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MIDTERM EXAMINATION
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MIDTERM EXAMINATION
Spring 2010
ECO401- Economics (Session - 2)

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Marks: 47

Student Info	
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For Teacher's Use Only									
Q No.	1	2	3	4	5	6	7	8	Total
Marks									
Q No.	9	10	11	12	13	14	15	16	
Marks									
Q No.	17	18	19	20	21	22	23	24	
Marks									
Q No.	25	26	27	28	29	30	31	32	

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

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

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.

Question No: 4 (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: 5 (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: 6 (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.**

Question No: 7 (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: 8 (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: 9 (Marks: 1) - Please choose one

The supply curve for a competitive firm is:

- ▶ Its entire marginal cost curve.
- ▶ **The upward-sloping portion of its marginal cost curve.**
- ▶ Its marginal cost curve above the minimum point of the average variable cost curve.
- ▶ Its marginal cost curve above the minimum point of the average total cost curve.

Question No: 10 (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: 11 (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: 12 (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: 13 (Marks: 1) - Please choose one

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.

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

The price elasticity of supply for most products differs due to capacity constraints. Which of the following is TRUE in this context?

- ▶ It is same in the long run and the short run.
- ▶ It is greater in the long run than in the short run.
- ▶ It is greater in the short run than in the long run.
- ▶ **It is too uncertain to be estimated.**

Question No: 15 (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: 16 (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: 17 (Marks: 1) - Please choose one

It is well known that sugar can be refined from sugar beets. Which of the following will happen if 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: 18 (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.

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

For which of the following good, the substitution effect of a lowered price is counteracting by the income effect?

- ▶ For an inferior good.
- ▶ **A substitute good.**
- ▶ For an independent good.
- ▶ For a normal good.

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

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.

Question No: 21 (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: 22 (Marks: 1) - Please choose one

An improvement in technology would result in:

- ▶ There will be upward shift of marginal cost and increases in output.
- ▶ There will be upward shift of marginal cost and reductions in output.
- ▶ There will be downward shift of marginal cost and reductions in output.
- ▶ There will be downward shift of marginal cost and increases in output.

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

“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: 24 (Marks: 1) - Please choose one

Constant returns to scale imply that by:

- ▶ Increasing the inputs by 1% leads to a 0.75% increase in output.
- ▶ Increasing the inputs by 1.6% leads to a 1.5% increase in output.
- ▶ Increasing the inputs by 2% leads to a 4% increase in output.
- ▶ None of the given options.

Question No: 25 (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: 26 (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: 27 (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: 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

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 the profit.**
- ▶ The next unit produced will decrease revenue more than it increases the cost.
- ▶ The next unit produced will decrease cost more than it increases the revenue.
- ▶ The next unit produced will increase revenue without increasing the cost.

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

Collusion occurs when two or more firms decide to cooperate with each other in the setting of prices and

- ▶ Labor demanded.
- ▶ Capital demanded.
- ▶ **Quantity of good supplied.**
- ▶ Quantity of good supplied.

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

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: 32 (Marks: 1) - Please choose one

When the slope of a demand curve is infinity, elasticity of demand is

- ▶ **Zero elastic.**

- ▶ Unit elastic.
- ▶ Less elastic.
- ▶ More elastic.

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 an increase in price increases the total revenue then:

- ▶ Demand is elastic.
- ▶ **Demand is inelastic.**
- ▶ Supply is elastic.
- ▶ Supply is inelastic.

Question No: 35 (Marks: 3)

Why the monopolists produce lower quantities at higher prices compared to perfectly competitive firms?

Monopolist Produce lower quantity at higher price on to perfect competitive firm because at $P=MC$ monopolist do not produce. Also at $P= AC$ they don't produce. So it mean monopolist don't produce at the point of allocated efficiency and at the point of cause efficiency.

In difference curve approach has very good but it has some limitation as given below

Question No: 36 (Marks: 5)

“Although indifference curve approach is very useful in order to analyze the consumer behavior but still there exist some flaws of this approach”. Discuss.

- 1 The consumer will be have irrationally or in other word not all the time the consumer are rational and they can have irrationally some time.
- 2 practically it is very difficult to draw indifference curve
- 3 The consumer might not always realize the level of utility from consumptions that he originally expected.
- 4 This analysis is only possible for few goods like two or three goods

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: <http://vustudents.ning.com>

- ▶ 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

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.

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: <http://vustudents.ning.com>

- ▶ 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 $\frac{1}{2}$.**
- ▶ 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: <http://vustudents.ning.com>

- ▶ 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: <http://vustudents.ning.com>

- ▶ **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.

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.

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. <http://vustudents.ning.com>**

▶ 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? <http://vustudents.ning.com>

▶ 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.

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

What is meant by the term utility?

▶ Useless.

▶ Require.

▶ Necessary.

▶ **Satisfaction.**

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 <http://vustudents.ning.com>

▶ **Marginal revenue curve.**

- ▶ Average variable cost.
- ▶ Marginal cost curve.
- ▶ None of the given options.

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.**

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 <http://vustudents.ning.com>

- ▶ 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.

Question No: 35 (Marks: 3)

Why the monopolists produce lower quantities at higher prices compared to perfectly competitive firms?

Ans:

- 1) Large initial fixed cost is involved
- 2) Product differentiation or brand loyalty
- 3) Monopolistic controls the supply of key factors of production

Question No: 36 (Marks: 5)

Write down any five situations in which cartel can survive?

Ans:

- 1) Cartel can survive when number of firms is small.
- 2) When the collusion is tacit or hidden not explicit.
- 3) The products are homogeneous.
- 4) Industry is stable
- 5) There is opening among the firms regarding their production process.
- 6) Government's strictness in implementing antitrust law.

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

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

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: 4 (Marks: 1) - Please choose one

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.

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

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 (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: 8 (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: 9 (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: 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

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: 12 (Marks: 1) - Please choose one

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

- ▶ It shift farther away from the origin of the graph.
- ▶ It shift inward, closer to the origin.
- ▶ It vanishes.
- ▶ **It undergoes no change.**

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

The long-run average total cost curve:

- ▶ **Traces out the points on the lowest short-run average total cost curve for each level of production.**
- ▶ Is inversely related to the depth of the short-run marginal cost curve.
- ▶ Traces out the midpoints on an average of several short-run average total cost curves.
- ▶ Is downward-sloping under decreasing returns to scale.

Question No: 14 (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: 15 (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: 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.

Question No: 17 (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: 18 (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: 19 (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: 20 (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: 21 (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: 22 (Marks: 1) - Please choose one

What will be the impact of a ban on foreign firms from selling in the domestic market?

▶ **It will cause domestic producers competing with the imports to face huge losses.**

- ▶ It will cause the supply curve to shift to the left.
- ▶ It will cause the supply curve to shift to the right.
- ▶ It will have no effect on the domestic market.

Question No: 23 (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.

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.

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

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.

Question No: 26 (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: 27 (Marks: 1) - Please choose one

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 (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

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 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.

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

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

Land is best described as:

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

Question No: 3 (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: 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

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 (Marks: 1) - Please choose one

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

- ▶ Horizontal.
- ▶ Vertical.
- ▶ **Negative.**
- ▶ Positive.

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

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

At the profit-maximizing level of output, marginal profit:

- ▶ Is positive.
- ▶ Is increasing.
- ▶ **Is zero.**
- ▶ Is also maximized.

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

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: 12 (Marks: 1) - Please choose one

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.

Question No: 13 (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.

Question No: 14 (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.**

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

A natural monopoly is most likely to exist when:

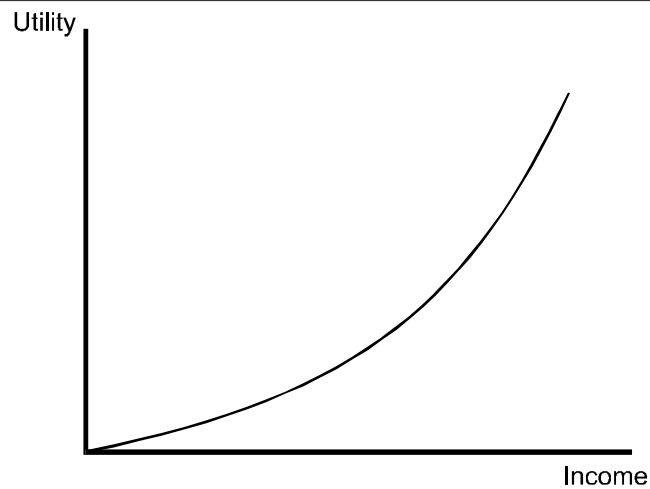
- ▶ **There are large barriers to entry.**
- ▶ There are long term patents.
- ▶ There are large economies of scale.
- ▶ There is government regulation of the industry.

Question No: 16 (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: 17 (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: 18 (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: 19 (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.

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Question No: 20 (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: 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.

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

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.

Question No: 23 (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.

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

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.

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

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 (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: 27 (Marks: 1) - Please choose one

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 (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.

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Question No: 29 (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: 30 (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

Question No: 31 (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: 32 (Marks: 1) - Please choose one

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

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 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.

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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.

Question No: 5 (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: 6 (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.

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Question No: 7 (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: 8 (Marks: 1) - Please choose one

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

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- ▶ 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.

Question No: 9 (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.

Question No: 10 (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.

Question No: 11 (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: 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.

Question No: 13 (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: 14 (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: 15 (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.

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

The similarity in the Perfect competition and monopolistic competition is that:

- ▶ Firms in both types of market structure will act as price takers.
- ▶ Firms in both types of market structure will produce a product that is exactly like one produced by other firms in the industry.
- ▶ Firms in both types of market structure will produce a level of output where price equals marginal cost.
- ▶ Firms in both types of market structure will earn zero profit in the long run.

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

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: 18 (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: 19 (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: 20 (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: 21 (Marks: 1) - Please choose one

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: 22 (Marks: 1) - Please choose one

Which of the following best describes a demand schedule?

- ▶ It is a numerical tabulation of the quantity demanded of a good at different prices, ceteris paribus.
- ▶ It is a graphical representation of the law of demand.

▶ It is a systematic listing of all the variables that might conceivably bring about a change in demand.

▶ It is a symbolic representation of the law of demand: P, Q and Q, P .

Question No: 23 (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.

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

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.

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

Suppose there are two goods A and B. What will happen to the budget line if prices of both goods increase by the same percentage?

▶ It will shift parallel to the left.

▶ It will shift parallel to the right.

▶ It will pivot about the x axis.

▶ It will pivot about the y axis.

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

When there are diminishing returns holding at least one factor constant then:

▶ 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.

Question No: 27 (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: 28 (Marks: 1) - Please choose one

In which of the following conditions, a welfare loss occurs in monopoly?

▶ Where the price is greater than the marginal cost.

- ▶ Where the price is greater than the marginal benefit.
- ▶ Where the price is greater than the average revenue.
- ▶ Where the price is greater than the marginal revenue.

Question No: 29 (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: 30 (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

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

If different firms in the oligopolistic structures do not cooperate with each other is known as

- ▶ Collusive oligopoly.
- ▶ Cartel.
- ▶ Price leadership.
- ▶ Non-collusive oligopoly. <http://vustudents.ning.com>

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

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

As price increases total revenue decreases in case of

- ▶ Inelastic demand.
- ▶ Unit elastic demand.
- ▶ Zero elastic demand.
- ▶ Elastic demand.

Question No: 35 (Marks: 3)

Assuming that supernormal profits can be made in the short run in a monopolistically competitive industry; will there be any difference in the long-run and short-run elasticity of demand?

Yes there will be a difference as the entry of new firms involved in the supernormal profits will make the long run demand for the firm more elastic. There are now more choices available for consumers to choose any one from the list.

Question No: 36 (Marks: 5)

Differentiate between external economies of scale and external diseconomies of scale with the help of examples.

External economies of scale:

It states that the unit cost depends on the size of industry but not on the firm itself. These firms are growing into any single firm due to the actions or the presence of other firms. For example: Advertising by competitors, making of credit information by banks.

External diseconomies of scale:

These are actually the forces that can cause the larger firms to produce goods and services at increased per unit cost and are less reputed than external economies of scale. For example: As the industry grows larger and a shortage of specific raw materials/skilled labor occurs and these factors effect cost of all firms in this industry negatively.

Question No: 37 (Marks: 5)

- A. _____
Compare the characteristics of oligopoly and monopoly market structures.
- B. **Differentiate between the shape of demand curve in oligopoly and monopoly.**
<http://vustudents.ning.com> (Marks: 3+2)

A)

Oligopoly:

It includes few numbers of firms with restricted freedom of entry. The nature of product in oligopoly is both undifferentiated and differentiated. For example: Cement, Cars, Electrical goods and Oil etc

Monopoly:

It includes only one (single) firm and has completely blocked entry for new firms (restricted). The nature of product is totally unique. For example: WAPDA and KESC

B)

Demand Curve of Oligopoly:

It is downward sloping comparatively inelastic and it depends on rivals' reaction to a change in the price rate.

Demand Curve of Monopoly:

Its demand curve is downward sloping and is more inelastic than oligopoly. Monopolist firms have complete control over price.

**MIDTERM EXAMINATION
Spring 2010
ECO401- Economics**

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

Land is best described as:

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

Question No: 3 (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:

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- ▶ The economic perspective.
- ▶ Marginal analysis.
- ▶ Allocative efficiency.
- ▶ **Opportunity cost.**

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

Price floor results in:

- ▶ All of the given options.
- ▶ Excess supply.
- ▶ **Equilibrium.**
- ▶ Excess demand.

Question No: 5 (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: 6 (Marks: 1) - Please choose one

The cross price elasticity of demand for complementary goods is:

- ▶ **Less than 0.**
- ▶ Equal to 0.
- ▶ Greater than 0.
- ▶ **Between 0 and 1.**

Question No: 7 (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: 8 (Marks: 1) - Please choose one

We know that the demand for a product is elastic:

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- ▶ **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: 9 (Marks: 1) - Please choose one

An individual with a constant marginal utility of income will be:

- ▶ Risk loving.
- ▶ **Risk neutral.**
- ▶ Risk averse.
- ▶ Insufficient information for a decision.

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

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.

Question No: 11 (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: 12 (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.

Question No: 13 (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.

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

The income effect of a price change: <http://vustudents.ning.com>

- ▶ Is always positive.
- ▶ Is always negative.
- ▶ **May be positive or negative.**
- ▶ Is associated with a change in nominal income.

Question No: 15 (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: 16 (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.

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

Graphically, marginal revenue is defined as:

- ▶ The slope of a line from the origin to a point on the total revenue curve.
- ▶ The slope of a line from the origin to the end of the total revenue curve.
- ▶ **The slope of the total revenue curve at a given point.**
- ▶ The vertical intercept of a line tangent to the total revenue curve at a given point.

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

The optimal point of production for any individual firm is where:

- ▶ **Marginal Revenue = Marginal Cost.**
- ▶ Marginal Revenue > Marginal Cost.
- ▶ Marginal Revenue < Marginal Cost.
- ▶ None of the given options.

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

The break-even point occurs when: <http://vustudents.ning.com>

- ▶ Price < Average Variable Cost.
- ▶ Price < Average Total Cost.
- ▶ **Price = Average Total Cost.**
- ▶ Price > Average Variable Cost.

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

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: 21 (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: 22 (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: 23 (Marks: 1) - Please choose one

A monopolistically competitive firm in short run equilibrium:

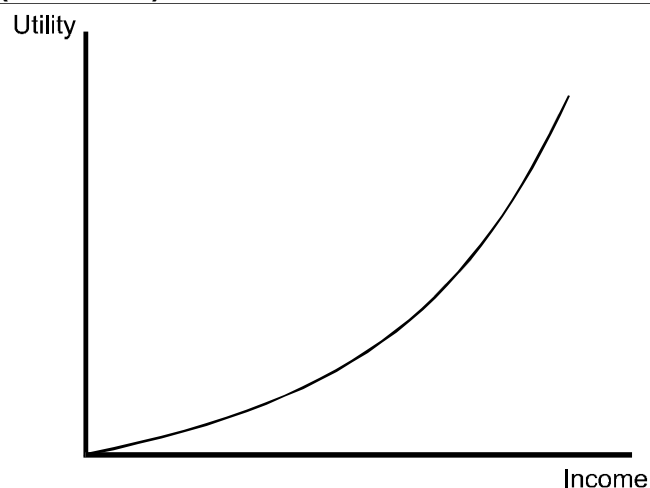
- ▶ Will make negative profit (lose money).
- ▶ Will make zero profit (break-even).
- ▶ Will make positive profit.
- ▶ Any of the given are possible.

Question No: 24 (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.

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



In the above figure, the marginal utility of income is:
<http://vustudents.ning.com>

- ▶ Increasing as income increases.
- ▶ Constant for all levels of income.
- ▶ Diminishes as income increases.

- ▶ None of the given options.

Question No: 26 (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: 27 (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: 28 (Marks: 1) - Please choose one

Which of the following best describes a demand schedule?

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

Question No: 29 (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.

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

Suppose all inputs are increased by 20% but output increases by less than 20% in a production process. 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: 31 (Marks: 1) - Please choose one

Suppose all inputs are increased by 30% and output increases by more than 30% in a production process. 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: 32 (Marks: 1) - Please choose one

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.

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

Rationing is needed due to the problem of

- ▶ Unemployment.
- ▶ Inflation.
- ▶ **Scarcity.**
- ▶ Poverty.

Question No: 34 (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: 35 (Marks: 3)

How the monopolist can maintain the high price even in the long run?

A monopolist can make super normal, profits even in long run because there is no easy entry for other firms as in the case of perfect competition therefore a monopolist can maintain her high price even in the long run.

Question No: 36 (Marks: 5)

C. Compare the characteristics of oligopoly and monopoly market structures.

D. Differentiate between the shape of demand curve in oligopoly and monopoly.

(Marks: 3+2)

Question No: 37 (Marks: 5)

Explain engel curve for giffen commodities with the help of graph.

MIDTERM EXAMINATION
Spring 2010
ECO401- Economics (Session - 6)

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.**

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.

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

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.

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.

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

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**

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**

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.**