F. Y. B. A. – Semester -I

Multiple Choice Questions of Microeconomics I

Module I - Introduction

1. Economics is a science which deals with _________.
   a. matters and substance
   b. chemicals and reactions
   c. human wants and resources
   d. numbers and combinations

2. Microeconomics deals with the study of __________economic entities.
   a. Aggregate
   b. Individual
   c. Macro
   d. Socio

3. Macroeconomics deals with _________economic entities.
   a. Aggregate
   b. Individual
   c. Micro
   d. Socio

4. _________ is an example of Microeconomic theory.
   a. Theory of Consumption
   b. Theory of Economic Growth
   c. Theory of Money
   d. Theory of Income, Employment and Output

5. ___________ is an example of Macroeconomic theory.
   a. Theory of Production
   b. Theory of Rent
   c. General Theory
   d. Theory of Profit

6. Opportunity costs are ________measured in monetary terms.
   a. Always
   b. Can be
   c. Not

d. Never

7. An exogeneous variable exists ______ the economic model.
   a. Within
   b. Outside
   c. Inside
   d. In none of

8. ________ express functional relationship between two or more variables.
   a. Functions
   b. Combinations
   c. Programs
   d. Limits

9. Slope of straight line is _________ at all points.
   a. Different
   b. Rising
   c. Falling
   d. Same

10. Graph is a _________ tool used to show the relationship between the variables.
    a. Physical
    b. Economic
    c. Social
    d. Geometrical

11. _________shows the rate at which a variable change.
    a. Slope
    b. Equation
    c. Function
    d. Data

12. Positive Economics is based on _________.
    a. Value judgement
    b. Ethics
    c. Facts
    d. Public opinion

13. Normative Economics is based on __________.
    a. Moral values
    b. Facts
    c. Numbers
    d. Diagrams

14. Sociology is an example of ________ science.

a. Positive
b. Pure
c. Normative
d. Hypothetical

15. Physics is an example of __________ science.
    a. Positive
    b. Normative
    c. Fiscal
    d. Monetary

16. __________ plays an important role in the market economy.
    a. Government
    b. Price mechanism
    c. Public sector enterprise
    d. Non-government Organization

17. An equation specifies the relationship between the ________ variables.
    a. Positive and normative
    b. Fiscal and monetary
    c. Dependent and independent
    d. Endogenous and exogenous

18. Downward curve or line shows ________ relation between two variables.
    a. Positive
    b. Upward
    c. Inverse
    d. Vertical

19. Upward curve or line show_______ relation between two variables.
    a. Direct
    b. Indirect
    c. Negative
    d. Horizontal

20. ____________ =ΔY/ΔX
    a. Axes
    b. Slope
    c. Intercept
    d. Function

21. __________ is the point at which the line or the curve crosses the vertical axis.
    a. Internet
    b. Intercept
    c. Equilibrium
    d. Slope

22. Variables may be endogenous, which is explained _________ the theory.

a. within
b. without
c. outside
d. never in

23. Exogeneous variable is that which influences ________.
    a. Externally
    b. Internally
    c. Excessively
    d. Intensively

24. Economics is a social science which deals with human behavior as a relationship between ________.
    a. Unlimited buyers and limited sellers
    b. Unlimited wants and scarce resources
    c. Unending wants and limited people
    d. Consumption and production

25. __________ are mathematical representation of functional relationships.
    a. Graphs
    b. Functions
    c. Equations
    d. Slopes

26. Resources have __________ uses.
    a. Limited
    b. Unlimited
    c. Alternative
    d. Particular

27. The _______ problem refers to which goods and services a society chooses to produce.
    a. What to produce
    b. How to produce
    c. For whom to produce
    d. Full employment of resources

28. The _________ problem deals with the way in which output is distributed among the members of society.
    a. What to produce
    b. How to produce
    c. For whom to produce
    d. Full employment of resources

29. The ___________ problem refers to the way in which resources or inputs are organized to produce the goods and services that consumers want.
    a. What to produce
    b. How to produce
    c. For whom to produce

d. Full employment of resources

30. The problem of __________ refers to the question of whether all available resources of a society are fully utilized.
    a. What to produce
    b. How to produce
    c. For whom to produce
    d. Full employment of resources

Module II – Ten Principles of Economics

1. ___________ is a universal problem.
    a. Scarcity
    b. Underemployment
    c. Lack of investment
    d. Dissaving

2. According to Prof. Mankiw, __________ is the essence of economics.
    a. Demand
    b. Supply
    c. Decision making
    d. Price mechanism

3. People can face trade-off between __________.
    a. Efficiency and investment
    b. Efficiency and marginalism
    c. Efficiency and equity
    d. Efficiency and production

4. When an individual has to decide how much to work then he faces trade-off between ________.
    a. Work and leisure
    b. Work and Investment
    c. Work and supply
    d. Work and demand

5. Human wants refer to all goods and services individual _____
    a. Need
    b. Desire
    c. Have
    d. Demand

6. The most notable incentives in economics is _______
    a. Profit
    b. Price
    c. Revenue

d. Goodwill

7. Market economy suffers from ______ which are responsible for problem like inflation, unemployment etc.
   a. Imperfection
   b. Lack of resources
   c. Inefficiency
   d. Recession

8. Government can improve economic efficiency by correcting _______.
   a. Market failure
   b. Inflation
   c. Unemployment
   d. BOP deficit

9. _________ cost is the value of the next best alternative or option.
   a. Production
   b. Selling
   c. Opportunity
   d. Total

10. People respond to ____________.
    a. Incentives
    b. Consumption
    c. Investment
    d. Saving

11. An _________ is something that induces a person to act.
    a. Investment
    b. Interest
    c. Incentive
    d. Income

12. ________ is an engine of economic growth and development.
    a. Cost
    b. Revenue
    c. Trade
    d. Income

13. _________ is a place in which people make exchanges which are governed by prices.
    a. Market
    b. District
    c. Bank
    d. State

14. Which economist first tried to how market system works?

a. Alfred Marshall
b. Adam Smith
c. David Ricardo
d. Karl Marx

15. A country's _________depends on its ability to produce goods and services.
a. Demand
b. Standard of living
c. Investment
d. Policy

16. Inflation is a state where price rises and value of money ______.
a. Rises
b. Falls
c. Remains constant
d. Becomes zero

17. When the Government prints too much money, prices _______
a. Rise
b. Fall
c. Remains constant
d. Becomes zero

18. Central bank controlled inflation through which policy?
a. Monetary policy
b. Trade Policy
c. Investment Policy
d. EXIM Policy

19. In short run, there is _______ relationship between inflation and unemployment.
a. Direct
b. Inverse
c. no
d. Positive

20. The trade-off between Unemployment and inflation is explained with the help of _________ curve.
a. Ricardian
b. Phillips
c. Marshall's
d. Edgeworth's

21. In short run Phillips curve have _______ slope.
a. Negative

b. Positive
c. Vertical
d. Horizontal

22. _________ can improve market outcomes.
a. Public sector
b. Private sector
c. Service sector
d. Primary sector

23. ________ allows countries to specialize in goods and services.
a. Production
b. Investment
c. Trade
d. Consumption

24. _________ is a state where there is rise in general price level.
a. Deflation
b. Depression
c. Prosperity
d. Inflation

25. In long run, Phillips curve is ______.
a. Upward
b. Downward
c. Horizontal
d. Vertical

26. What is marginal analysis?
a. It is a difference between total revenue and total cost
b. It is a point at which business is able to sell all its output
c. It is the analysis of the cost and benefits of the marginal change (the addition of one unit) of an input or good.
d. It is a tool used in finance to calculate interest rate

27. People make decision by comparing ________analysis.
a. Input and output
b. Demand and Supply
c. Cost and benefit
d. Income and expenditure

28. The concept of invisible hand was introduced by ______.
a. Alfred Marshall
b. A.C. Pigou

c. Lionel Robbins
d. Adam Smith

29. The relationship between productivity and ________ has important implications for public policy.
 a. Investment
 b. Living standards
 c. Saving
 d. Consumption

30.When money supply increases in economy, value of money decreases and price_______.
a.Increases
b.Decreases
c.Remains constant
d.falls

Module III – Markets, Demand and Supply

1. Market structure depends upon following factors, except
   a. Number of sellers
   b. Nature of commodity
   c. Control over price
   d. Offers given by companies

2. Degree of _______ decides the nature of market.
   a. Competition
   b. Cooperation
   c. Price discrimination
   d. Production

3. There is/are _____ number of sellers under perfect competition.
   a. One
   b. Two
   c. Few
   d. Large

4. There is/are _____ number of sellers under monopoly.

a. One
b. Two
c. Few
d. Large

5. There is/are _____ number of sellers under oligopoly.
   a. One
   b. Two
   c. Few
   d. Large

6. As per law of demand, demand and price of a good are .... related.
   a. Directly
   b. Inversely
   c. Positively
   d. Not

7. Law of supply states that supply and price of a good are .... related.
   a. Positively
   b. Negatively
   c. Inversely
   d. Not

8. Shift and movement in demand are ………..
   a. Different
   b. Same
   c. Equal
   d. Complementary

9. Movement in supply is caused by changes in………...
   a. Non-price factors
   b. price of good alone
   c. technology
   d. population

10. Shift in demand is caused by changes in the………..
   a. non-price factors
   b. price of a good alone
   c. cost of production
   d. raw material prices

11. The market demand curve slopes _____from left to right.
    a. Downward
    b. Upward
    c. Horizontal
    d. Vertical

12. The market supply schedule shows ____ relationship between price and quantity supplied.
    a. Inverse
    b. Direct
    c. No
    d. negative

13. The point at which the quantity demanded equals supplied is the_____.
    a. Total supply
    b. Total demand
    c. Equilibrium point
    d. Total utility

14. A case of increase in demand, supply remaining unchanged, the equilibrium price_____.
    a. Rises
    b. Falls
    c. Remains constant
    d. Becomes zero

15. A case of decrease in supply, demand remaining unchanged, the equilibrium price____.
    a. Falls
    b. Rises
    c. Remains constant
    d. Becomes zero

16. As price____, quantity demanded decreases and quantity supplies increases.
    a. Decreases
    b. Increases
    c. Remain constant
    d. Becomes zero

17. Market____ is derived by adding up all the individual demand.
    a. Demand
    b. Supply
    c. Price

d. None of these

18. Which of the following shows the inverse relationship between the price of a good and the amount of the good that consumers want at that price?
    a. Supply curve
    b. Demand curve
    c. Supply schedule
    d. Production possibilities frontier

19. The market clearing price is also called the_____.
    a. Current price
    b. Prevailing price
    c. Equilibrium price
    d. None of the above

20. All of the following are determinants of demand except___.
    a. Consumer income
    b. Price of related goods
    c. Quantity supplied
    d. Size off population

21. In a typical demand schedule quantity demanded______.
    a. Varies directly with price
    b. Varies inversely with price
    c. Is independent of price
    d. Various proportionately with price

22. The cross elasticity of demand defined as:
    a. The ratio of percentage change in the demand to the percentage change in price.
    b. The ratio of percentage change in the demand for a given product to the percentage change in the price of a related other product.
    c. The ratio percentage change in the demand for product X to the percentage change in the demand for product Y.
    d. The ratio of two different elasticities

23. A positive cross-price elasticity coefficient implies that
    a. Two products are substitutes
    b. Two products are jointly demanded
    c. Two products are complementary
    d. Tom products have no relations

24. When demand is perfectly elastic, the demand curve is
    a. Steeper
    b. Linear
    c. Horizontal straight line
    d. Vertical

25. Unitary elastic demand is represented by
    a. Horizontal demand curve
    b. Downward sloping demand curve
    c. Vertical demand curve
    d. Rectangular Hyperbola slope demand curve

26. If cross elasticity of demand is negative, goods are_____.
    a. Complementary
    b. Substitutes
    c. Not related
    d. Competitive

27. A percentage change in quantity demanded divided by a percentage change in price is called
    a. Income elasticity of demand
    b. Price elasticity of demand
    c. Price elasticity of supply
    d. Elasticity of substitution

28. A percentage change in quantity demanded divided by a percentage change in income is called
    a. Income elasticity of demand
    b. Price elasticity of demand
    c. Price elasticity of supply
    d. Elasticity of substitution

29. A percentage change in quantity demanded for one commodity divided by a percentage change in price of another commodity is called
    a. Income elasticity of demand
    b. Price elasticity of demand
    c. Price elasticity of supply
    d. Cross Elasticity of demand

30. A percentage change in quantity demanded divided by a percentage change in promotional expenditure is called
    a. Income elasticity of demand
    b. Price elasticity of demand
    c. Promotional elasticity of demand
    d. Elasticity of substitution

31. A demand curve has a .... slope.
    a. Upward
    b. Positive
    c. Negative
    d. Concave

32. Normal goods have .... income elasticity of demand.
    a. Positive
    b. Negative
    c. Zero
    d. Low

33. Inferior goods have .... income elasticity of demand.
    a. Positive
    b. Negative
    c. Zero
    d. High

34. When the price elasticity of demand is .... it means demand is perfectly elastic.
    a. Zero
    b. Infinite
    c. One
    d. Less than one

35. When the price elasticity of demand is greater than unity; it implies that the demand is……..
    a. Perfectly elastic
    b. perfectly inelastic
    c. relatively elastic
    d. relatively inelastic

36. Income elasticity is negative for ...... goods.
    a. Superior

b. Inferior
c. Normal
d. Foreign

37. Cross elasticity of demand is positive for .... goods.
a. Substitute
b. Complementary
c. Unrelated
d. Inferior

38. Cross elasticity of demand is.........for complementary goods.
a. Positive
b. Negative
c. Zero
d. Greater than one

39. Cross elasticity of demand is.........for unrelated goods.
a. Positive
b. Negative
c. Zero
d. Greater than one

40. When demand is perfectly inelastic, demand curve will be_______.
a. Upward
b. Downward
c. Vertical
d. Horizontal

Module IV – Consumer's Behaviour

1. Alfred Marshall introduced approach of _______utility.
a. Cardinal
b. Ordinal
c. Form
d. Time

2. ________is the base of demand.
a. Price
b. Income
c. Utility
d. Quality

3. __________ of Paul Samuelson makes a distinction between strong ordering and weak ordering.
   a. The law of demand
   b. The law of supply
   c. The law of diminishing marginal utility
   d. The revealed preference theory

4. Paul Samuelson's theory of __________ is based on strong ordering.
   a. Demand
   b. Supply
   c. Revealed preference
   d. Utility

5. __________ analysis is an example of weak ordering.
   a. Indifference curve
   b. Utility
   c. Demand
   d. Supply

6. In economic analysis, a consumer is assumed to be rational when he attempts to maximize __________.
   a. Consumption
   b. Production
   c. Satisfaction
   d. Utility

7. In economic analysis, a producer is assumed to be rational when he attempts to maximize __________.
   a. Income
   b. Consumption
   c. Investment
   d. Profit

8. An indifference curve measures the same level of ________ derived from the different combinations of two commodities say X and Y.
   a. Production
   b. Consumption
   c. Satisfaction
   d. Utility

9. An Indifference curve analysis is an example of ________utility approach.
   a. Cardinal
   b. Ordinal

c. Form
d. Place

10. An indifference curve analysis was developed by ________.
a. Smith and Ricardo
b. Marshall and Pigou
c. Allen and Hicks
d. Mundell and Fleming

11. An indifference curve analysis is applicable only to _________goods.
a. Substitute
b. Complementary
c. Giffen
d. Capital

12. Consumer's equilibrium was explained by _______ through utility analysis.
a. Adam Smith
b. Alfred Marshall
c. David Ricardo
d. J.M. Keynes

13. The concept of scale of preference is basis of consumer's ________
a. Surplus
b. Choices
c. Demand
d. Income

14. An indifference curve slopes _______ from left to right.
a. Upward
b. Downward
c. Vertical
d. Horizontal

15. The ________slope of an indifference curve implies that when a consumer has more if one commodity (X), he gets less of another commodity (Y).
a. Vertical
b. Horizontal
c. Upward
d. Downward

16. An indifference map consists of a set of ______
a. Indifference curves
b. Demand curves

c. Supply curves
d. Cost curves

17. An indifference curve must be ______to the origin.
a. Convex
b. Concave
c. Straight
d. Kinked

18. The necessary condition of consumer's equilibrium is ________
a. MRS xy > Px/Py
b. MRS xy < Px/Py
c. MRS xy = Px/Py
d. MRS xy ≠ Px/Py

19. Convexity of Indifference curve implies ________Marginal Rate of Substitution (MRS).
a. Increasing
b. Diminishing
c. Constant
d. Zero

20. In indifference curve analysis, the price line is also known as _____ line.
a. Income
b. Consumption
c. Budget
d. Investment

21. Price line shifted to left side or right side due to change in _________.
a. Consumer's income
b. Prices of commodities
c. Investments
d. Savings

22. Slope of price line changes due to change in___________.
a. Consumer's income
b. Prices of commodities
c. Investments
d. Savings

23. The tangency between indifference curve and price line shows _________
a. Consumer's surplus
b. Consumer's equilibrium

c. Consumer demand
d. Consumer budget

24. In indifference curve analysis, the necessary condition for consumers' equilibrium is _______.

a. MRSxy = Px
b. MRSxy = Py
c. MRSxy = Px / Py
d. MRSxy = Px – Py

25. In indifference curve analysis, the sufficient condition for consumers' equilibrium is, at the point of tangency indifference curve must be _______to the origin.

a. Upward
b. Convex
c. Concave
d. Horizontal

2. Income effect refers to a change in consumer's equilibrium when his _______alone changes and all other things remains constant.

a. Price
b. Taste
c. Income
d. Demand

3. An inferior good is one, the consumption of which ________ as income increases.

a. Increases
b. Decreases
c. Remains constant
d. Becomes zero

4. If a commodity is normal, income effect will be________.

a. Positive
b. Negative
c. Zero
d. Constant

5. In case of inferior good, ICC slopes ________.

a. Upward
b. Downward
c. Horizontal
d. Either to left or right

6. When demand for a commodity increases with an increase in income, it's called ______ commodity.
a. Giffen commodity
b. Normal commodity
c. Inferior commodity
d. Luxurious commodity

32. _________ effect refers to the tendency of a consumer to consume more of a one good when its relative price falls and to consume less of that good when its relative price increases.
a. Income
b. Price
c. Substitution
d. Consumption

33. An upward sloping PCC indicates _______ price effect.
a. Positive
b. Neutral
c. Negative
d. Zero

34. A backward sloping PCC indicates _______ price effect.
a. Positive
b. Neutral
c. Negative
d. Zero

35. ______ situation arises when both price effect and income effect on commodity are negative.
a. Depression
b. Giffen paradox
c. Inflation
d. Recession

36. ____________Effect = Income Effect + Substitution Effect
a. Price
b. Consumption
c. Production
d. Combine

37. The concept of consumer's surplus is explained by _______
a. Adam smith
b. Alfred Marshall

c. David Ricardo
d. Joan Robinson

38. The ________ slope of demand curve gives rise to the concept of consumer's surplus.
a. Negative
b. Positive
c. Vertical
d. Horizontal

39. When price is less than marginal utility, consumer surplus is ______
a. Positive
b. Zero
c. Negative
d. One

40. Consumer surplus is equal to_______
a. Total Utility – Price
b. Total Utility – Total expenditure
c. Total utility – Marginal Utility
d. Total utility – average utility

41. Consumer's surplus indicates following type of welfare________.
a. Economic
b. Social
c. Government
d. Political

42. Following are the limitations of the concept of consumer's surplus except
a. Unrealistic assumption
b. Cardinal measurement is not possible
c. It is not a realistic concept
d. Inequality between price and marginal utility