SHORT QUESTIONS:-

ECO401-Economics
Midterm Special 2006

1. **How would you differentiate shortage from surplus?**

2. **Define substitutes with two examples.**

3. **Write down formulas of total cost (TC), average cost (AC) and marginal cost (MC).**

4. **When point elasticity is used?**

5. **What are the pre-requisites of price discrimination?**

MCQ'S:-

- **The law of diminishing returns refers to diminishing:**
  - Total returns.
  - MARGINAL RETURNS
  - Average returns.
  - All of the given options.

- **In a perfectly competitive market:**
  - There are a few buyers.
  - There is a single seller.
  - There is a cartel.
  - No single buyer or seller can significantly affect the market price.

- **Which of the following is a positive statement?**
  - The President of the United States ought to be elected by a direct

vote of the American people rather than the Electoral College.

- o A fundamental assumption of the economic theory of consumer behavior is that consumers always prefer having more of any good to having less of it.
- o Because many adults cannot afford to go to college, tax credits for tuition should be introduced.
- o All of the given options.

¨ **Which of the following statements about the diagram below is true?**

- o Demand is infinitely elastic.
- o Demand is completely inelastic..
- o Demand becomes more inelastic the lower the price.
- o Demand becomes more elastic the lower the price.

¨ **Economics is about the allocation of scarce resources. Which of the following is NOT an example of economic scarcity?**

- o If Steve goes to see the movie Master and Commander on Saturday, he will not be able to afford buying ice cream.
- o If Jenny studies for her economics quiz this evening, she will not have time to walk her dog.
- o If General Motors increases its production of SUV's this year, it will

have to spend more on advertising.

- o If Borders Books increases the number of titles it carries, it will have to reallocate shelf space to accommodate the new titles.

¨ **If a 20% increase in price causes quantity supplied to increase by 50%, the price elasticity of supply is:**

- o 5/2.
- o 2/5.
- o 5/4.
- o 4/5.

¨ **The income elasticity of demand is the:**

- o Absolute change in quantity demanded resulting from a one unit increase in income.
- o Percent change in quantity demanded resulting from the absolute increase in income.
- o Percent change in quantity demanded resulting from a one percent increase in income.
- o Percent change in income resulting from a one percent increase in quantity demanded.

¨ **The supply curve for a monopolist:**

- o Is its marginal cost curve above average variable cost.
- o Is its marginal revenue curve.
- o Is the same as the demand curve.
- o Does not exist.

¨ **Coffee and cream:**

- o Are both luxury goods.
- o Are complements.
- o Are both more inelastic in demand in the long run than in the short run.
- o Have a positive cross price elasticity of demand.

¨ **The ____________________ of a choice is the value of the foregone alternative that was not chosen:**

- o fixed cost
- o variable cost
- o opportunity cost
- o sunk cost

FILLING BLANKS:-

- Costs that vary with the level of activity (or output) are called **variable costs**
- Consumer surplus is the **difference** between willingness to pay and what the consumer actually has to pay.
- **Marginal utility** is the additional utility derived from the consumption of one or more unit of the good.
- **Nepotism** means doing unfair favors for near ones when in power.
- Unit elasticity means that a 1% change in price will result in an exact 1% change in **quantity demanded.**

DESCRIPTIVE:-

a) Define "Law of supply" and explain it with a schedule and diagram?

b) What are the factors which cause the shift in market supply curve?