

Question Paper

Economics - I (MSF1A3) : October 2008

- Answer all 75 questions.
- Marks are indicated against each question.

Total Marks : 100

[<Answer>](#)

1. Which of the following statements is **false** regarding a command economy?
 - (a) It is a method of determining what, how, when, where and for whom goods and services are produced
 - (b) It uses a hierarchical organization structure in which people carry out the instructions given to them
 - (c) In a command economy, the state owns all the productive resources
 - (d) Authoritarian methods are used to determine the resource use and the level of prices in a command economy
 - (e) Command economy is the same as market economy.

(1 mark) [<Answer>](#)
2. Which of the following statements is **not correct**?
 - (a) Rationality on the part of the firm refers to maximization of profit or sales revenue
 - (b) In a market economy, demand determines the quantity of goods to be produced
 - (c) In mixed economy, government as well as business firms provides goods and services to the economy
 - (d) An economy that uses a market coordinating mechanism is called a mixed economy
 - (e) In Marginalism analysis, it is assumed that the independent variable changes by a single unit.

(1 mark) [<Answer>](#)
3. If a machine can produce either 40 units of X or 80 units of Y in a given period of time, the opportunity cost of 1X is
 - (a) Y
 - (b) 2Y
 - (c) 3Y
 - (d) 10Y
 - (e) 20Y.

(1 mark) [<Answer>](#)
4. Which of the following factor(s) is/are responsible for an increase in demand for a commodity?
 - I. An increase in income of the consumer.
 - II. An increase in the price of complementary good.
 - III. Expectations of future decrease in the price of the commodity.
 - (a) Only (I) above
 - (b) Only (II) above
 - (c) Only (III) above
 - (d) Both (I) and (III) above
 - (e) All (I), (II) and (III) above.

(1 mark) [<Answer>](#)
5. The rate of change in quantity demanded of a commodity due to change in income of the consumer is known as
 - (a) Price elasticity of demand
 - (b) Income elasticity of demand
 - (c) Cross elasticity of demand
 - (d) Increase in demand
 - (e) Decrease in demand.

(1 mark) [<Answer>](#)
6. The cross elasticity of demand for independent goods is
 - (a) One
 - (b) Zero
 - (c) Infinity
 - (d) Less than zero
 - (e) Greater than zero but less than one.

(1 mark) [<Answer>](#)

7. For inferior goods, the income elasticity of demand is [<Answer>](#)
- One
 - Zero
 - Greater than one
 - Infinity
 - Less than zero.
- (1 mark)
8. When elasticity of supply is less than one but greater than zero, it is called as [<Answer>](#)
- Perfectly elastic supply
 - Perfectly inelastic supply
 - Unitary elastic supply
 - Relatively inelastic supply
 - Relatively elastic supply.
- (1 mark)
9. In case of perfectly elastic demand curve, the imposition of tax will be [<Answer>](#)
- Entirely borne by buyers
 - Entirely borne by sellers
 - Equally distributed between buyers and sellers
 - More on buyer and less on seller
 - More on seller and less on buyer.
- (1 mark)
10. The demand for spare parts of a machine is [<Answer>](#)
- Final demand
 - Individual demand
 - Replacement demand
 - New demand
 - Direct demand.
- (1 mark)
11. The difference between what a consumer is willing to pay and what he actually pays is known as [<Answer>](#)
- Normal profit
 - Marginal utility
 - Marginal revenue
 - Consumer surplus
 - Total revenue.
- (1 mark)
12. In case of perfect complementary goods, the indifference curve will be [<Answer>](#)
- An upward rising straight line
 - A horizontal straight line
 - A vertical straight line
 - An U-shaped curve
 - A L-shaped curve.
- (1 mark)
13. Which of the following represents the Marginal Rate of Technical Substitution (MRTS)? [<Answer>](#)
- Slope of the isocost line
 - Slope of the indifference curve
 - Slope of the isoquant
 - Slope of the budget line
 - Slope of the average cost curve.
- (1 mark)
14. Average product of a variable input is [<Answer>](#)
- The total product divided by the price of the product
 - The same as marginal product when marginal product is minimum
 - The total product divided by the amount of variable inputs used
 - The same as total product when marginal product is zero
 - The amount of additional output that can be produced by using one more unit of the variable input.
- (1 mark)
15. For a homogeneous production function, the slope of an expansion path is a/an [<Answer>](#)

- (a) Upward rising straight line from the origin
- (b) Horizontal straight line
- (c) Vertical straight line
- (d) U-shaped curve
- (e) L-shaped curve.

(1 mark)

[<Answer>](#)

16. The shape of total product curve is determined by

- (a) Law of increasing returns
- (b) Law of constant returns
- (c) Law of diminishing returns
- (d) Law of constant returns to scale
- (e) Law of increasing returns to scale.

(1 mark)

[<Answer>](#)

17. The locus of all tangency points between the isoquants and the parallel isocost lines represents

- (a) Total revenue of the firm
- (b) Total profit of the firm
- (c) Expansion path of the firm
- (d) Total cost of the firm
- (e) Marginal cost of the firm.

(1 mark)

[<Answer>](#)

18. Which of the following economies is otherwise known as stochastic economies?

- (a) Inventory economies
- (b) Selling economies
- (c) Managerial economies
- (d) Transport economies
- (e) Pecuniary economies.

(1 mark)

[<Answer>](#)

19. Which of the following statements is **correct**?

- (a) Average total cost is the same as total cost
- (b) Average variable cost is total variable cost plus the number of units of output produced
- (c) Average total cost is the sum of average fixed cost and average variable cost
- (d) Marginal cost is the change in fixed cost due to change in output
- (e) Total cost is the difference between total fixed cost and total variable cost.

(1 mark)

[<Answer>](#)

20. In perfect competition, the long run supply curve of a constant cost industry is

- (a) A horizontal straight line
- (b) A vertical straight line
- (c) An upward rising curve
- (d) A downward sloping curve
- (e) Rectangular hyperbola.

(1 mark)

[<Answer>](#)

21. Which of the following properties are observed in a freely competitive market to fulfill the marginal conditions of allocative efficiency?

- I. Efficient allocation of resources among firms.
- II. Efficient distribution of goods produced among consumers.
- III. Efficient combination of goods.
- IV. Efficient distribution of profit among firms.

- (a) Both (I) and (II) above
- (b) Both (II) and (III) above
- (c) Both (I) and (IV) above
- (d) Both (I) and (III) above
- (e) (I), (II) and (III) above.

(1 mark)

[<Answer>](#)

22. In the modern analysis on the basis of which of the following criteria(s) imperfect markets are classified?

- I. Substitutability of products.
- II. Interdependence of firms.
- III. Ease of entry.

- (a) Only (I) above
- (b) Only (II) above

- (c) Only (III) above
- (d) Both (I) and (III) above
- (e) All (I), (II) and (III) above.

(1 mark)

[<Answer>](#)

23. Which of the following statements is **true** in a monopolistically competitive market?

- (a) A single firm sells differentiated products
- (b) A single firm sells identical product
- (c) Many firms sell differentiated products
- (d) Many firms sell identical products
- (e) Two firms sell homogenous product.

(1 mark)

[<Answer>](#)

24. Which of the following statements is **false**?

- (a) The effect of a specific sales tax on the output is same both in the monopoly and perfectly competitive market
- (b) The effect of profit tax and lump sum tax is same for the monopolist
- (c) Monopoly is a single seller market
- (d) Monopoly market is same as Monopsony
- (e) For a monopolist, total revenue is the price multiplied by quantity sold.

(1 mark)

[<Answer>](#)

25. In perfect competition, firm earns only normal profits in the long-run, because of

- I. Product homogeneity in the industry.
- II. Large number of sellers and buyers in the industry.
- III. Free entry and exit of firms in the industry.

- (a) Only (I) above
- (b) Only (III) above
- (c) Both (I) and (II) above
- (d) Both (II) and (III) above
- (e) All (I), (II) and (III) above.

(1 mark)

[<Answer>](#)

26. Which of the following is **not** an assumption of Cournot's duopoly model?

- (a) There are two interdependent sellers selling a homogeneous product
- (b) There are large numbers of buyers in the market
- (c) Both the duopolists have identical cost curves
- (d) Each duopolist seeks to maximize his total profit in each time period
- (e) Each duopolist makes an output plan during a period which can be revised in that time period.

(1 mark)

[<Answer>](#)

27. Which of the following is/are **true** assumption(s) of Kinked Demand Curve?

- I. There are many firms in an oligopoly industry.
- II. Each firm produces a product which is a close substitute for that of the other firm.
- III. Products qualities are constant, advertising expenditures are zero.

- (a) Only (I) above
- (b) Only (II) above
- (c) Only (III) above
- (d) Both (I) and (II) above
- (e) All (I), (II) and (III) above.

(1 mark)

[<Answer>](#)

28. The monopolist **does not** operate on that portion of the demand curve, where the elasticity of demand is

- I. Unitary elastic.
- II. Relatively elastic.
- III. Relatively inelastic.
- IV. Perfectly elastic.

- (a) Only (I) above
- (b) Only (III) above
- (c) Both (I) and (II) above
- (d) Both (III) and (IV) above
- (e) (I), (II) and (III) above.

(1 mark)

[<Answer>](#)

29. Average fixed cost

- (a) Always declines as the output increases
- (b) Is U shaped, if there is increasing returns to scale
- (c) Is U shaped, if there is diminishing returns to scale
- (d) Is intersected by marginal cost at its minimum point
- (e) Is U shaped, if there is constant returns to scale.

(1 mark)

[<Answer>](#)

30. The cost which incurred in the past or that have to be incurred in the future as a result of contractual agreement is known as

- (a) Explicit cost
- (b) Incremental cost
- (c) Sunk cost
- (d) Marginal cost
- (e) Variable cost.

(1 mark)

[<Answer>](#)

31. Due to Green Revolution, the production of the food grains increased tremendously. In this case which of the following factors influence supply of food grains?

- (a) Adoption of modern technology
- (b) Change in input prices
- (c) Change in the prices of related goods
- (d) Increase in the number of firms
- (e) Expectation of increase in price of the food grains.

(1 mark)

[<Answer>](#)

32. Economic cost can be written as

- (a) Explicit cost – Implicit cost
- (b) Marginal cost – Explicit cost
- (c) Social cost + Private cost
- (d) Explicit cost + Implicit cost
- (e) Accounting cost – Explicit cost.

(1 mark)

[<Answer>](#)

33. Which of the following is **false** in a collusive oligopoly?

- (a) A few oligopolist jointly make decisions
- (b) The intension of the colluding by oligopolist is to maximize their joint profit
- (c) The distribution of profit is decided by the central agency of the cartel
- (d) The output and the price will be decided by the parties in the agreement
- (e) The central agency will set the price defined by the intersection of average revenue and marginal cost curves.

(1 mark)

[<Answer>](#)

34. Which of the following cost curves is **not** 'U' shaped?

- (a) Long run average cost curve
- (b) Long run marginal cost curve
- (c) Short run average cost curve
- (d) Average variable cost curve
- (e) Average fixed cost curve.

(1 mark)

[<Answer>](#)

35. A profit maximizing firm seeks to maximize the difference between

- (a) Marginal revenue and marginal cost
- (b) Marginal revenue and average cost
- (c) Total cost and marginal revenue
- (d) Total revenue and marginal revenue
- (e) Average revenue and average cost.

(1 mark)

[<Answer>](#)

36. Four firm concentration refers to

- (a) The number of firms in the industry
- (b) The four largest firms in four different and important industries in an economy
- (c) The number of industries in an economy which have only four firms
- (d) The percent of total industry output that is accounted by the four smallest firms
- (e) The percent of the total industry output that is accounted by the four largest firms.

(1 mark)

[<Answer>](#)

37. Which of the following is **true** with reference to shut down point in perfect competition?

- (a) The profit of the firm is equal to its total cost
- (b) At that output the price covers the average fixed cost of the firm
- (c) At that output the price falls below average variable cost of the firm
- (d) At that output the price covers the average total cost of the firm
- (e) At that output the losses of the firm cease and the profit begin.

(1 mark)

[<Answer>](#)

38. Which of the following attribute(s) is/are possessed by an indifference relationship between two commodities?

- I. Transitivity.
- II. Reflexiveness.
- III. Symmetry.

- (a) Only (I) above
- (b) Only (II) above
- (c) Only (III) above
- (d) Both (I) and (II) above
- (e) All (I), (II) and (III) above.

(1 mark)

[<Answer>](#)

39. In which of the following markets, a producer or a seller enjoys the freedom of setting his price and output policies independently?

- (a) Oligopoly
- (b) Perfect competition
- (c) Monopolistic competition
- (d) Duopoly
- (e) Monopoly.

(1 mark)

[<Answer>](#)

40. In case of perfect competition, the degree of monopoly power is

- (a) One
- (b) Zero
- (c) Greater than one but less than infinity
- (d) Less than one but greater than zero
- (e) Infinity.

(1 mark)

[<Answer>](#)

41. The supply function for a product is given as $Q_s = 3P - 120$. What will be the minimum price of the product below which the supply **does not** fall?

- (a) Rs.10
- (b) Rs.20
- (c) Rs.30
- (d) Rs.40
- (e) Rs.50.

(2 marks)

[<Answer>](#)

42. A demand schedule for pens of students in a school is presented in the following table:

Price (Rs.)	12	10	8	6	4
Quantity Demand (Units)	24	36	48	60	72

What is the absolute arc price elasticity of demand when price decreases from Rs.10 to Rs.8?

- (a) 0.25
- (b) 0.50
- (c) 1.67
- (d) 1.98
- (e) 2.00.

(2 marks)

[<Answer>](#)

43. The supply function for a product is $Q_s = 200P - 4,000$. The elasticity of supply at a price of Rs.30 is

- (a) 0.25
- (b) 0.75
- (c) 1.56
- (d) 1.25
- (e) 3.00.

(2 marks)

[<Answer>](#)

44. The demand function for a commodity is estimated to be $Q_d = 2,500 - 20P$. The absolute arc price elasticity of demand between prices Rs.100 to Rs.120 is

- (a) 1.78

- (b) 2.35
- (c) 3.78
- (d) 2.45
- (e) 7.33.

(2 marks)

[<Answer>](#)

45. The Marginal Rate of Substitution of good X for Y is 0.75 and the price of good X is Rs.20. If the consumer is in equilibrium, the price of good Y is

- (a) Rs.25.00
- (b) Rs.35.78
- (c) Rs.26.67
- (d) Rs.45.00
- (e) Rs.50.12.

(1 mark)

[<Answer>](#)

46. The market demand and supply functions for a product are given as follows:

$$Q_s = 6,000 + 40P$$

$$Q_d = 27,000 - 100P$$

The industry supplying the product is perfectly competitive. An individual firm has fixed costs of Rs.1,000. Its average variable cost function is . The profit maximizing output for the firm is

- (a) 10 units
- (b) 12 units
- (c) 24 units
- (d) 25 units
- (e) 30 units.

(2 marks)

[<Answer>](#)

47. If the demand function for a product is given as $P = 200 - 4Q$, over what range of prices the demand is elastic?

- (a) Rs.10-20
- (b) Rs.25-100
- (c) Rs.45-90
- (d) Rs.Zero-100
- (e) Rs.10-60.

(2 marks)

[<Answer>](#)

48. The utility function for a product is given as, $U = 20XY$, where the X and Y are the quantities consumed of two goods. If a consumer consumes 20 units of good Y, the marginal utility of X is

- (a) 50 utils
- (b) 100 utils
- (c) 150 utils
- (d) 200 utils
- (e) 400 utils.

(2 marks)

[<Answer>](#)

49. The production function for a commodity is given as . How many labor should be employed to maximize output?

- (a) 20 units
- (b) 40 units
- (c) 45 units
- (d) 60 units
- (e) 75 units.

(2 marks)

[<Answer>](#)

50. If the production function is given as then the average productivity of labor at 20 units of labor is

- (a) 1,200 units
- (b) 2,400 units
- (c) 4,500 units
- (d) 3,600 units
- (e) 4,578 units.

(1 mark)

[<Answer>](#)

51. If the production function is given as . The number of labor after which marginal product becomes negative is

- (a) 10 units

- (b) 25 units
- (c) 45 units
- (d) 5 units
- (e) 35 units.

(2 marks)

[<Answer>](#)

52. Suppose the cost function relating to agricultural output is given as follows:

$$C = 100 + 10Q - 0.5Q^2$$

The level of output beyond which diseconomies of scale exists is

- (a) 25 units
- (b) 27 units
- (c) 30 units
- (d) 35 units
- (e) 40 units.

(2 marks)

[<Answer>](#)

53. The total variable cost function of a commodity is given as follows:

The level of output at which marginal cost is minimum is

- (a) 4 units
- (b) 42 units
- (c) 36 units
- (d) 35 units
- (e) 63 units.

(2 marks)

[<Answer>](#)

54. If the total cost is given as $TC = 245 + 5.55Q - 0.3Q^2 + 0.0035Q^3$. If the level of output is 24 units the average cost is

- (a) Rs.245
- (b) Rs.555
- (c) Rs.300
- (d) Rs.350
- (e) Rs.600.

(1 mark)

[<Answer>](#)

55. A monopolist faces a demand curve given by

$$Q = 400 - 2P$$

He has two plants manufacturing the same product. The cost functions of the two plants are

The profit maximizing output for the monopolist is

- (a) 100 units
- (b) 130 units
- (c) 150 units
- (d) 180 units
- (e) 248 units.

(2 marks)

[<Answer>](#)

56. If the variable cost function of a product is given as $VC = 100 + 10Q - 0.5Q^2$. The marginal cost at 20 units of output is

- (a) Rs. 1,400
- (b) Rs. 4,450
- (c) Rs. 7,320
- (d) Rs. 9,280
- (e) Rs.18,720.

(2 marks)

[<Answer>](#)

57. A firm sells its output for Rs.30 per unit and the total cost function in a perfectly competitive market is given as

Firm's equilibrium level of output is

- (a) 12 units
- (b) 31 units
- (c) 45 units
- (d) 15 units
- (e) 13 units.

(2 marks)

58. The cost function of the firm is given as $C = 100 + 10Q - 0.5Q^2$. If the equilibrium level of output is 10 units the average variable cost is

[<Answer>](#)

- (a) Rs.100
- (b) Rs.570
- (c) Rs.630
- (d) Rs.750
- (e) Rs.970.

(1 mark)

[<Answer>](#)

59. The total revenue and total cost functions of a firm are given as follows:

The equilibrium level of output of the firm is

- (a) 5 units
- (b) 17 units
- (c) 15 units
- (d) 28 units
- (e) 32 units.

(1 mark)

[<Answer>](#)

60. The production function of the firm is given as follows:

If input prices are given as Rs.40 and Rs.40. The efficient input combination for an output of 240 units is

- (a) 1 unit of capital and 4 units of labor
- (b) 2 units of capital and 4 units of labor
- (c) 4 units of capital and 4 units of labor
- (d) 3 units of capital and 4 units of labor
- (e) 5 units of capital and 4 units of labor.

(2 marks)

[<Answer>](#)

61. In a perfectly competitive market, the average variable cost function of Ralcorp given as

. The price below which the firm has to shut down its operation in the short run?

- (a) Rs. 100
- (b) Rs.1,200
- (c) Rs.1,300
- (d) Rs.1,400
- (e) Rs.1,500.

(2 marks)

[<Answer>](#)

62. For a perfectly competitive market the supply and demand functions are given as follows:

If the variable cost function of a firm is , the profit maximizing output for the firm is

- (a) 5 units
- (b) 10 units
- (c) 9 units
- (d) 12 units
- (e) 15 units.

(2 marks)

[<Answer>](#)

63. The total cost function and demand function of a good are estimated to be

$TC = 200 - 5Q + 4Q^2$ and $Q = 200 - P$ respectively. If the current output is 8 units, the profit per unit of output is

- (a) Rs.100
- (b) Rs.125
- (c) Rs.140
- (d) Rs.200
- (e) Rs.250.

(2 marks)

[<Answer>](#)

64. The production function relating to agricultural output to varying amounts of capital input is given as follows:

Beyond what point does diminishing returns exist?

- (a) 20 units
- (b) 30 units
- (c) 50 units
- (d) 67 units
- (e) 80 units.

(2 marks)

[<Answer>](#)

65. Following are the demand and cost functions of a monopolist:

At equilibrium point, what is the economic profit earned by the firm when the output is 20 units?

- (a) Rs.1,785
- (b) Rs.2,247
- (c) Rs.2,345
- (d) Rs.1,247
- (e) Rs.2,900.

(2 marks)

[<Answer>](#)

66. The demand function for a commodity is given as follows:

$$Q = 40,000 - 600P$$

The absolute point price elasticity at price Rs.60 is

- (a) 1.12
- (b) 2.45
- (c) 3.78
- (d) 9.00
- (e) 5.65.

(1 mark)

[<Answer>](#)

67. In a monopoly, the price is Rs.45. If the marginal revenue is Rs.20, the Lerner index is

- (a) 0.12
- (b) 0.23
- (c) 0.56
- (d) 0.78
- (e) 0.10.

(2 marks)

[<Answer>](#)

68. When 50 units of output are produced ,the average cost of production is Rs.10.If the average cost of production increases to Rs.11 with an increase in input by one unit ,the marginal cost of producing 51 unit is

- (a) Rs.45
- (b) Rs.60
- (c) Rs.61
- (d) Rs.70
- (e) Rs.75.

(1 mark)

[<Answer>](#)

69. In the short-run for a firm operating in monopolistically competitive market the demand and total cost functions are given as follows:

The equilibrium level of price and output is respectively

- (a) Rs.32 and 24 units
- (b) Rs.42 and 42 units
- (c) Rs.72 and 14 units
- (d) Rs.36 and 14 units
- (e) Rs.65 and 28 units.

(2 marks)

[<Answer>](#)

70. The demand function of a monopolist in a two effectively segmented are given as follows:

$$Q_A = 2,000 - 100P_A$$

$$Q_B = 800 - 25P_B$$

Total cost function of the monopolist is given as $TC = 1,000 + 20Q$.

If the monopolist **does not** practice price discrimination, profit maximizing output is

- (a) 700 units
- (b) 150 units
- (c) 450 units
- (d) 625 units
- (e) 750 units.

(2 marks)

71. Which of the following market structures best describes the toilet soap industry in India, if the market shares of firms in the industry are:

[<Answer>](#)

Company	Market share
HLL	20%
P & G	15%
Nirma	25%

Karnataka Soaps Ltd.	15%
Others	25%

- (a) Perfect competition
- (b) Monopoly
- (c) Monopolistic competition
- (d) Oligopoly
- (e) Duopoly.

(1 mark)

[<Answer>](#)

72. If the cross price elasticity is 4 in an industry then the industry can be considered as

- I. Perfectly competitive industry.
- II. Monopoly.
- III. Monopolistically competitive industry.

- (a) Only (I) above
- (b) Only (II) above
- (c) Only (III) above
- (d) Both (I) and (II) above
- (e) Both (II) and (III) above.

(1 mark)

[<Answer>](#)

73. For a product supply and demand functions are

Supply function : $P = 0.1 Q_s - 20$

Demand function : $P = 40 - 0.1 Q_d$

If the government fixes a price ceiling of 12 for the product

- (a) Excess supply of the product will be 30 units
- (b) Excess supply of the product will be 10 units
- (c) Shortage of the product will be 30 units
- (d) Shortage of the product will be 10 units
- (e) Price ceiling will not have any effect on the market.

(1 mark)

[<Answer>](#)

74. The cost functions of two firms operating in a duopoly market are given as follows:

$$TC_A = 10Q_A$$

$$TC_B = 0.5Q_B^2.$$

If the demand function for the industry is $Q = 200 - 4P$, what is the Cournot's equilibrium output for the industry?

- (a) 64 units
- (b) 91 units
- (c) 79 units
- (d) 82 units
- (e) 53 units.

(2 marks)

[<Answer>](#)

75. The average variable cost function of a perfectly competitive firm is given as $AVC = 40 + 4Q$. The firm charges Rs. 80 per unit for its output. If at the equilibrium level of output the firm incurs Rs. 50 per unit as fixed cost then what will be the profit made or loss incurred by the firm?

- (a) Rs. 150 profit
- (b) Rs. 150 loss
- (c) Rs. 170 profit
- (d) Rs. 170 loss
- (e) Zero.

(2 marks)

END OF QUESTION PAPER

Suggested Answers

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Answer	Reason	
1. E	Command economy is a method of determining what, how, when, where and for whom goods and services are produced. It uses a hierarchical organization structure in which people carry out the instructions given to them. Military is the best example of command economy. Authoritarian methods are used to determine the resource use and prices. But it is not same as market economy. Because in a command economy the state owns all the productive resources. Government enterprises are the rules rather than the exception in a command economy. Therefore option (e) is the correct answer.	< TOP >
2. D	An economy that uses a market coordinating mechanism is called market economy. Therefore option (d) is the correct answer.	< TOP >
3. b	If a machine can produce 40 units of X or 80 units of Y, the opportunity cost of 1X is 2Y. Therefore option (b) is the correct answer.	< TOP >
4. a	An increase in the income of the consumer is responsible increase in the demand for a commodity. But An increase in the price of complements will lead to decrease in the demand for a commodity and expectation of future decrease in the price of the commodity will lead to decrease in the demand for a commodity. Therefore (a) is the correct answer.	< TOP >
5. b	Income elasticity of demand is defined as the rate of change in quantity demanded for a commodity due to change in income of the consumer. Therefore option (b) is the correct answer.	< TOP >
6. b	The cross elasticity of demand for independent goods is zero. Therefore option (b) is the correct answer	< TOP >
7. e	For inferior goods the income elasticity of demand is less than zero or negative. Therefore option (e) is the correct answer.	< TOP >
8. d	When elasticity of supply is less than one but greater than zero, it is called as Relatively inelastic supply. Therefore option (d) is the correct answer.	< TOP >
9. b	In case of perfectly elastic demand curve the imposition of tax will be entirely borne by sellers. Therefore option (b) is the correct answer.	< TOP >
10. c	The demand for spare parts of a machine is replacement demand. Therefore option (c) is the correct answer.	< TOP >
11. d	The difference between what a consumer is willing to pay and what he actually pays is known as consumer surplus. Therefore option d is the correct answer.	< TOP >
12. e	In case of perfect complementary goods, the indifference curve will be L shaped. . Therefore option e is the correct answer.	< TOP >
13. c	Slope of the isoquant represents the marginal rate of technical substitution (MRTS). Therefore option c is the correct answer.	< TOP >
14. c	Average product of a variable input is the total product divided by the amount of variable input used. Therefore option(c) is the correct answer.	< TOP >
15. a	For a homogeneous production function, the slope of expansion path will be an upward rising straight line from the origin. Therefore option (a) is the correct answer.	< TOP >
16. c	The shape of total product curve is determined by Law of diminishing returns. Therefore	

		option c is the correct answer.	< TOP >
17.	c	The locus of all tangency points between the isoquants and the parallel isocost lines represents expansion path of the firm. Therefore option (c) is the correct answer.	< TOP >
18.	a	Inventory economies are otherwise known as stochastic economies. Therefore option (a) is the correct answer.	< TOP >
19.	c	Average total cost is the sum of average fixed cost and average variable cost. Therefore option (c) is the correct answer.	< TOP >
20.	a	In case of a constant cost industry, the long run supply curve will be a horizontal straight line. Therefore option (a) is the correct answer	< TOP >
21.	e	The following properties are observed in a freely competitive market to fulfill the conditions of allocative efficiencies I. Efficient allocation of resources among firms. II. Efficient distribution of goods produced between consumers. III. Efficient combination of goods. Therefore option (e) is the correct answer.	< TOP >
22.	e	In the modern analysis markets are classified on the basis of three criteria. I. Substitutability of products. II. Interdependence of firms. III. The ease of entry. Therefore option (e) is the correct answer.	< TOP >
23.	c	In a monopolistically competitive market many firms sell differentiated products. Therefore option c is the correct answer.	< TOP >
24.	d	Monopoly market is not the same as Monopsony because in case of monopoly market there is only one seller but large no. of buyers but in case of Monopsony market there is one seller and one buyer. Therefore option (d) is the correct answer.	< TOP >
25.	B	In the long run if a firm earns abnormal profits, new firms will enter the industry. If the existing firms get losses, the firms leave the industry. So, in the long run, a perfectly competitive firm earns only normal profit because of free entry and exit of firms in the industry. So (b) is the correct answer.	< TOP >
26.	e	Each duopolist makes an output plan during a period which cannot be revised in that time period is the true assumption of duopoly market. Therefore option (e) is the correct answer.	< TOP >
27.	e	The following are the assumptions of Kinked Demand Curve I. There are many firms in the oligopoly industry. II. Each firm produces a product which is a close substitute for that of the other firm. III. Products qualities are constant, advertising expenditure are zero. Therefore option (e) is the correct answer.	< TOP >
28.	B	The monopolist does not operate on that portion of the demand curve, where the elasticity of demand is relatively inelastic. Therefore option (b) is the correct answer.	< TOP >
29.	a	Average fixed cost always declines as the output increases .Therefore option (a) is the correct answer.	< TOP >
30.	c	The cost which incurred in the past or that have to be incurred in the future as a result of contractual agreement is known as sunk cost. Therefore option (c) is the correct answer.	< TOP >
31.	a	Due to green revolution, the production of the food grain increased tremendously. In this case adoption of modern technology is the main cause for increasing the supply of the commodity.	< TOP >

Therefore option (a) is the correct answer.

32. d Economic cost can be written as explicit cost plus implicit cost. Therefore option (d) is the correct answer. [< TOP](#)
[>](#)
33. e In some case also the collusive oligopoly does not prove successful for the oligopolist particularly in the long run. Therefore option (e) is the correct answer. [< TOP](#)
[>](#)
34. e
a. Long run average cost ($LAC = LTC/Q$) is U-shaped because of economies of scale initially and diseconomies of scale at later stages of production.
b. Long run marginal cost ($LMC = \partial LTC / \partial Q$) is U-shaped as cost of producing additional units reduces at the beginning because of economies of scale, but raises later due to diseconomies of scale.
c & d. Short run average cost ($SAC = STC/Q$) and $AVC (= TVC/Q)$ falls and raises due to operation of 'law of diminishing marginal productivity'.
e. Average fixed cost ($AFC = TFC/Q$) falls at a decreasing rate with the increase of output because of constant total fixed cost. Therefore option (e) is the correct answer. [< TOP](#)
[>](#)
35. e The profit of a firm refers to the difference between total revenue and total cost. Hence, to maximize the profits, the firm should maximize the difference between total revenue and total cost. The difference between average revenue (AR) and average cost (AC) represents the average profit of the firm. Hence maximization of difference between average revenue and average cost also indicates profit maximization. A firm maximizes its profit when it produces and sells an output at which marginal revenue (MR) is equal to marginal cost (MC). Therefore option (e) is the correct answer. [< TOP](#)
[>](#)
36. e Four firm concentrations refer to the percent of total industry output that is accounted by the largest four firms. Therefore option (e) is the correct answer. [< TOP](#)
[>](#)
37. c The shut down point in perfect competition occurs when the price falls below average variable cost of the firm. Therefore option (c) is the correct answer. [< TOP](#)
[>](#)
38. e The following attributes are possessed by indifference relation that exists between two commodities in an indifference curve.
I. Transitivity.
II. Reflexiveness.
III. Symmetry.
Therefore option (e) is the correct answer. [< TOP](#)
[>](#)
39. e In case of monopoly market a producer or a seller enjoys in regard to the framing of his price and output policy as he is the single seller. Therefore option (e) is the correct answer. [< TOP](#)
[>](#)
40. b In case of perfect competition, the degree of monopoly power is zero. Therefore option (b) is the correct answer. [< TOP](#)
[>](#)
41. d The supply function for a product is given as $Q_s = 3P - 120$
The minimum price of the product below which supply can not fall is determined at that point where $Q_s = 3P - 120 = 0$
or, $3P - 120 = 0$
or, $3P = 120$
or, $P = \text{Rs. } 40$
Therefore option (d) is the correct answer [< TOP](#)
[>](#)
42. C $Q_1 = 36$ units
 $P_1 = \text{Rs. } 10$
 $Q_2 = 48$ units
 $P_2 = \text{Rs. } 8$
The absolute value of ed is 1.67. Therefore option (c) is the correct answer. [< TOP](#)
[>](#)

43. E The supply function for a product is $Q_s = 200P - 4,000$ [< TOP](#)
 When the level of price = Rs. 30 [>](#)
 $Q_s = 6,000 - 4,000 = 2,000$
 Therefore option (e) is the correct answer.
44. e The demand function for a commodity is estimated to be $Q_d = 2,500 - 20P$. The price elasticity of demand between the price Rs.100 to Rs.120 is [< TOP](#)
 When Price = Rs.100 [>](#)
 $Q_d = 2,500 - 2,000 = 500$ units
 When price = Rs.120
 $Q_d = 2,500 - 2,400 = 100$ units
 Therefore option (e) is the correct answer.
45. c The Marginal Rate of Substitution of Good X for Y is 0.75 and the price of good X is Rs.20. If the consumer is in equilibrium the price of Good Y is [< TOP](#)
 determined at that point where [>](#)
 Therefore option (c) is the correct answer.
46. c Market demand function (Q_d) = $27,000 - 100P$ [< TOP](#)
 Market supply function(Q_s) = $6,000 + 40P$ [>](#)
 Market will be equilibrium at that point where
 $Q_d = Q_s$
 or, $27,000 - 100P = 6,000 + 40P$
 or $21,000 = 140P$
 or $P = 21,000/140 = \text{Rs.}150$
 Since the industry is operating at perfectly competitive market, therefore here $P = AR = MP$
 Given the $\times \times \times \times$
 $FC = 1,000$
 $TC = \times \times + 1,000$
 So at the point of equilibrium
 $MC = MR$
 Therefore option (c) is the correct answer.
47. d For all straight line demand is elastic in the upper left portion than the lower right portion. This is the consequence of the arithmetic properties of the elasticity measure. The demand becomes inelastic once the elasticity is unitary elastic. The demand is unit elastic when the MR is zero. [< TOP](#)
 So the range of price will be from Rs.0 to Rs.100. Therefore option (d) is the correct answer. [>](#)
48. e Therefore option (e) is the correct answer. [< TOP](#)
[>](#)
49. d Therefore option (d) is the correct answer. [< TOP](#)
[>](#)
50. D Therefore option (d) is the correct answer. [< TOP](#)
[>](#)
51. d Therefore option (d) is the correct answer. [< TOP](#)
[>](#)
52. e Diseconomies of scale exists at that point where [< TOP](#)
 Therefore option (e) is the correct answer. [>](#)
53. a As we know marginal cost will be minimum at that point where [< TOP](#)
 Therefore option (a) is the correct answer. [>](#)

54. b Therefore option (b) is the correct answer. [< TOP](#)
[≥](#)
55. d The demand curve of the monopolist is given as
 $Q = 400 - 2P$
 $2P = 400 - Q$
 As we know here $Q = Q_1 + Q_2$
 To maximize profits, the MR should be equal to MC of each plant
 By equating MR with MC we will get
 By solving these two equations we will get
 $Q_1 = 160$ units
 $Q_2 = 20$ units
 $Q = 180$ units
 Therefore option (d) is the correct answer. [< TOP](#)
[≥](#)
56. e As there is no fixed cost. It means it is case of long run where all the factors are variable.
 That means total cost is equal to variable cost. That means
 Therefore option (e) is the correct answer. [< TOP](#)
[≥](#)
57. a At the equilibrium level of output $MR = MC$
 Therefore option (a) is the correct answer. [< TOP](#)
[≥](#)
58. b Therefore option (b) is the correct answer. [< TOP](#)
[≥](#)
59. b Therefore option (b) is the correct answer. [< TOP](#)
[≥](#)
60. c As the price ratio of two factors are given as Rs.40 and Rs.40 so we can write that'
 the efficient combination of output is achieved at that point where
 So the efficient combination of output will be 4 units of capital and 4 units of labors.
 So option (c) is the correct answer. [< TOP](#)
[≥](#)
61. A In a perfectly competitive market the price below which the firm has to shut down its operation
 in the short run is achieved at that point where
 Therefore option (a) is the correct answer. [< TOP](#)
[≥](#)
62. c In a perfectly competitive market
 At the point of equilibrium $Q_d = Q_s$
 $2,000P + 1,000 = 10,000 - 1,000P$
 Or, $3,000P = 9,000$
 Or, $P = \text{Rs. } 3 = MR$
 Therefore option (c) is the correct answer. [< TOP](#)
[≥](#)
63. c Profit = $TR - TC$
 $TR = P \times Q$
 $P = 200 - Q$
 Hence, $TR = (200 - Q) Q = 200Q - Q^2$
 Hence, profit = $200Q - Q^2 - (200 + 5Q + 4Q^2)$
 Average profit function: $(200Q - Q^2 - 200 + 5Q - 4Q^2) = 205 - 5Q - 200/Q$
 Thus, if current output is 8 units, average profit will be $205 - 40 - 25 = \text{Rs. } 140$ Therefore
 option (c) is the correct answer. [< TOP](#)
[≥](#)
- As we know the diminishing returns exist when MP of capital is maximum [< TOP](#)

64. c So here [>](#)
 So here marginal productivity is maximum at that point where
 So diminishing returns exists when the firm produces 50 units of capital. Therefore option (c) is the correct answer.
65. e At equilibrium point [< TOP](#)
 $MR = MC$ [>](#)
 $400 - 2Q = 20Q - 40$
 $440 = 22Q$
 $Q = 20$ units
 Profit = $TR - TC = 400(20) - (20)^2 - 10(20)^2 - 40(20) + 100$
 $= 8,000 - 400 - 4,000 - 800 + 100 = \text{Rs.}2,900.$
66. d If we take the absolute value of elasticity of demand the arc elasticity of demand will be 3. [< TOP](#)
 Therefore option (d) is the correct answer. [>](#)
67. c In monopoly the Lerner index is . By putting the value of the [< TOP](#)
 respected figures we will get the value = [>](#)
 So option (c) is the correct answer.
68. c TC (when 50th unit of output are produced) = $50 \times 10 = \text{Rs.}500$ [< TOP](#)
 Total cost for 51st unit of output is = $51 \times 11 = \text{Rs.}561$ [>](#)
 So the marginal cost for producing the extra unit is = $561 - 500 = \text{Rs.} 61$ Therefore option (c) is the correct answer.
69. c At the equilibrium point $MR = MC$ [< TOP](#)
 $100 - 4Q = 2Q + 16$ [>](#)
 or $6Q = 84$
 or $Q = 14$ units
 Therefore option (c) is the question answer.
70. a $Q_A = 2,000 - 100P_A$ [< TOP](#)
 $Q_B = 800 - 25P_B$ [>](#)
 If the monopolist does not practice price discrimination, then $Q = Q_A + Q_B$
 $Q_A = 2,000 - 100P_A$
 $Q_B = 800 - 25P_B$
 $Q = 2800 - 125P$
 $125P = 2800 - Q$
 $P = 2800/125 - Q/125$
 $P = 22.4 - 0.008Q$
 $TR = P \times Q$
 $TR = 22.4Q - 0.008Q^2$
 $MR = 22.4 - 0.016Q$
 Here $TC = 1,000 + 20Q$
 $MC =$
 $MC = 20$
 The equilibrium level of output of the firm is determined at that point where
 $MR = MC$

$$22.4 - 0.016Q = 20$$

$$\text{or, } 2.4 = 0.016Q$$

$$\text{or, } Q = 2.4 / 0.016 = 150 \text{ units}$$

71. d In India, the total 100% market share of toilet soap industry is dominated by only few numbers of firms. So this is a case of oligopoly industry.

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(a) Is not the answer because toilet soap industry is not a perfectly competitive industry. In a perfectly competitive industry, there are large numbers of firms.

(b) Is not the answer because toilet soap industry is not a monopoly industry. In a monopoly, there is only one firm.

(c) Is not the answer because toilet soap industry is not a monopolistically competitive industry. In a monopolistically competitive industry, there are relatively large numbers of firms.

(d) Is the answer because toilet soap industry is an oligopoly competitive industry. In an oligopoly industry, there are few number of firms.

(e) Is not the answer because toilet soap industry is not a duopoly. In a duopoly, there are only two firms in the industry

72. c The degree of substitutability of products can be measured by the cross-price elasticity of demand for goods produced by the firms. If the substitutability is perfect (that is if the two firms are selling a homogenous product), the cross-price elasticity will be infinity. On the other hand, if the products are differentiated, the cross-price elasticity of demand will be positive and finite. If the products have no substitutes then the cross-price elasticity of those goods will be zero.

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I. In perfect competition, since the products are homogenous, the cross-price elasticity will be infinity.

II. In a monopoly there will be no substitutes and hence the cross-price elasticity of goods is zero.

III. In monopolistic competition and differentiated oligopoly the products are differentiated but not homogenous, hence the cross-price elasticity will be between 0 to infinite.

73. e Equilibrium price is where $Q_D = Q_S$

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$$\text{Supply function : } P = 0.1 Q_s - 20$$

$$\text{Demand function : } P = 40 - 0.1 Q_d$$

$$\text{Here Suplly function} = P = 0.1 Q_s - 20$$

$$\text{i.e. } Q_s = 10P + 200$$

$$\text{Demand function is } P = 40 - 0.1 Q_d$$

$$\text{i.e } Q_d = -10P + 400$$

by equating demand and supply function we will get $P = \text{Rs.}10$

Price ceiling is the price limit fixed by the government beyond which the market price should not increase. The market price is 10, below the price ceiling.

Since the equilibrium price is less than price ceiling of 12 fixed by the Government, the price ceiling will not have any impact on the market.

74. b $Q = 200 - 4P$ Or, $4P = 200 - Q$ Or, $P = 50 - 0.25Q$ But, we know that $Q = Q_A + Q_B$

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$$\text{Hence, } P = 50 - 0.25Q_A - 0.25Q_B$$

$$\text{Thus, } TR_A = P \times Q_A = Q_A(50 - 0.25Q_A - 0.25Q_B)$$

$$\text{Thus, } TR_A = 50Q_A - 0.25Q_A^2 - 0.25Q_AQ_B$$

$$\text{Thus, } MR_A = 50 - 0.5 Q_A - 0.25Q_B \quad MR_A = MC_A \quad 50 - 0.5Q_A - 0.25Q_B = 10$$

$$\text{Or, } 40 - 0.5Q_A = 0.25Q_B$$

$$\text{Or, } 160 - 2Q_A = Q_B \quad \text{TR}_B = P \times Q_B = Q_B(50 - 0.25Q_A - 0.25Q_B) \quad \text{TR}_B = 50Q_A - 0.25Q_B^2 - 0.25Q_AQ_B$$

$$\text{MR}_B = 50 - 0.5Q_B - 0.25Q_A$$

$$\text{But, } \text{MR}_B = \text{MC}_B \quad 50 - 0.5Q_B - 0.25Q_A = Q_B \quad \text{Or, } 50 - 0.25Q_A = 1.5Q_B$$

$$\text{Or, } 50 - 0.25Q_A = 1.5(160 - 2Q_A)$$

$$\text{Or, } 50 - 0.25Q_A = 240 - 3Q_A \quad \text{Or, } 2.75Q_A = 190$$

$$\text{Or, } Q_A = 69 \quad Q_B = 160 - 2(69) = 22 \quad Q = Q_A + Q_B = 69 + 22 = 91 \text{ units.}$$

75. B Given $\text{AVC} = 40 + 4Q$ and price is Rs. 80
So here $\text{TR} = p \times q$
 $\quad \quad \quad = 80Q$

$$\text{MR} = 80$$

$$\text{MC} = 40 + 8Q$$

$$\text{At equilibrium } \text{MR} = \text{MC}$$

$$= 80 = 40 + 8Q$$

$$8Q = 40$$

$$Q = 5$$

Now profit is equal to $\text{TR} - \text{TC}$

$$\text{TR} = 80 \times 5 = 400$$

$$\text{TC} = \text{FC} + \text{VC}$$

$$\text{FC} = 50 \times 5 = 250$$

$$\text{VC} = \text{AVC} \times Q$$

$$= 40Q + 4Q^2$$

$$= 40(5) + 4(25)$$

$$= 200 + 100 = 300$$

$$\text{TC} = 250 + 300$$

$$= 550$$

$$\text{Profit} = \text{TR} - \text{TC} = 400 - 550 = - \text{Rs. } 150.$$

Hence the firm incurs a loss of Rs. 150.

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