firm entering in monopolist market has:

► **High costs.**
► Low costs.
► Equal costs.
► None of the given options.

Question No: 17 (Marks: 1) - Please choose one

Cartels are likely to fail when:

► The members adhere to their output quotas.
► **The non-cartel members increase output.**
► The members charge identical prices.
► None of the given options.

http://wps.aw.com/aw_perloff_microcalc_1/76/19616/5021764.cw/content/index.html

Question No: 18 (Marks: 1) - Please choose one

Which of the following best expresses the law of demand?

► A higher price reduces demand.
► A lower price reduces demand.
► **A higher price reduces quantity demanded.**
► A lower price shifts the demand curve to the right.

Question No: 19 (Marks: 1) - Please choose one

If the cross price elasticity of demand between two goods X and Y is positive; it means that goods are:

► Independent.
► Complements.
► **Substitutes.**
► Inferior.

Question No: 20 (Marks: 1) - Please choose one

If the income elasticity of demand is 1/2, the good is:

► A luxury.
► **A normal good (but not a luxury).**

► An inferior good.
► A Giffen good.

Question No: 21 (Marks: 1) - Please choose one

If the demand curve for a good is downward sloping, then the good:

► Must be inferior.
► Must be giffen.
► Can be normal or inferior.
► Must be normal.

The downward slope reflects the interaction of the substitution effect and the income effect , for normal good both effects contribute to the downward slop of the demand curve. For an inferior good we can have confidence that the substitution effect dominates the income effect so once again the demand curve will slope downward.

The demand curve for a normal good is downward sloping due to

A) The substitution effect

B) Income effect

C) Giffen effect

D)The combination of income and substitution effects

Question No: 22 (Marks: 1) - Please choose one

What is meant by freedom of enterprise in pure capitalism?

► It means that businesses are free to produce products that consumers want.
► It means that consumers are free to buy goods and services that they want.
► It means that resources are distributed freely to businesses.
► It means that government is free to direct the actions of businesses.

Question No: 23 (Marks: 1) - Please choose one

What questions are related with explanation? What questions are related with what ought to be?

► Positive, negative.
► Negative, normative.
► Normative, positive.
► Positive, normative.

Question No: 24 (Marks: 1) - Please choose one

Which of the following will happen if the current market price is set below the market clearing level?

► There will be a surplus to accumulate.
► There will be downward pressure on the current market price.
► **There will be upward pressure on the current market price.**
► There will be lower production during the next time period.

When price set below the market clearing level , there will be shortage of goods , and this casue upward pressure on prices. And supply increase equlibrium established

The amount of the good buyers are willing and able to purchase is the

a. demand.
b. quantity supplied.
c. quantity demanded.
d. supply.

. When there is a shortage in a market,

a. there is downward pressure on price.
b. there is upward pressure on price.
c. the market could still be in equilibrium.
d. the price must be above equilibrium.

Question No: 25 (Marks: 1) - Please choose one

What is meant by the term utility?

► Useless.
► Require.
► Necessary.
► **Satisfaction.**

Utility is the usefulness, benefit or satisfaction derived from the consumption of goods and services

Question No: 26 (Marks: 1) - Please choose one

The total cost (TC) function is given as: TC = 200 + 5Q. What is the variable cost?

► **5Q.**
► 5.
► 5 + (200/Q).
► 200.

Question No: 27 (Marks: 1) - Please choose one

Which of the following is NOT included in the perfect information assumption of perfect competition?

► Consumers know their preferences.
► Consumers know their income levels.

► Consumers know the prices available.
► **Consumers can anticipate price changes.**

Question No: 28 (Marks: 1) - Please choose one
Which of the following is TRUE for third-degree price discrimination?

► **Charging different prices to different groups based upon differences in elasticity of demand.**

► Charging each consumer the same two part tariff.
► The use of increasing block rate pricing.
► Charging lower prices the greater the quantity purchased.

Question No: 29 (Marks: 1) - Please choose one

The government can regulate monopolies to ensure that they set a price where the AR curve intersects the

► Marginal revenue curve.
► Average variable cost.
► **Marginal cost curve.**
► None of the given options.

The government can regulate monopolies to ensure that they set a price where the AR curve intersects the MC curve
Governments sometimes regulate monopolies at the point where the AR curve intersects the AC curve

Question No: 30 (Marks: 1) - Please choose one

A reduced price may be offered if you buy two t-shirts instead of just one. This is an example of

► Perfect competition.
► First-degree price discrimination.
► Monopoly.
► **Second-degree price discrimination.**

2ND DEGREE PD
In this type, different prices charged to customers who purchase different quantities.

Question No: 31 (Marks: 1) - Please choose one

When different prices are charged to customers who purchase different quantities, this is an example of

► **Second-degree price discrimination.**
► First-degree price discrimination.
► Monopoly.
► Perfect competition.

Question No: 32 (Marks: 1) - Please choose one

The demand curve for eggs is downward-sloping. Suddenly the price of eggs decreases from Rs.60/- per dozen to Rs.50/- per dozen. This will cause:

- ► The demand curve for eggs to shift leftward.
- ► Quantity demanded of eggs to decrease.
- ► The demand curve for eggs to shift rightward**.**
- ► **Quantity demanded of eggs to increase.**

Question No: 33 (Marks: 1) - Please choose one

Slope and elasticity of demand have

- ► A direct relation.
- ► **An inverse relationship.**
- ► No relation between slope and elasticity.
- ► None of the given options.

Question No: 34 (Marks: 1) - Please choose one

If you sum the marginal utilities obtained by consumption from one unit to five units of any commodity, you will get:

- ► The marginal utility for the consumption of the fifth unit.
- ► The marginal utility for the consumption of the sixth unit.
- ► **The total utility for the consumption of the first five units.**
- ► The average utility for the consumption of the first five units.

Each individual unit of a good or service has its own marginal utility, and the total utility is simply the sum of all the marginal utilities of the individual units

PAPER # 17

Question No: 1 (Marks: 1) - Please choose one

Which of the following is a positive statement?

► When the price of a good goes up, consumers buy less of it.
► When the price of a good goes up, firms produce more of it.
► When the Federal government sells bonds, interest rates rise and private investment is reduced.
► **All of the given options.**

Question No: 2 (Marks: 1) - Please choose one

Aslam decides to stay at home and study for his exam rather than going out with his friends to a movie. His dilemma is an example of:

► The economic perspective.
► Marginal analysis.
► Allocative efficiency.
► **Opportunity cost.**

Question No: 3 (Marks: 1) - Please choose one

When government sets the price of a good and that price is above the equilibrium price, the result will be:

► **A surplus of the good.**
► A shortage of the good.
► An equilibrium.
► None of the given options.

Question No: 4 (Marks: 1) - Please choose one

If the quantity supplied of oranges exceeds the quantity demanded then:

► There is a shortage of oranges.
► **Market forces will cause the price to fall.**
► Market forces will cause the price to rise.
► The market is in equilibrium.

Question No: 5 (Marks: 1) - Please choose one

When the marginal utility of a good is zero, this implies that:

► **The consumer would not spend any additional income to buy more of that good.**
► Consumption of additional units would have positive marginal utility.
► Total utility is minimized.
► Total utility is also zero.

Question No: 6 (Marks: 1) - Please choose one

At any given point on an indifference curve, the absolute value of the slope equals:

► Unity--otherwise there would be no indifference.
► **The marginal rate of substitution.**
► The consumer's marginal utility.
► None of the given options.

Question No: 7 (Marks: 1) - Please choose one

A production function:

► **Relates inputs with output.**
► Generates a curve that is upward sloping.
► Shows diminishing marginal product of an input, since it gets flatter as output rises.
► All of the given options.

Question No: 8 (Marks: 1) - Please choose one

A negatively sloped isoquant implies:

► Products with negative marginal utilities.
► Products with positive marginal utilities.
► Inputs with negative marginal products.
► **Inputs with positive marginal products.**

The negative slope indicates that each input has a positive marginal product

Question No: 9 (Marks: 1) - Please choose one

Total costs are the sum of:

► Marginal costs and variable costs.
► **Fixed costs and variable costs.**
► Fixed costs and marginal costs.
► Average variable costs and marginal costs.

Question No: 10 (Marks: 1) - Please choose one

To find the profit maximizing level of output, a firm finds the output level where:

► Price equals marginal cost.
► Marginal revenue and average total cost.

► Price equals marginal revenue.
► **None of the given options.**

MC =MR

At the profit-maximizing level of output, the marginal cost is equal to Marginal revenue

Question No: 11 (Marks: 1) - Please choose one

A price taker is:

► A firm that accepts different prices from different customers.
► A monopolistically competitive firm.
► **A firm that cannot influence the market price.**
► An oligopolistic firm.

Question No: 12 (Marks: 1) - Please choose one

If at the profit-maximizing quantity, profits are positive,then:

► Price < Average Total Cost.
► **Price > Average Total Cost.**
► Price < Average Variable Cost.
► Price = Marginal Cost.

Profit Maximization

The two key criteria are that price is greater than average total cost (P > ATC) and that marginal revenue is equal to marginal cost (MR = MC).

Production Alternatives	
Price and Cost	**Result**
P > ATC	Profit Maximization Produce the quantity that equates MR and MC. Generate positive economic profit.
ATC > P > AVC	Loss Minimization Produce the quantity that equates MR and MC. Incur economic loss less than fixed cost.

P < AVC	Shutdown Stop producing in the short run. Incur economic loss equal to fixed cost.

Question No: 13 (Marks: 1) - Please choose one

The break-even point occurs when:

- ► Price < Average Variable Cost.
- ► Price < Average Total Cost.
- ► **Price = Average Total Cost.**
- ► Price > Average Variable Cost.

Question No: 14 (Marks: 1) - Please choose one

Second-degree price discrimination is the practice of charging:

- ► The reservation price to each customer.
- ► **Different prices for different blocks of the same good or service.**
- ► Different groups of customers different prices for the same products.
- ► Each customer the maximum price that he or she is willing to pay.

Reservation price - the maximum amount a person would be willing to pay for a unit of output

Question No: 15 (Marks: 1) - Please choose one

What happens to an incumbent firm's demand curve in monopolistic competition as new firms enter?

- ► It shifts rightward.
- ► **It shifts leftward.**
- ► It becomes horizontal.
- ► New entrants will not affect an incumbent firm's demand curve.

Question No: 16 (Marks: 1) - Please choose one

You observe that the price of houses and the number of houses purchased both rise over the course of the year. You conclude that:

- ► **The demand for houses has increased.**
- ► The demand curve for houses must be upward-sloping.
- ► The supply of houses has increased.
- ► Housing construction costs must be decreasing.

Question No: 17 (Marks: 1) - Please choose one

A natural monopoly is most likely to exist when:

► There are large barriers to entry.
► There are long term patents.
► **There are large economies of scale.**
► There is government regulation of the industry.

A natural monopoly arise when there *are* large economies *of* scale relative to the industry' A natural monopoly exists when there is great scope for economies of scale to be exploited over a very large range of output

A natural monopoly exists if:	average cost of production is lowest when only one firm produces the entire industry output

• Barriers to entry can take several forms **A natural monopoly occurs when**

a. the product is sold in its natural state (such as water or diamonds).
b. there are economies of scale over the relevant range of output.
c. the firm is characterized by a rising marginal cost curve.
d. production requires the use of free natural resources, such as water or air.

.

When a natural monopoly exists, it is

a. always cost effective for government-owned firms to produce the product.
b. never cost effective for one firm to produce the product.
c. always cost effective for two or more private firms to produce the product.
d. never cost effective for two or more private firms to produce the product.

When a firm's average total cost curve continually declines, the firm is a

a. government-created monopoly.
b. natural monopoly.
c. revenue monopoly.
d. All of the above are correct.

Question No: 18 (Marks: 1) - Please choose one

If the income elasticity of demand is 1/2, the good is:

► A luxury.
► **A normal good (but not a luxury).**
► An inferior good.
► A Giffen good.

Question No: 19 (Marks: 1) - Please choose one

Usually the shape of production possibilities curve is:

► **Concave.**
► Convex.
► Linear.
► Positive.

Question No: 20 (Marks: 1) - Please choose one

If average physical product (APP) is increasing then which of the following must be true?

► **Marginal physical product is above the average physical product.**
► Marginal physical product is less than average physical product.
► Marginal physical product is decreasing.
► None of the given statements is true…

RELATIONSHIP BETWEEN APP AND MPP

If the marginal physical product equals the average physical product, the average physical product will not change.
If the marginal physical product is above the average physical product, the average physical product will rise.
If the marginal physical product is below the average physical product, the average physical product will fall.

Question No: 21 (Marks: 1) - Please choose one
Which of the following is true about supply curve under monopoly?

► It is same as the competitive market supply curve.
► It is the portion of marginal cost curve where marginal costs exceed the minimum value of average variable costs.
► It is the result of market power and production costs.
► **None of the given statements is true.**

Because the quantity supplied at any particular price depends on the monopolist's demand curve.

Question No: 22 (Marks: 1) - Please choose one

The demand curve for chicken is downward-sloping. Suddenly the price of chicken rises from Rs.130 per kg to Rs.140 per kg. This will cause:

► The demand curve for chicken to shift to the left.
► The demand curve for chicken to shift to the right.

► Quantity demanded of chicken to increase.
► **Quantity demanded of chicken to decrease.**

Question No: 23 (Marks: 1) - Please choose one

Suppose an increase in income causes demand curve to shift to rightward. In this case, what will happen at any given price?

► The price elasticity of demand will remain unchanged.
► **The price elasticity of demand will decrease in absolute terms.**
► The price elasticity of demand will increase in absolute terms.
► The price elasticity of demand will increase, decrease or stay the same. It cannot be determined.

Question No: 24 (Marks: 1) - Please choose one

Suppose the total costs of first four units of an output produced are 10, 20, 30, and 40 respectively. What is the marginal cost of the fourth unit of output?

► **10.**
► 20.
► 30.
► 40.

40-30=10

Question No: 25 (Marks: 1) - Please choose one

Suppose the total utilities for the first four units of a good consumed are 13, 23, 33, and 43 respectively. What is the marginal utility of the third unit?

► **10.**
► 13.
► 20.
► 33.

33-23=10

Question No: 26 (Marks: 1) - Please choose one

Which of the following determines the largest amount of output that a firm can produce with a given combination of inputs?

► Marginal product of labor.
► Gains from specialization.
► Cost function.
► **Production function.**

Question No: 27 (Marks: 1) - Please choose one

Which of the following best defines the marginal rate of technical substitution?

► **The rate at which a producer is able to exchange, without affecting the**

quantity of output produced, a little bit of one input for a little bit of another input.

► The rate at which a producer is able to exchange, without affecting the total cost of inputs, a little bit of one input for a little bit of another input.

► The rate at which a producer is able to exchange, without affecting the total inputs used, a little bit of one output for a little bit of another output.

► A measure of the ease or difficulty with which a producer can substitute one technique of production for another.

MRTS is the amount of one factor, e.g. capital, that can be replaced by a one unit increase in the other factor e.g. labor, if output is to be held constant.

Question No: 28 (Marks: 1) - Please choose one

The total cost (TC) function is given as TC = 100 + 3Q. What is the marginal cost?

► 100

► 3Q

► 3

► 103

Marginal Cost (MC) = Delta TC / Delta = Derivative of the total cost function (**TC =100 + 60Q**)

= 60

Question No: 29 (Marks: 1) - Please choose one

The total cost (TC) function is given as TC = 200 + 5Q. What will be the average total cost if four units of commodity are produced?

► 20

► 55

► 50

► 220

Given Q=4

Average Cost or Average total cost (AC or ATC)

AVC + AFC = ATC or AC

TC=200+5(4)

=200+20

=220

Question No: 30 (Marks: 1) - Please choose one

In cartels, there are a small number of sellers and usually involve

► Heterogeneous products.

► Large competition.
► **Homogeneous products.**
► Less demand in market.

A cartel is a formal (explicit) agreement among firms. Cartels usually occur in an oligopolistic industry, where there are a small number of sellers and usually involve homogeneous products.

Question No: 31 (Marks: 1) - Please choose one

If the current market price is set above the market clearing level then which of the following will happen:

► **There will be downward pressure on the current market price**.
► There will be upward pressure on the current market price.
► There will be lower production during the next time period.
► There will be a surplus to accumulate.

Above the market clearing point , there is surplus and , downward pressure on price to fall

Question No: 32 (Marks: 1) - Please choose one

As price increases total revenue decreases in case of

► Inelastic demand.
► Unit elastic demand.

► Zero elastic demand.

► **Elastic demand.**

Question No: 33 (Marks: 1) - Please choose one

If the cross price elasticity of demand between two goods A and B is negative; it means that goods are

► Independent.
► Inferior.
► **Complements.**
► Substitutes.

.

Question No: 34 (Marks: 1) - Please choose one

If a 7% price reduction causes quantity demanded to rise by 10% then:

► Demand is inelastic.

► **Demand is elastic.**

► Demand is perfectly elastic.

► Total revenue will remain constant.

PEoD = (% Change in Quantity Demanded)/(% Change in Price)

10/7=1.4

If PEoD > 1 then Demand is Price Elastic (Demand is sensitive to price changes

EXTRA

Which of the following best expresses the law of diminishing marginal utility?
The more a person consumes of a product, the smaller becomes the total utility that he receives from its consumption.

The more a person consumes of a product, the smaller becomes the additional utility that he receives from consuming each additional unit.

The less a person consumes of a product, the smaller becomes the total utility that he receives from its consumption.

The less a person consumes of a product, the smaller becomes the additional utility that he receives from consuming each additional unit.

It is marginal (additional), not total, utility that declines when additional units of a product are consumed.

Human behaviour that seeks to maximize total utility is called

Rational behavior
Consumer choice theory
Marginal utility
Substitution effect

Seeking to maximize total utility is called rational behaviour by economists

Marginal utility is positive, but declining, when total utility is positive and
Rising at an increasing rate.
Falling at an increasing rate.
Rising at a decreasing rate.
Falling at a decreasing rate.

Marginal utility - the extra utility from each additional unit - is declining when total utility is increasing, but at a slower rate

How does the law of diminishing marginal utility explain why a demand curve is downward sloping?

As the quantity consumed increases, marginal utility received from each successive unit decreases, so the price the consumer is willing to pay for higher quantities will fall

As the quantity consumed increases, marginal utility from each successive unit increases, so the price the consumer is willing to pay for larger quantities will rise.
As the quantity consumed decreases, marginal utility from each successive unit increases, so the consumer is willing to pay less for smaller quantities of the good

As the quantity consumed decreases, marginal utility received from each successive unit decreases, so the consumer is willing to pay less for smaller quantities of the good.

One difference between perfect competition and monopolistic competition is that
A) a perfectly competitive industry has fewer firms.
B) monopolistic competition has barriers to entry.
C) firms in monopolistic competition face a downward-sloping demand curve.
D) in perfect competition, firms produce slightly differentiated products.

In monopolistically competitive industries,
A) firms are not sensitive to changes in consumer demand.
B) the amount of variety in products is the same as in perfectly competitive industries.
C) non-price competition through product differentiation is vigorous.
D) firms produce where marginal cost exceeds the marginal benefit to consumers

Firms in monopolistic competition make products that are
A) close but not perfect substitutes.
B) perfect substitutes.
C) close but not perfect complements.
D) perfect complements

Product differentiation is a defining characteristic of
A) perfectly elastic demand.
B) perfect competition.
C) oligopoly
D) monopolistic competition

A monopolistically competitive industry has
A) a small number of large firms.
B) differentiated products.
C) significant barriers to entry.
D) mutually dependent firms.

Firms in monopolistic competition can achieve product differentiation by
A) exploiting economies of scale in production.
B) advertising special characteristics.

C) expanding plant size.
D) setting the price equal to average revenue.

A characteristic of monopolistic competition is that each firm
A) faces perfectly elastic demand.
B) faces a downward-sloping demand curve.
C) has a perfectly inelastic supply.
D) has a perfectly elastic supply

For a firm in monopolistic competition, the marginal cost curve intersects the average total cost curve
A) at no point.
B) at the minimum average total cost.
C) to the left of the minimum average total cost.
D) to the right of the minimum average total cost.

In the short run, a monopolistically competitive firm chooses
A) its quantity but not its price.
B) neither its price nor its quantity.
C) its price but not its quantity
D) both its price and its quantity.

In long-run equilibrium, a firm in monopolistic competition earns
A) a normal profit.
B) an economic profit but the economic profit is less than it would be if the firm was a monopoly.
C) an economic profit that is higher than what it would be if the firm was a monopoly.
D) an economic profit that is the same amount as it would be if the firm was a monopoly.

In the long run, a firm in monopolistic competition will

A) earn a positive economic profit.
B) earn a negative economic profit, that is, an economic loss.
C) earn zero economic profit, that is, a normal profit.
D) None of the above answers is necessarily correct because the amount of the profit or loss depends on the slope of the demand curve.

In the long run, a monopolistically competitive firm's price equals its
A) marginal cost but not its average total cost.
B) average total cost and its marginal cost.
C) average total cost but not its marginal cost.
D) neither marginal cost nor its average total cost.

When only a small number of producers compete with each other is a defining characteristic of
A) monopolistic competition.
B) oligopoly.
C) efficient competition.
D) inelastic supply.

A monopolistically competitive firm has excess capacity because in the
A) long run it earns an economic profit.
B) short run its *ATC* is less than its *AVC*.
C) short run its *MR* exceeds its *MC*.
D) long run its *ATC* exceeds its minimum *ATC*.

Under conditions of pure monopoly:
A) there are close substitutes.
B) there is no advertising.
C) the firm is a price taker.
D) entry is blocked.

Which is a barrier to entry In Monopoly ?
A) patents
B) revenue maximization
C) profit maximization
D) elastic product demand

At the profit-maximizing level of output, a monopolist will always operate where:
A) price is greater than marginal cost.
B) price is greater than average revenue.
C) average total cost equals marginal cost.
D) total revenue is greater than total cost.

In the short run, a monopolist's profits:
A) may be positive, negative, or zero.
B) are positive because of the monopolist's market power.
C) are positive if the monopolist's elasticity of demand is less than 1.
D) are positive if the monopolist's selling price is above average variable cost.

Monopolists are said to be allocatively inefficient because:
A) they produce where MR > MC.
B) at the profit-maximizing output price is greater than AVC.
C) they produce only the type of product they desire and do not consider the consumer.
D) at the profit-maximizing output the marginal benefit to society of additional output is greater than the marginal cost to society.

Compared to competitive markets, monopolies charge:

a. higher prices, produce more output, but make lower profits.
b. higher prices, produce more output, and make higher profits.
c. higher prices, produce less output, and make higher profits.
d. lower prices, produce more output, and make higher profits.
e.

All other things equal, compared to a competitive market, a monopoly will have:

a. higher profits and greater efficiency.
b. lower profits and greater efficiency.
c. lower profits and lower efficiency.
d. higher profits and lower efficiency.

Economies of scale over a wide range of output:

a. are a barrier to entry.
b. mean that average cost decreases over a wide range of output.
c. lead to natural monopoly.
d. all of the above.

In long-run equilibrium, monopoly prices are set a level where:
(a) price exceeds marginal revenue.
(b) industry demand equals industry supply.
(c) industry demand is less than industry supply.
d) price exceeds average revenue.

At the profit maximizing level of output for a monopolist:
(a) P = AR and AR = AC
(b) P = MC and MR > MC
(c) P > MC and MR = MC
(d) P = MR and AC = MC

A **firm will earn normal profits when price:**
(a) equals average total cost.
(b) equals average variable cost.
(c) equals marginal cost.
(d) exceeds minimum average total cost

In the short run, a perfectly competitive firm will shut down and produce nothing if:
(a) excess profits equal zero.
(b) total cost exceeds total revenue.
(c) total variable cost exceeds total revenue.
(d) the market price falls below the minimum average total cost.

Which of the following is not characteristic of perfect competition?
(a) a differentiated product.
(b) no barriers to entry or exit.
(c) large number of buyers.
(d) complete knowledge of market price.

If a perfectly competitive firm incurs an economic loss, it should:
(a) shut down immediately.
(b) try to raise its price.
(c) shut down in the long run.
(d) shut down if this loss exceeds fixed cost.

When a firm produces at the point where MR = MC, the profit that it is earning is considered to be:
(a) maximum.
(b) normal.
(c) above normal.
(d) not enough information is provided.

we have following demand and supply function Qd = 100 – 10 P, Qs = 40 + 20 P, what is equilibrium price?

2
80
5
20

In equilibrium,
Qd = Qs
Therefore,
100 - 10P = 40 + 20P
20P + 10P = 100 - 40
30P = 60
P = 60/30
P = 2

we have following demand and supply function Qd = 100 – 10 P, Qs = 40 + 20 P, what is equilibrium Quantity ?

2

80

40

10

In equilibrium,
Qd = Qs
Therefore,
100 - 10P = 40 + 20P
20P + 10P = 100 - 40
30P = 60
P = 60/30
P = 2

Putting the value of price in any of demand and supply equation,

Qd = 100 – 10 P
Q = 100 – 10x2
Q = 100 – 20
Q = 80
Qs = 40 + 20 P
Qs = 40 + 20 x2
Qs = 40 + 40
Qs = 80

The equilibrium price is 2 and the equilibrium quantity is 80

Income Effects

Price change	Income Effect	Therefore…
Price increase	Negative income effect	Normal Good
Price increase	Positive income effect	Inferior Good
Price decrease	Negative income effect	Inferior Good
Price decrease	Positive income effect	Normal Good