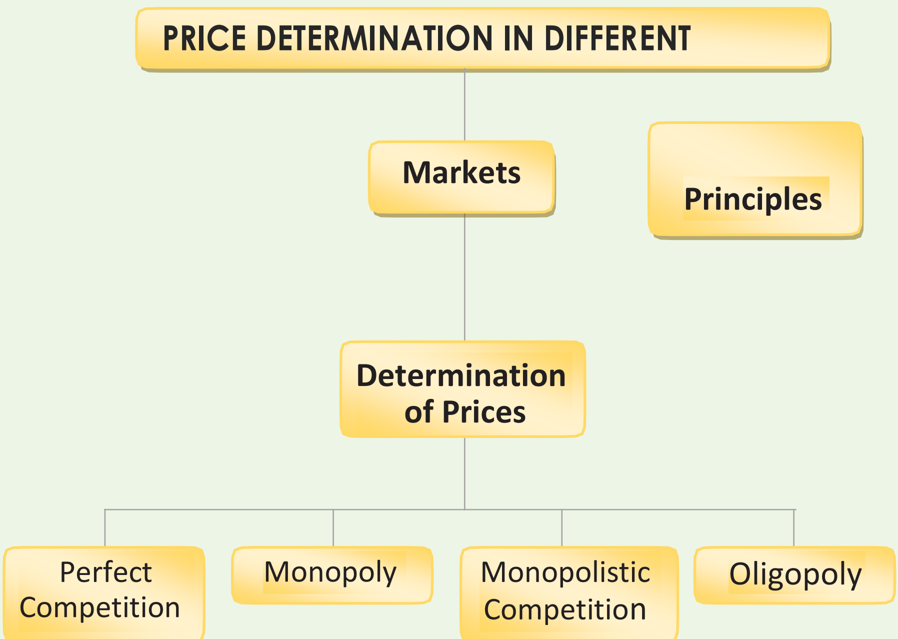
CH:4- MEANING AND TYPES OF MARKET

UNIT:1

MEANING AND TYPES OF MARKET

PRICE DETERMINATION IN DIFFERENT MARKETS	
MARKET MEANING	Market is the whole set of arrangement for buying and selling of a commodity or service. Here buyers and seller bargain over a commodity for a price.
CLASSIFICATION	• Geographical Area

OF MARKET

- Time
- Nature of transaction
- Regulation
- Volume of business
- Type of competition

DISTINGUISHING FEATURES OF MAJOR TYPES OF MARKETS

	Monopoly	Oligopoly	Monopolistic Competition	Perfect Competition
No. of firms	One	Few	Many	Almost infinite
Barriers to entry	Significant	Significant	Few	None
Pricing decisions	MC = MR	Strategic pricing	MC = MR	MC = MR = P
Output decisions	Most output restriction	Output restricted	Output restricted, product differentiation	No output restriction
Interdependence	No competitors	Interdependent decisions	Each firm independent	Each firm independent
LR profit	Possible	Possible	None	None
P and MC	P > MC	P > MC	P > MC	P = MC

THE FACTORS WHICH DETERMINE THE TYPE OF MARKET

The factors which determine the type of market are: nature of commodity size of production and extent of demand

TOTAL REVENUE

Total revenue refers to the amount of money which a firm realization by selling certain units of a commodity

AVERAGE REVENUE

Average revenue is the revenue earned per unit of output.

MARGINAL REVENUE

Marginal revenue is the change in total revenue resulting from the sale of an additional unit of commodity.

RELATIONSHIP

Marginal revenue, average revenue and price elasticity of

BETWEENAR, MR, TR AND PRICE ELASTICITY OF DEMAND	demand are uniquely related to one another $MR = AR \times \frac{e-1}{e}$ Where e = price
BEHAVIOURAL PRINCIPLE	If a firm`s total revenues are not enough to make good even the total variable cost it is better for the firm to shut down in order words a competitive firm should shut down if the price is below AVC At the point of equally between marginal revenue and marginal cost a firm will earn maximum profits

UNIT: 2

DETERMINATION OF PRICES

MEANING	Prices of goods express their exchange value. Prices are also used for expressing the value of various services rendered by different factors of production such as land, labor, capital and organization in the form of rent, wages, interest and profit.
EQUILIBRIUM PRICE	Equilibrium price or market clearing price is the price at which the quantity demanded of a commodity equals the quantity supplied of the commodity there is no unsold stock or no unsupplied demand.

CHANGES IN DEMAND ANDSUPPLY	If demand increases without any corresponding increase in supply, there will be increase in equilibrium price, as a result of which the quantity sold and purchased also increases ↓ If demand decreases without any change in supply, there will be decrease in the equilibrium price and quantity demanded and supplied. ↓ If there is an increase in supply without any change in demand, the equilibrium price will go down and the quantity demanded will go up. ↓ If there is a decrease in supply without any change in demand, the equilibrium price will go up but the amount sold and purchased will go down.
SIMULTANEOUS CHANGES IN DEMAND AND SUPPLY	There can be simultaneous changes in both demand and supply and the equilibrium price will change according to the proportionate change in demand and supply. When both demand and supply increase, the equilibrium quantity increases but the change in equilibrium price is uncertain. When demand increases and supply decreases, the equilibrium price rises but nothing certain can be said about the change in equilibrium quantity. When both demand and supply decrease, the equilibrium quantity decreases but the change in equilibrium price is uncertain. When demand decreases and supply increases, the equilibrium price falls but nothing certain can be said about the change in equilibrium quantity

UNIT – 3:

PRICE-OUTPUT DETERMINATION UNDER DIFFERENT MARKET FORMS

Form of Market Structure	Number of Firms	Nature of Product	Price Elasticity of Demand	Degree of control over price
Perfect competition	A large number of firms	Homogeneous Product	Infinite	None
Monopolistic	A large number of firms	Differentiated product	Large	Some
Pure Oligopoly	Few firms	Homogeneous product	Small	Some
Monopoly	One	Unique product	Very small	Very large

Perfect Competition	A market is said to be perfectly competitive if it has large number of buyers and sellers, homogeneous product, free entry and exit, perfect mobility of factors of production, perfect knowledge about the market conditions, in significant transaction costs, no government interference and absence of collusion. The firm is in equilibrium when it's MC=MR & MC curve cuts the MR curve from below. In the <u>short run</u>, firms may be earning normal profits, supernormal profits or making losses at the equilibrium price. In the long runallthesupernormalprofitsorlossesgetwipedawaywithentryorexitofthefirmsfrom the industry and all firms earn only normal profit. In the long run, in perfect competition, the market mechanism leads to an optimal allocation of resources.
	Monopoly is an extreme form of imperfect competition with a single seller of a product which has no close substitute. Since the monopolist firm is the only producer of a particular product, its demand curve is identical with the market demand curve for the product.

Monopoly	Since a monopoly firm has market power it has the ability to charge a price above marginal cost and earns a positive economic profit. The fundamental cause of monopoly is barriers to entry; in effect other firms cannot enter the market. In the long-run, the supernormal profit will be continued because entry is restricted. One of the important features of monopoly is price discrimination, i.e. charging different prices for the same product from different buyers. Price charged will be higher in the market where the demand is less elastic and lower in the market where the demand is more elastic. Under the first degreeprice discrimination, the monopolist separates the market into each individual consumer and charges them the price they are willing and able to pay and thereby extract the entire consumer surplus. Under the second degree price discrimination different prices are charged for different quantities of sold. Under the third degree price discrimination, price varies by attributes such as location or by customer segment. In the absence of competition, the monopolist need not produce at the optimal level. Since monopolies are exploitative and generate undesirable outcomes in the economy, a number of steps are taken by governments to regulate and to prevent the formation of monopolies. In real life, pure monopolies are not common because monopolies are either regulated or prohibited altogether.
Imperfect Competition	Imperfect competition is an important category wherein the individual firm exercises control over the price to a smaller or larger degree depending upon the degree of imperfection present.
Monopolistic Competition	It refers to the market situation in which many producers produce goods which are close substitutes of one another. The essential feature of monopolistic competition is the existence of large number of firms, product differentiation, non-price competition, high selling costs and freedom of entry and exit of firms.

	In monopolistic competition, the features of monopoly and perfect competition are partially present. Demand curve is highly elastic and a firm enjoys some control over the price. Firms in monopolistic competition are not of optimum size and there exists excess capacity with each firm.
Oligopolistic Competition	Oligopoly is also referred to as 'competition among the few' as a few big firms produce and compete in this market There are different types of oligopoly like pure and differentiated oligopoly, open and closed oligopoly, collusive and competitive oligopoly, partial and full oligopoly and syndicated and organized oligopoly. The main characteristics of oligopoly are strategic interdependence, importance of advertising and selling costs and group behavior. Different oligopoly settings give rise to different optimal strategies and diverse outcomes. Price-leadership can be by dominant firm, a low cost firm or it can be barometric price leadership. A group of firms that explicitly agree (collude) to coordinate their activities is called a cartel. Paul A. Sweeny propounded the kinked demand curve model of oligopoly. The price will be kept unchanged for a long time due to fear of retaliation and price tend to be sticky and inflexible Other important market forms are: Duopoly, Monopoly, Oligopoly and Bilateral monopoly.

Question 1

On the basis of nature of transaction, a market may be classified into:

(a) Spot market and future market
(b) Regulated market unregulated market
(c) Wholesale market and retail market
(d) Local market and national market

Answer: a

Explanation:

On the basis of nature of transaction market may be classified into: - SPOT Market: it Refers to those market where goods are physically transaction on the spot. Future Market it is related to those transactions which involves contract of a future date.

Question 2

For a firm to become profit it should expand output whenever:

(a) Marginal revenue is equal to marginal cost
(b) Marginal revenue is less than marginal cost
(c) Marginal revenue is greater than margin Cost.
(d) Average revenue is greater than average cost

Answer: c

Explanation:

It will be profitable for the firm to expand output whenever marginal revenue is greater than the marginal cost and to keep on expanding output until marginal revenue equals marginal cost Not only marginal cost should be equal to marginal its curve should cut marginal revenue curve from below:

Question 3

Under perfect competition firm is described as:

(a) Price taker and not maker
(b) price maker and not price taker
(c) Neither price maker nor price taker
(d) None of the above

Answer: a

Explanation:
Under perfect competition firms is described as price taker and not price maker. This is because there are large numbers of firms in the market who are producing identical or homogenous product As such these firms cannot influence the price in their individual capacities. They have to accept the price fixed (through interaction of total demand and total supply) by the industry as a whole.

Question 4

Under which of the following forms of market structure does a firm have no control over the Price of its product:

(a) Monopoly
(b) Monopoly Competition
(c) Oligopoly
(d) Perfect Competition

Answer: d

Explanation:
Under perfect competition a firm no control over the price if its product. Firm have to accept the price as given and as such they are price taker rather than price maker. They cannot increase the price individually because of the fear of losing the customer to other firms. Thus option (d) is correct

Question 5

Which is not characteristic of monopoly?

(a) The firm is price taker
(b) There is a single firm
(c)The firm produces a unique product
(d) The existence of some advertising.

Answer: a

Explanation:
A monopoly is not a price taker but a price maker.

Question 6

Average revenue curve is also known as:

(a) Profit Curve
(b) Demand Curve
(c)Average Cost Curve
(d) Indifference Curve

Answer: d

Explanation: Average revenue curve is also known as Indifference Curve

Question 7

Price discrimination is profitable only when:

(a) Different markets are kept separate
(b) Distance between the consumer and the Market is more
(c) Elasticity of demand in different
(d) The consumers are segregated on

Markets is different | the basis of their purpose of use of the commodity

Answer: c

Explanation:

Price discrimination is profitable only when elasticity of demand in different market is Different.

Question 8

When the industry is dominated by one large firm which is considered as the leader of the group the market is described as:

(a) Open oligopoly
(b) Perfect oligopoly
(c) Partial oligopoly
(d) Organized oligopoly

Answer: c

Explanation:

Oligopoly is partial when the industry is dominated by one large firm which is considered or looked upon as the leader of the group. The dominating firm will be the price leader in full oligopoly. The market will be conspicuous by the absence of price leadership

Question 9

Which amongst the following is not an objective of price discrimination?

(a) To hold the extra stocks
(b) To enjoy economics of scale
(c)To earn maximum profits
(d) To secure equity through pricing

Answer: a

Explanation:

The objective of price discrimination is here under:

- To earn maximum profit
- To dispose of surplus stock
- To enjoy economics of scale
- To capture foreign market
- To secure equity through pricing. Thus option (a) is the correct answer:

Question 10

Which of the following statement is not correct?

(a) Under monopoly there is no difference between a firm and industry
(b) A monopoly may restrict the output and rises the price
(c) Commodities offered for sale under a perfect competition will be heterogeneous
(d) Product differentiation is peculiar to monopolistic competition

Answer: c

Explanation:

Commodities offered for sale under a perfect competition will be homogenous. There are large number of buyer and seller who compete among themselves and their number is so large that no buyer or seller is in a position to influence the demand and supply in the market being the commodity dealt in it is homogenous in the sense that the goods produced by different firms are identical in nature.

Question 11

Which of the following is not incorrect?

(a) Even monopolistic can earn losses
(b) Firm in perfect competitive market is price taker
(c)It is always beneficial for a firm in a perfectly competitive market to discriminative price
(d) kind demand curve is related to an oligopolistic market

Answer: c

Explanation:

It is always beneficial for a firm in a price competitive market to discriminate prices. This statement is incorrect.

Question 12

The market for ultimate consumer is known as:

(a) Wholesale market
(b) Regulated market
(c)Unregulated market
(d) Retail market

Answer: d

Explanation:

The market for ultimate consumer is known as Retail market.

Question 13

If a firm under monopoly wants to sell more its average revenue curve will be a line

(a) Horizontal
(b) Vertical
(c) Downward slopping
(d) Upward slopping

Answer: c

Explanation:

If a firm under monopoly wants to sell more, its average revenue will be a downward slopping linethe seller charges a single price for all units he sells average revenue per unit is identical with price and thus the, market demand curve is the average revenue curve for the monopolist.

Question 14

A discrimination monopolist will charge a higher price in the market in which the demand for its product is____

(a) Relatively elastic
(b) Highly elastic
(c) Perfectly elastic
(d) None

Answer: b

Explanation:

A discriminating monopolist charge a higher price in a market which has relatively in elastic Demand the market which is highly responsive to price charge less on the whole the monopolist Benefits from such discrimination.

Question 15

The reason for the kinked demand curve is that:

(a) The oligopolist believe that competitors Will follow output increases but not output reduction
(b) The oligopolist believe that competitors will follow price increases but not output reductions
(c) The oligopolist believe that competitors will follow price cuts but not price rises
(d) The oligopolist believe that the price increases but not output increases

Answer: c

Explanation:

The reason for the kinked demand curve is that the oligopolist believe that competitors will follow price cuts but not price rises this kink is formed at a prevailing price level this is because the segment of the demand curve above the prevailing price level is highly elastic and the segment Of the demand curve below the prevailing price level is inelastic.

Question 16

Which is the first order condition for the firm to maximize the profit?

(a) AC = MR
(b) MC = MR
(c) AC=AR
(d) MR=AR

Answer: b

Explanation:

The first order condition for the firm to maximize the profit is when marginal cost is equal to the marginal revenue

Question 17

The price elasticity of demand for a product is infinite under:

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

Answer: a

Explanation:

The price elasticity of demand for a product is infinite under perfect competition as there number of buyers and seller who compete among themselves and their number are so large that no buyer or seller is in a position to influence the demand or supply in the market.

Question 18

If the price of a commodity is fixed then every increase in its sold quantity the total will__and marginal revenue will----

(a) Increase also increase
(b) increase, decline
(c)Increase, remain unchanged
(d) remain fixed , increase

Answer: c

Explanation:

If the price of the commodity is fixed then with the every increase in its sold quantity the total revenue will increase and the marginal revenue will remain unchanged As marginal revenue is the change in total revenue resulting from the sale of an a additional unit of the commodity.

Question 19

Which one of the following expressions is correct for Marginal Revenue?

(a) MR = AR $\frac{1-e}{e}$
(b) MR = $\frac{\Delta TR}{\Delta Q}$
(c) MR = $\frac{TR}{Q}$
(d) None

Answer: b

Explanation:

Marginal revenue is the rate change in total revenue resulting from the sale of an additional unit.

MR = $\frac{\Delta T\ R}{\Delta Q}$

Where MR is marginal revenue
TR is total revenue
Q is quantity of commodity sold
Δ Stand for small change.

Question 20

Where of the following is the most competitive market structure?

(a) Perfectly competition
(b) Monopolistic competition
(c) Oligopoly
(d) Monopoly

Answer: a

Explanation:
A perfectly competitive market is a hypothetical market where competition is at its greatest possible level No – classical economics argued that perfect competition would produce the best possible outcomes for consumers, and society.

Question 21
An industry with significant barriers to entry and a single supplier.
(a) Perfect competition (b) Monopolistic competition
(c) Oligopoly (d) Monopoly
Answer: d
Explanation:
A monopoly is the exact opposite form of the market system as perfect competition In a pure monopoly there is only one producer of a particular goods or service and Generally no reasonable substitute In such a market system the monopolist is able To charge whatever price they wish due to the absence of competition but their Overall revenue will be limited by the ability or willingness of customer to pay their price.

Question 22
A highly concentrated market with just a few interdependent firms
(a) Perfect competition (b) Monopolistic competition
(c)Oligopoly (d) Monopoly
Answer: c
Explanation:
An oligopoly is similar in many ways to a monopoly. The primary difference is that rather than having only one producer of goods or service there are a handful of producers or at least a handful of produce that make up a dominant majority of the production in the market system while oligopolists do not have the same pricing power as monopolists it is possible without diligent government regulation That oligopolists will collude with one another to set prices in the same ways a monopolist would.

Question 23
A highly competitive market where firm is price taker:
(a) Perfect competition (b) Monopolistic competition
(c) Oligopoly (d) Monopoly
Answer: a
Explanation:

Perfect competition is a market system characterized by many different buyers and seller in the classic theoretical definition of perfect competition there are an infinite number of buyer and seller with so many market player it is possible for any one participant to alter the prevailing Price in the market player it is possible for any one participant to alter the prevailing price in the market.

Question 24

In which form of market structure would price be the key factor when competing?

(a) Monopoly (b) Oligopoly

(c) Monopolistic competition (d) Perfect competition

Answer: d

Explanation:

All products appear the same which means price become a crucial factor in competition in perfect competition there are many firms selling homogenous product. Prices are driven to the same level.

Question 25

Which of the following is NOT a feature of monopolistic competition?

(a) Numerous seller (b) Product differentiation

(c)Numerous buyers (d) Homogenous products

Answer: b

Explanation:

This is not a feature – products are assumed to be differentiated. Although the firms are competing against each other. In monopolistic competition there is sufficient differentiation so as to view each firm as almost a monopoly for their own product.

Question 26

Assume that when price is 20 the quantity demanded is 9 units and when price is 19The quantity demanded is 10 units based on this information what is the marginal revenue resulting from an increase in output from 9 unit to 10 units?

(a) 20 (b) 19

(c) 10 (d) 1

Answer: c

Explanation:

Marginal revenue is the rate of change in total revenue resulting from the sale of an additional unit.

MR = $\frac{\Delta TR}{\Delta Q}$

Where MR is marginal revenue
TR is total revenue
Q is quantity of commodity sold $\frac{(199 \, x \, 10) - (20 \, x \, 9)}{10-9}$ = 10
Δ Stand for small change

Question 27

Which of the following statement is incorrect?

(a) Under monopoly there is no difference Between the firm and industry.

(b) A monopolist may restrict the output and rises The price

(c) Commodities offered for sale under a Perfect competition will be heterogeneous

(d) Product differentiation is peculiar to monopolistic competition

Answer: c

Explanation:

Commodities offered for sale under a perfect competition will be homogeneous.

Question 28

Which of the following statement is correct?

(a) Price rigidity is an important feature of monopoly

(b) Selling costs are possible under perfect competition

(c)Under perfect competition factors of Production do not move freely as there Are legal restriction

(d) An industry consists of many firms.

Answer: d

Explanation:

An industry consists of four firms' i.e.

- Monopoly
- Oligopoly
- Monopolistic Competition
- Perfect competition

Question 29

Under which Market situation demand curve is linear and parallel to X axis:

(a) Perfect competition

(b) Oligopoly

(c)Monopolistic competition

(d) An industry consist of many firms

Answer: a

Explanation:

Under perfect competition demand curve is linear and parallel to X axis because there are huge of buyer selling the same commodity at a particular price and as result each buyer and seller makes transaction in the market at a prevailing price

Question 30

MR Curve = AR = Demand Curve is a feature of which kind of market?

(a) Perfect competition
(b) Oligopoly
(c) Monopolistic competition
(d) Monopoly

Answer: a

Explanation:

In perfect competition all the goods are sold at a single price by which average revenue (AR) equals marginal revenue (MR) This price is determining by the industry through the forces of demand and supply and this price is adopted by the firm all the goods are sold at a prevailing price in the market by which AR at each level of quantity sold

Question 31

Which of the following statement is true for both monopolistically competitive and Oligopolistic industries?

(a) It is impossible for new firm to entre the industries
(b) Collusion and the creation of cartels is common
(c) Producers cannot benefit from - knowing other firms plans
(d) Firms have some degree of control over prices

Answer: d

Explanation:

Both monopolistically competitive and oligopolistic have some degree of control over prices they are expert in price control

Question 32

Which of the following best describe an oligopoly?

(a) Many monopolistically competitive firms
(b) A few sharing monopoly power
(c) A former monopoly that has been broken up by the government
(d) A government granted franchise or monopoly

Answer: b

Explanation:

An oligopoly is a market structure in which a few firms dominate. When a market is shared between a few firms, it is said to be highly concentrated although only a few firm dominate It is possible that many small firms may also operate in the market.

Question 33

Collusion most frequently occurs in industries that are

(a) Oligopolistic
(b) Monopolistically competitive
(c)Monopolistic
(d) Perfectly competitive

Answer: a

Explanation:

Types of Oligopoly: -

- Pure or perfect
- Differentiated or Imperfect
- Open and closed
- Collusive and competitive
- Collusive – this occurs when few firms come to an understanding with respect to the
  Price and output of the product

Question 34

The following are key feature of a monopoly EXCEPT

(a) Diseconomies of scale
(b) No close substitutes
(c) Influence over price
(d) Barriers to entry

Answer: a

Explanation:

The advantages monopolies can have is that when economies of scale exist monopolies are The best able to take advantage because a monopoly firms is obviously more scaled as a business Than having multiple firms therefore diseconomies of scale is not a characteristics of monopoly.

Question 35

Monopolists are able to practice discrimination because

(a) They have constant marginal cost
(b) of differing price elasticity of supply
(c) They have constant average cost
(d) of differing average willingness to pay among customer

Answer: d

Explanation:

Monopolists are able to practice price discrimination because of differing average willingness to – pay among consumers.

Question 36

When the government grants an exclusive patent to one firm that firms enjoy

(a) Productive efficiency
(b) Antitrust regulation
(c) Monopoly power
(d) Collusive prices

Answer: c

Explanation:

When government grants and exclusive patent to one firm that firms enjoy is Monopoly power

Question 37

Consumer surplus is largest for

(a) A single – price monopoly
(b) A perfect competitive industry
(c)Any price – discriminating monopoly
(d) A perfectly price – discriminating monopoly

Answer: b

Explanation:

There is always one price of the commodity available in the market under perfect competition therefore consumer surplus is largest in this competition.

Question 38

Markets refers to those markets where goods are exchanged for money payable either immediately or within a short span of time

(a) Spot Market
(b) Retail market
(c) Wholesale market
(d) None

Answer: a

Explanation:

Spot or cash market spot transactions or spot markets refers to those markets where are exchanged for money payable either immediately or within a short span of time.

Question 39

In which market there is single seller

(a) Oligopoly
(b) Monopoly
(c) Perfect competition
(d) None

Answer: b

Explanation:

A market structure characterized by a single seller, selling a unique product in the market. In a monopoly market.

Question 40

If e > 1,

(a) MR will be negative
(b) MR will be highly negative
(c)MR will be positive
(d) MR will be highly positive

Answer: c

Explanation:
And if e > 1, MR will be positive
And if e > 1 MR will be negative

Question 41

Where firms earn normal profit

(a) MR = AR (b) MC= MR
(c) AC= AR (d) NONE

Answer: c

Explanation:
Firms earn only normal profit i.e. AC = AR

Question 42

If the average cost is higher than the average revenue, then the firm incurs

(a) Normal profit (b) Abnormal profit
(c) Loss (d) No profit no loss

Answer: c

Explanation:
If the average cost is higher than the average revenue, then the firms incurs loss in the case

Question 43

No close – substitution is characteristic of

(a) Monopoly (b) Oligopoly
(c) Pure competition (d) None

Answer: a

Explanation:
A monopoly firms has full control over the market supply of a product or service A monopoly is a price maker and not a price taker, the monopolist generally sells a product Which has no close substitutes.

Question 44

Suppose the single monopoly price is ` 30 and the elasticity of demand in markets A and B are respectively 2 and 5 then marginal revenues of both market.

(a) 20, 40 (b) 10, 15
(c) 15, 24 (d) 13, 28

Answer: c

Explanation:
15, 24

Question 45

No consumer exploitation is done in

(a) Perfect competition
(b) Monopoly
(c) Monopolistic
(d) Oligopoly

Answer: a

Explanation:

First and foremost, advantage of perfect competition is that chances of consumer Exploitation is very low.

Question 46

Which types of Oligopoly occurs when the product is homogeneous in nature

(a) Open
(b) Pure
(c) Full
(d) None

Answer: b

Explanation:

Pure oligopoly or perfect oligopoly occurs when the product is homogeneous in nature e.g. Aluminum industry.

Question 47

A firms is in equilibrium when

(a) MC curve cuts the MR curve from below
(b) MC curve the MR curve from above
(c)MC curve cuts the MR curve from middle
(d) None

Answer: a

Explanation:

A firm is in equilibrium when it's MR = MC cuts the curve from below.

Question 48

Which of the following is not essential condition of pure competition?

(a) Large number of buyers And seller
(b) Homogeneous product
(c) Freedom of entry
(d) Absence transport cost

Answer: d

Explanation:

- Large number of buyer and seller
- Homogeneous product
- Freedom of entry
- All three are important characteristics of pure competition therefore absence

Transport cost is correct answer

Question 49

Which market consists of Unique Product and seller has no competition?

(a) Perfect competition (b) Oligopoly

(c) Monopoly (d) None

Answer: c

Explanation:

A market structure characterized by a single seller, selling a unique product in the market. In a monopoly market, the seller faces no competition.

Question 50

The condition for the long run equilibrium of the firm is

(a) LMC = LAC = P (b) LMC > LAC = P

(c) LMC < LAC = P (d) None

Answer: a

Explanation:

The condition for the long run equilibrium of the firm is that the marginal cost should be Equal to the price and the long run average cost i.e. LMC = LAC = P.

Question 51

Under monopolist`s revenue curves which revenue cannot be zero.

(a) MR (b) AR

(c) NR (d) None

Answer: b

Explanation:

AR cannot be zero but MR can be zero or even negative

Question 52

The objective of price discrimination is

(a) To earn maximum profit (b) To dispose of surplus stock

(c) To enjoy economics of scale (d) All of the above

Answer: d

Explanation:

Objective of price discrimination includes:

(a) To earn maximum profit

(b) To dispose of surplus stock

(c) To enjoy economies of scale

(d) To capture foreign market

(e) To secure equity through pricing

Question 53

When the commodities are sold in small quantities is called

(a) Local Market (b) Regional Market

(c) Retail market (d) Wholesale market

Answer: c

Explanation:

When the commodities sold in small quantities it is called Retail market. This is the Market for ultimate consumer.

Question 54

Large price elasticity of demand available in

(a) Monopoly (b) Perfect competition

(c) Monopolistic Competition. (d) Oligopoly

Answer: c

Explanation:

Under monopolistic competition the firm has some freedom to fix the price due to this the firm in question has high elasticity of demand.

Question 55

When both demand and supply increase the equilibrium quantity increases but the Change in equilibrium price is uncertain

(a) Both demand & supply curve shift In right (b) both demand & supply curve shift in left

(c) both demand & supply curve shifts In same direction (d) None

Answer: c

Explanation:

When the supply and demand curves shift in the same direction as follows: When both Demand and supply increase the equilibrium quantity increase but the change in equilibrium Price is uncertain when both demand and supply decrease the equilibrium quantity decrease but the change in equilibrium price is uncertain

Question 56

Verify this statement, average revenue is the revenue earned per unit of output.

(a) True (b) False

(c) Can't say (d) None

Answer: a

Explanation:

Average revenue is the revenue earned per unit of output it is nothing but price of one Unit of output because price is always per unit of a commodity.

Question 57

A firm should not produce at all if it's total………costs are not met

(a) Variable (b) Fixed

(c) Both (d) None

Answer: a

Explanation:

If firm's total revenues are not enough to make good even the total variable costs it is better for the firms to shut down In other words a competitive should shut down if the Price is below AVC.

Question 58

Market are generally classified into

(a) Product & price (b) Price & competition

(c) Product & factors (d) Price & factor.

Answer: c

Explanation:

Markets are generally classified into product market and factor market.

Question 59

Total revenue will be maximum where elasticity is equal to

(a) 1 (b) 0

(c) Infinite (d) None

Answer: a

Explanation:

Total revenue will be maximum where elasticity is equal to one

Question 60

State weather the following statement is true or false given reason when equilibrium Price of a good is less than its market price there will be competition among the seller

(a) True (b) False

(c) Can't say (d) None

Answer: a

Explanation:

True, when equilibrium price of goods is less than its market price there will be competition among the seller at a price lower than market price there will be excess supply i.e. Supply will be more than demand.

Question 61

Demand Increase by 10% supply decrease by 80 % what will be the effect of equilibrium Price

(a) Increase (b) Decrease

(c)Remain the same (d) Cannot be determine

Answer: a

Explanation:
An increase in demand and a decrease in supply will cause in equilibrium price but the effect on equilibrium.

Question 62
The following table gives the daily supply and demand for hot dogs at a sporting event;

Price Rs.	Quantity demanded	Quantity supplied
2.10	800	7,200
1.80	1,600	4,800
1.60	2,400	2,400
1.40	3,200	800
1.20	4,100	200

What is the equilibrium price of hot dogs?
(a) 1.8
(b) 1.40
(c)1.60
(d) 1.20
Answer: c
Explanation:
According to the definition the equilibrium price is the price at which quantity supplies Equals quantity demanded from the table we can see that at $ 1.60 Qs = Qd = 2,400 therefore$ 1.60 is the equilibrium price

(I) if the organizer of the sporting event decides to set the price at 1.80, how many Hot dogs will be sold
(a) 800
(b) 1600
(c)2400
(d) 3200
Answer: b
Explanation:
At $ 1.80, 4,800 hot dogs will be offered for sale but only 1,600 will be demanded therefore Only 1,600 hot dogs will be sold.

Question 63
Suppose wage rate of coal miners increases and price of natural gas decrease (coal and Natural gas are substitutes) what point in figure 1is most likely to be the new equilibrium Price and quantity?
(a) Point 6
(b) Point 4
(c)Point 3
(d) Point 2
Answer: b

Question 64

Assume that consumer income has increased given that Y is an inferior good, which point in figure most likely to be the new equilibrium price and quantity?

(a) Point 4
(b) Point 6
(c)Point 3
(d) Point 2

Answer: b

Question 65

Assume that the government has just removed the 10% excise duty on good x what Point in figure 1 id most likely to be new equilibrium price and quantity?

(a) Point 6
(b) Point 4
(c)Point 7
(d) Point 8

Answer: d

Question 66

A government research agency has published outcome of studies which say that the Consumption of good X could causes: In addition assume that a powerful lobby has Persuaded the government to give subsidy to the manufacture of goods X what Point in figure is most likely to be the new equilibrium price and quantity.

(a) Point 6
(b) Point 5
(c)Point 7
(d) Point 9

Answer: d

Question 67

An increase in demand and an increase in supply will:

(a) Affect equilibrium quantity in an Indeterminate way and price will decrease
(b) Affect price in an indeterminate way and quantity will decrease
(c) Affect price in an indeterminate way and Quantity will increase
(d) Affect equilibrium quantity in an indeterminate way and price will increase

Answer: d

Question 68

In the table below what will be equilibrium market price?

Table 2

Price	Demand tones	Supply tones

1	1000	400
2	900	500
3	800	600
4	700	700
5	600	800
6	500	900
7	400	1000
8	300	1100

(a) Rs. 2 (b) Rs. 3
(c)Rs. 4 (d) Rs.5

Answer: c

Explanation:

Demand and supply diagram in figure 1. D_1 and $S_1$are the original demand and supply curves D_2, D_3 S_2 and S_3 are possible new demand and supply curves starting from initial equilibrium point (1) what point on the graph is most to result from each change

Question 69

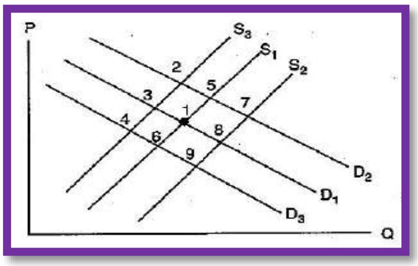
Assume X is normal good. Holding everything else constant assume that the Income rises and the price of a factor of production also increase what point In figure 1 is most likely to be the new equilibrium price and quantity?

(a) Point 9 (b) Point 5
(c)Point 3 (d) Point 2

Answer: d

Explanation:

Point 2. As there is increase in income the demand it implies that the demand will increase from D1 to D2 i.e., towards right and because the price of factors of production have increases there will be decrease in supply and it will move towards the left from S1 to S3. The point of equilibrium for cure D2 and S3 is. Point 2 being the new equilibrium point



Question 70

We are analyzing the market for good Z. the price of a complement good, goods Y Decline At the same time there is a technological advance in the

production of good Z What point figure 1 is most likely to be the new equilibrium price and quantity?

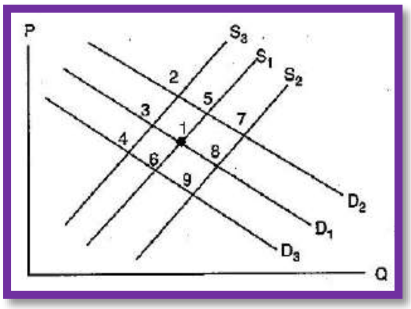
(a) Point 4 (b) Point 5

(c) Point 7 (d) Point 8

Answer: c

Explanation:

Point 7. As there is a decline in the price of the complementary goods demand will increase for good Z as well as Good Y and therefore the demand curve for good Z shifts to the right from D1 to D2. Technological advancement helps to reduce the cost of production and thereby increasing the supply of Good Z. The supply curve will shifts towards the right from S1 to S2. The new equilibrium of curves D2 and S2 is Point 7.



<u>Question 71</u>

Heavy rain in Maharashtra during 2005 and 2006 caused havoc with the rice crop. What point in figure 1 is most likely to be the new equilibrium price and quantity?

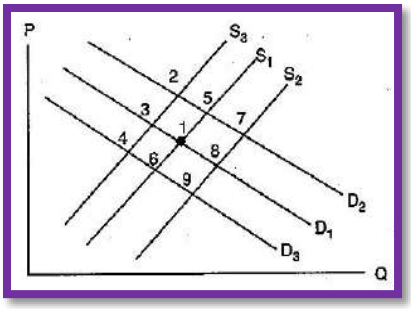
(a) Point 6 (b) Point 3

(c)Point 7 (d) Point 8

Answer: b

Explanation:

Point 3. Due to heavy rains in Maharashtra the supply for rice crops will reduce and the supply curve will shift towards the left from S1 to S3 but the demand will remain unchanged at D1 because people will demand same regardless. The equilibrium point for S3 and D1 is point 3. In this case the price will increase and quantity will reduce.



Question 72

Assume that consumers expect the price on new cars to significantly increase next year. What point in figure 1 is most likely to be the new equilibrium price and quantity?

(a) Point 6
(b) Point 5
(c)Point 3
(d) Point

Answer: b

Explanation:

If consumers expect the prices of new cars to significantly increase next year the demand for the cars will increase this year from D1 to D2. A future expectation of consumers is one of the determinants of demand. The supply will remain the same at S1. The new equilibrium point for curve D2 and S1 is point 5.

Question 73

What combination of changes would most likely decrease the equilibrium quantity?

(a) When supply but demand remains same
(b) Supply changes but price remains same
(c) When supply increases and demand Increase
(d) When supply decreases and demand decreases

Answer: d

Explanation:

When demand decreases and supply decreases simultaneously the demand curve as well as the supply curve shifts to the left. Due to the left ward shift the equilibrium quantity decreases but there is no change price.

Past Examination Question

MAY - 2018

Question 1

In very short period market

(a) Supply changes but demand remains same
(b) Supply changes but price remain some
(c) Supply remains fixed
(d) Supply and demand both change

Answer: c

Explanation:

In very short period market it is not possible and easy to increase the supply as it is very Difficult to install new machinery or increase more labor so, in this market supply is fixed This leads to only profits commodities like vegetables flower, fish, egg, fruit, milk etc. which Are of perishable nature are example of very short period market.

Question 2

A firm will close down in the short period if its AR is less than:

(a) AC
(b) AVC
(c) MC
(d) None of the above

Answer: b

Explanation:

In the short run fixed cost is fixed and variable cost is not fixed and if average revenue Is less than its average variable cost or total variable cost then firm has to close down Its business because no one wants to suffer loss by increase cost than revenue

Question 3

Condition for equilibrium of firm:

(a) MR = MC
(b) AE = AC
(c)MC curve cuts MR curve from below
(d) Both (a) and (c)

Answer: d

Explanation:

Condition for equilibrium of firm are:

1. Marginal revenue should be equal to marginal cost i .e. MR = MC
2. MC curve should cut MR curve from below i.e. MC should have positive Slope. Hence both condition.

Question 4

what is / are feature (s) of oligopoly

(a) Kinked Demand curve
(b) Cartel
(c)Downward sloping demand curve
(d) Both (a) and (b) are correct

Answer: d

Explanation:

Oligopoly is type of market in which there are only few buyers and seller (generally 2 to 10) And it was so many feature also and these are follow:

- Cartel
- Kinked Demand dependence
- Inter dependence
- Group behavior
- Important of advertising and selling costs

Question 5

Monopoly is undesirable due to follow:-

(a) It has prices higher than
(b) It produces less output than

competitive firms | competitive firm

(c) It discriminates on prices (d) All of the above

Answer: d

Explanation:

Monopoly means where only one seller exist and take all the profits it has some feature From his point of view & view & undesirable also from public point of view these are:

- ❖ Price Discrimination
- ❖ Product less output than competitive firms
- ❖ Prices higher than competitive

Question 6

In long run equilibrium undue perfect competition is / are satisfied by which condition

(a) MC = MR (b) AC = AR

(c) LMC = LAC = P (d) All of the above

Answer: d

Explanation:

Equilibrium point is judged in long run when there is / are following condition given:

- ❖ Marginal Cost = Marginal Revenue or MC = MR
- ❖ Average Cost = Average Revenue or AC = AR
- ❖ Long run Marginal Cost = Long run Average Cost = Price or LMC = LAC = P

Question 7

In the long Run, monopolist

(a) Incur (b) Want to short down

(c)Must earn super normal profit (d) Earns only normal profits

Answer: c

Explanation:

Monopoly means one seller and many buyers Monopoly is kind of market in which seller is known As monopolist and as his business gross for long time then he not only earns normal profits but also Abnormal profits and which is known as super profits. So the must earn super normal profits in long run.

Question 8

The demand curve of the firm and industry will be same in which form of market

(a) Monopolistic (b) Perfect competition

(c)Monopoly (d) Oligopoly

Answer: c

Explanation:
Demand curve of firms and industry will same in monopoly markets as price set by industry And firms have to choose that level of output which yields maximum profits.

Question 9
Which of these is the best example of oligopoly?
(a) OPEC (b) SAARC
(c) WTO (d) GATI
Answer: a
Explanation:
Oligopoly market is type of market in which there is only 2 to 10 seller For Ex: OPEC, cold – drink seller, water supplier etc.

Question 10
In a perfectly competitive market if MR is greater than MC then a firm should
(a) Increase its production (b) Decrease its production
(c)Decrease its sale (d) Increase its sale
Answer: a
Explanation:
In a perfect competition market when firm increase its output or production then the Reason is its Marginal Revenue / Average Revenue is greater than Marginal Cost / Average Cost

Question 11
Equilibrium price for an industry in perfect competition is fixed through
(a) Input and output (b) Market demand and market supply
(c)Market demand and firms supply (d) None of these
Answer: b
Explanation:
Equilibrium is that price at which both demand and supply are equal and therefore no buyer who wanted to buy at that price goes dissatisfied and none of these dissatisfied that he could not sell his goods at that price Equilibrium price in perfect competition is fixed through Market supply and Market Demand.

Question 12
Market forms in which there is only one buyer and one seller is:
(a) Oligopoly (b) Duopoly
(c) Bilateral Monopoly (d) Monopoly
Answer: d
Explanation:
Monopoly is type of market in which there are only seller and one buyer.

NOV - 2018

Question 1

The structure of the Toothpaste industry in India is best described aS:

(a) Perfectly competitive (b) Monopolistic
(c)Monopoly (d) Oligopolistic

Answer: b

Explanation:

Monopolistic market has differentiated products with close substation just like toothpaste Industries.

Question 2

Product differentiation is the main features of which market?

(a) Oligopoly (b) Monopolistic
(c)Discriminating Monopoly (d) Perfect competition

Answer: b

Explanation:

In monopolistic competitive market there are large number of buyer and seller each Selling differentiated product.

Question 3

Which market is having a single seller and single buyer?

(a) Duopoly (b) Monopoly
(c)Bilateral Monopoly (d) One of the above

Answer: c

Explanation:

Bilateral Monopoly is a market structure in which there is only a single buyer and a single I .e.

Question 4

In long run, perfect competitive market incurs

(a) Normal profit (b) Super normal profit
(c)Losses (d) Constant returns

Answer: a

Explanation:

In long run firms will just be earning normal profit because if in short run they earning Supernormal profit new firms will be attracted and supply will rise which leads to fall in prices and vice *versa*.

Question 5

Which one of the following is not feature of Oligopoly?

(a) Interdependency (b) selling cost

(c)Free entry (d) group behavior

Answer: c

Explanation:

Feature of oligopoly are:

- Strategic interdependent
- Important of advertising and selling cost
- Group behavior
- Therefore free entry is not a feature of oligopoly

Question 6

Price leadership is the characteristic of

(a) Oligopoly (b) Monopoly

(c)Perfect competition (d) Discriminating Monopoly

Answer: a

Explanation:

Price leadership can be done by dominant firm a low cost firms or it can be barometric price leadership

Question 7

MR Curve in perfect competition is

(a) Parallel to X – axis (b) Parallel to Y - axis

(c) Fall from left to right (d) Rise from left to right

Answer: a

Explanation:

MR curve in perfect competition is parallel to x – axis a perfectly competitive firm is a price taker and faces a horizontal demand curve its Mc curve is also horizontal And coincides with its AC curve.

Question 8

Which of the following is correct?

(a) MR = AR (e – 1) / e (b) MR = AR (e + 1) /e

(c)MR = AR (1- e) /e (d) None

Answer: a

Explanation:

MR , AR and price elasticity of demand are uniquely related to one another through the **Formula** , MR = AR × e – 1/e therefore a is correct option_

MAY - 2019

Question 1

Issues requiring decision making in the context of business are:

(a) How much should be the optimum at what price should the firms sell

(b) How will the product be placed in the Market?

(c) How to combat the risk and Uncertainties involved?

(d) All of the above

Answer: d

Explanation:

Issue requiring decision making in the context of business are :-

- How much should be the optimum at what price should the firms sell
- How will the product be placed in the Market?
- How to combat the risk and Uncertainties involved?

Question 2

Product differentiation is an important feature of :

(a) Monopoly

(b) imperfect competition

(c) Perfect competition

(d) Discriminating monopoly

Answer: b

Explanation:

Product differentiation is an important feature of imperfect competition.

Question 3

Price leadership is used to explain firm`s behavior under:

(a) Monopoly

(b) Oligopoly

(c) Perfect competition

(d) Discriminating monopoly

Answer: b

Explanation:

Price leadership is used to explain firms behavior under Oligopoly

Question 4

A market which has single buyer and single seller is called…….

(a) Monopoly

(b) Bilateral monopoly

(c)Duopoly

(d) Monopoly

Answer: b

Explanation:

A market which has single seller is called bilateral monopoly

Question 5

Which one of the following is not a feature of oligopoly?

(a) Inter dependence (b) Selling cost
(c)Group behavior (d) Free entry

Answer: d

Explanation:

An oligopoly is a market from where in a market or industry is dominated by a small number Of large seller oligopolies can result from various forms of collusion which reduce competition and leads to higher prices for consumers Oligopolies have their own market structure.

Question 6

If the supply of a commodity does not change then with every increase in demand Rise will

(a) Remain same (b) Increase
(c) Decrease (d) Becomes zero

Answer: b

Explanation:

If the supply of a commodity does not change then with every increase in demand price Will increase.

Question 7

If there is an increase in supply without any change in demand, equilibrium price will.....

(a) Increase (b) Decrease
(c)Remain unchanged (d) Becomes zero

Answer: b

Explanation:

If there is a increase in supply without any change in demand , equilibrium price will Decrease

Question 8

The structure of tooth paste industry in India is best described as a ....market

(a) Perfectly competitive (b) Monopoly
(c)Monopolistically competitive (d) Oligopolistic

Answer: c

Explanation:

The structure of tooth paste industry in India is best described as a monopolistically competitive market

Question 9

Under the first degree of price discrimination the monopolist charges different

(a) Price, From different persons (b) For different quantity sold

(c)At different markets
(d) In all of the above situations

Answer: a

Explanation:

Under the first degree of price discrimination the monopolist charges different price From different persons.

Question 10

In a monopoly market which of the following is not found?

(a) Single seller
(b) barriers to entry
(c) Close substitutes
(d) All of these

Answer: c

Explanation:

A monopoly exists when a specific person or enterprise is the only supplier of a particular commodity. This contrasts with a monopoly which relates to a single entity`s control of a market to purchase a good or services and with oligopoly which consists of a few seller dominating a market.

Question 11

In long run a perfectly competitive firms earns

(a) Normal Profits
(b) Abnormal Profits
(c) Super normal profits
(d) Neither profits nor losses

Answer: a

Explanation:

In long run a perfectly competitive firms earnsNormal Profits

Question 12

Under perfect competition demand curve for individual firms is:

(a) In elastic
(b) Unitary elastic
(c) Perfectly elastic
(d) Perfectly um elastic

Answer: c

Explanation:

Under perfect competition demand curve for individual firm is perfectly elastic

Question 13

Which of the following is not a feature of perfect competition?

(a) Homogenous
(b) Large number of buyer & seller
(c) Free entry
(d) Selling cost

Answer: d

Explanation:

Selling expenses are the cost associated with distributing marketing and selling a product or Services Marketing costs such as advertising websites maintenance and spending on social Media selling costs such as wages commissions and out – of –

pocket expenses Hence ,selling cost is not a feature of perfect competition.

Question 14

Marginal revenue curve of a firm under perfect competition:

(a) Falls from left to right (b) Rises from left to right

(c)Parallel toy – axis (d) Parallel to x – axis

Answer: d

Explanation:

Marginal revenue curve of a firm under perfect competition parallel to x- axis.

DEC - 2020

Question 1

If a seller obtains Rs.6,000 after selling 50 units and Rs.6,204 after selling 53 units, then marginal revenue will be:

(a) Rs.204 (b) 68

(c) 120 (d) 118

Answer: b

Explanation:

UNIT	TR
50	6000
53	6204

MR = $\frac{\Delta TR}{\Delta Q}$

$\frac{6204-6000}{53-50}$= 68

Question 2

On the basis of nature of transaction, a market may be classified into

(a) Regulated and unregulated market (b) Wholesale and retail market

(c) Spot market and Future market (d) National and international market

Answer :c

Explanation:

Generally, wholesalers buy secondary products and sell them to retailers. In this type of market, retailers sell products to final consumers. On the basis of nature of transaction, market can be classified into spot market and future market.

Question 3

When a firm produces 7 units of production and the TR is Rs.42 after raising the production to 8 units TR reached Rs.46. marginal revenue will be

(a) Rs.6 (b) Rs.4
(c) Rs. 5 (d) Rs.8

Answer: b

Explanation:

According to the MR-MC approach, the firm (or producer) will attains its equilibrium, where the following two necessary and sufficient conditions are fulfilled:

1. MR=MC
2. MC must be rising after the equilibrium level of output.

Thus, by looking at the question given above, we can say that the firm is in equilibrium at output equal to 4units. When the output is 4units, MR=MC (thus, the first condition is satisfied) and MC increases after the 4th unit of output (thus, the second condition is satisfied).

At output less than 4units, if the firm produce slightly lesser level of output than 4units, then the firm is facing price that exceeds the MC. This implied that higher profits can be achieved by increasing the level of output to 4units. On the other hand, if the firm produces slightly higher level of output than 4units, then the firm is facing price that falls short of the MC. This implies that higher profits can be achieved by reducing the output level to 4units. Thus, only at 4 units of output, the producer will be in equilibrium and the profit maximizing output level, where Price(P)=MC and also MC curve us rising

Question 4

A market where goods are exchanged for money payable either immediately or within short span of time

(a) Forwarded market (b) Regulated market
(c) Spot market (d) Wholesale market

Answer: c

Explanation:

The spot market or cash market is a public financial market in which financial instruments or commodities are traded for immediate delivery. It contrasts with a futures market, in which delivery is due at a later date.

Question 5

ABC ltd realizes total revenue of Rs. 6,000 by the sale of 120 units and Rs. 6050 by the sale of 121 units What is the average revenue when ABC ltd sells 121 units

(a) 6000 (b) 6050
(c) 50 (d) 100

Answer:c

Explanation:

Average Revenue (AR) = $\frac{TR}{Q}$

as per question 6000/120 = 50 & 6050/121 = 50
Hence, Answer is 50

Question 6

When ABC Ltd sells 130 units then total revenue will be

(a)18550 (b)12050
(c) 6000 (d) 6500

Answer : d

Explanation: AR = 50 TR = AR x Q = 50 x 130 = 6500

Question 7

Answer the following questions

Output	0	1	2	3	4	5	6
Total Revenue	100	180	250	310	360	400	430

Find the marginal revenue at 5th unit is

(a) 60 (b) 55
(c) 45 (d) 40

Answer : d

Explanation:

Marginal Revenue= $\frac{Change\ in\ Revenue}{Change\ in\ Quantity}$

$$\frac{400-360}{1}=40$$

Question 8

kinked demand hypothesis is designed to explain the ___ under oligopolistic market

(a) Collusion between firms (b) price and output determination
(c) Rigidity of price (d) Price leadership

Answer : c

Explanation:

In the context of oligopoly, the kinked demand curve hypothesis is designed to explain Price rigidity. The curve is more elastic above the kink and less elastic below it. This means that the response to a price increase is less than the response to a price decrease.

Question 9

______ is the best example of oligopoly

(a) SAARC (b) WTO
(c) GATT (d) OPEC

Answer : d

Explanation:

The Organization of Petroleum Exporting Countries (OPEC) is an example of an oligopoly

Question 10

Aluminum industry is the example of which type of oligopoly

(a) Open oligopoly (b) Full oligopoly
(c) Pure oligopoly (d) Syndicated oligopoly

Answer: c

Explanation:

Examples of pure oligopolies industries are cement, steel and copper and aluminum industry because these all falls in the same categories which are related to construction.

Question 11

In which market prices are determined by the market forces of demand and supply?

(a) Monopoly (b) Perfect Competition
(c) Monopolistic Competition (d) Oligopoly

Answer : b

Explanation :

Pure or perfect competition is a theoretical market structure in which the following criteria are met:

- All firms sell an identical product (the product is a "commodity" or "homogeneous").
- All firms are price takers (they cannot influence the market price of their product).
- Market share has no influence on prices

Question 12

Railways charges comparatively cheaper fares from senior citizens. This is an example of

(a) Price discrimination (b) Market analysis
(c) Profit discrimination (d) Demand forecasting

Answer : a

Explanation:

Price discrimination is a selling strategy that charges customers different prices for the same product or service based on what the seller thinks they can get the customer to agree to. In pure price discrimination, the seller charges each customer the maximum price he or she will pay.

Question 13

Smart phones market is an example of

(a) Monopoly (b) Monopolistic competition
(c) Oligopoly (d) Perfect competition

Answer : c

Explanation:

Oligopoly is a market structure with a small number of firms, none of which can keep the others from having significant influence. The concentration ratio measures the market share of the largest firms. A monopoly is one firm, a duopoly is two firms and an oligopoly is two or more firms

Question 14

Collusion is impossible if an industry has

(a) Large number of firms (b) Only few number of firms
(c) Only two firms (d) Limited number of firms

Answer: a

Explanation:

Collusion is impossible if an industry has large number of firms - Firms in any industry could achieve the maximum profit attainable if they all agreed to select the monopoly price and output and to share the profits. One approach to the analysis of oligopoly is to assume that firms in the industry collude, selecting the monopoly solution.

Question 15

When the industry is dominated by one large firm it is called :

(a) Partial oligopoly (b) Full oligopoly
(c) Organized oligopoly (d) Closed oligopoly

Answer : a

Explanation:

Partial oligopoly refers to that market situation where the industry is dominated by one large firm (known as the leader) and the other firms (known as the followers) of the industry follow the price policy determined by their leader.

Question 16

Choose the incorrect statement regarding the barometric price leadership

(a) Live and let live philosophy is followed (b) Old and experienced firm acts as a leader
(c) Price decided by assessing market conditions d) Price decided by leader is generally accepted by the rest of all

Answer : a

Explanation:

The barometric price leadership model occurs when a particular firm is more adept than others at identifying shifts in applicable market forces, such as a change in production costs. This allows the firm to respond to market forces more efficiently. For instance, the firm may initiate a price change.

Question 17

"Competition among few" is described in

(a) Monopoly (b) Oligopoly
(c) Duopoly (d) Monophony

Answer : b

Explanation:

Oligopoly is a market structure with a small number of firms, none of which can keep the others from having significant influence. The concentration ratio measures the market share of the largest firms. A monopoly is one firm, a duopoly is two firms and an oligopoly is two or more firms

JAN - 2021

MARKETS

Question 1

Which one is not a part of the elements of market?

(a) Buyers and sellers (b) A product of services
(c) Bargaining for a price (d) Volume of a business

Answer: d

Explanation:

Elements of Market:

The essentials of a market are

- Presence of Products and services to be exchanged.
- Existence of one or more buyers and sellers.
- Buyers and sellers have bargaining power for the concerned goods.

Question 2

In the market structure, demand curve is also known as:

(a) Marginal cost curve (b) Average revenue curve
(c) Total production curve (d) Marginal utility curve

Answer: b

Explanation:

Average revenue curve is often called the demand curve due to its representation of the product's demand in the market. The average revenue is also the curve which represents the price of a product.

Question 3

Secular period is also known as

(a) Very short period
(b)Very long period
(c) Short period
(d) Long period

Answer: b

Explanation:

A secular market trend is a market trend that lasts upto 5 to 25 years and consists of series of primary trends. Hence, secular period is also known as very long period.

Question 4

Total revenue curve initially increases at a diminishing rate due to ____

(a) Diminishing average revenue curve
(b) Diminishing n=marginal revenue curve
(c) Diminishing average fixed revenue curve
(d) Diminishing cost curve

Answer: b

Explanation:

The marginal revenue is the slope of the total-revenue curve at any one level of output. If the demand curve is linear, it is obvious that in order to sell an additional unit of x its price must fall.

Question 5

Total revenue curve is

(a) Positively sloped
(b) Negatively sloped
(c) Downward sloping
(d) Vertical to X axis

Answer: a

Explanation:

Total revenue curve is a positively sloped straight line when price remains same at all levels of output. It happens because in case of constant prices, total revenue increases at a constant rate.

PRICE AND OUTPUT DETERMINATION UNDER DIFFERENT MARKETS

Question 6

Which of the following is not a condition of perfect competition?

(a) A large number of firms
(b) Perfect mobility of factors
(c) Informative advertising to ensure that consumers have good information
(d) Freedom of entry and exit into and out ofthe market.

Answer: c

Explanation:

The four key characteristics of perfect competition are:

- A large number of firms,

- Identical products sold by all firms,
- Perfect resource mobility or the freedom of entry into and exit out of the industry, and
- Perfect knowledge of prices and technology.

Question 7

Oligopoly industries are characterized by

(a) A few dominant firms and substantial barriers to entry

(b) A few large firms and no entry barriers

(c) A large number of small firms and no entry barriers

(d) One dominant firm and low entry barriers

Answer: a

Explanation:

CHARACTERISTICS OF OLIGOPOLY:-

- A Few Firms with Large Market Share.
- High Barriers to Entry.
- Interdependence.
- Each Firm Has Little Market Power In Its Own Right.

Question 8

The long run equilibrium outcomes in monopolistic competition and perfect competition are similar, because in both market structures:

(a) The efficient output level will be produced

(b) Firms will be producing at minimum average cost

(c) Firms realize all economies of scale

(d) Firms will only earn normal profit

Answer: d

Explanation:

Both market structures will only earn a normal profit in long run, due to free many and exist of firms under both markets.

Question 9

Pure oligopoly is based on the ________ production

(a) Homogeneous

(b) Differential

(c) Unrelated

(d) Related

Answer: a

Explanation:

Oligopoly market sells homogeneous or differentiated products but pure oligopoly market is based on the homogeneous products

Question 10

In the competitions of oligopoly, the kinked demand curve hypothesis is designed to explain.

(a) Price rigidity
(b) Price and output determination
(c) Price leadership
(d) Collusion among rivals

Answer: a

Explanation:

The kinked-demand curve model (also called Sweezy model) posits that price rigidity exists in an oligopoly because an oligopolistic firm faces a kinked demand curve.

JULY - 2021

MARKET

Question 1

Which of the following is the price at which the quantity demanded of a commodity is equal to the quantity supplied of the commodity and there is no unsold stock or no unsupplied demand?

(a) Selling price
(b) Market clearing price
(c) Asking price
(d) Future price

Answer: b

Explanation:

The equilibrium is the only price where quantity demanded is equal to quantity supplied. At a price above equilibrium, like 1.8 dollars, quantity supplied exceeds the quantity demanded, so there is excess supply.

Question 2

Which of the following is not an element of market?

(a) Knowledge about market price
(b) No bargaining for price
(c) Product or service
(d) Buyers and sellers

Answer: b

Explanation:

Target market is not an element of the marketing mix. A target market refers to a group of potential customers to whom a company wants to sell its products and services

Question 3

On the basic of nature of transaction market can be classified as.

(a) Wholesale market
(b) Future Market and Spot market

(c) Regulated market and unregulated market
(d) Money market and Future market

Answer: b

Explanation:

In this type of market, retailers sell products to final consumers. On the basis of nature of transaction, market can be classified into spot market and future market.

Question 4

The equilibrium quantity increases but the phage in equilibrium price is uncertain, when

(a) Bot demand and supply decrease
(b) Abiand increase and supply decrease
(c) Both demand and supply increase
(d) Demand decrease and supply increase

Answer: c

Explanation:

The equilibrium price is the price at which the quantity demanded equals the quantity supplied. ... An increase in demand, all other things unchanged, will cause the equilibrium price to rise; quantity supplied will increase. A decrease in demand will cause the equilibrium price to fall; quantity supplied will decrease.

Question 5

Marginal revenue will be positive where price 0 elasticity of demand is

(a) Zero
(b) More than one
(c) Less than one
(d) Equal to one

Answer: b

Explanation

Marginal value will be positive if elasticity of demand is more than one

Question 6

A seller realizes ₹25000/- after selling 15 units and he realises ₹35000/- after selling 25 units, what is the marginal revenue here?

(a) ₹2500/-
(b) ₹100/-
(c) ₹1000/-
(d) ₹3500/-

Answer: (c)

Explanation:

MR= $\frac{\Delta TR}{\Delta Q} = 1000$

Question 7

The is the market where the commodities are bought and sold in bulk or large quantities. Transactions generally take place between trades,

(a) Wholesale market
(b) Regulated market

(c) Local market (d) Retail market

Answer: (a)

Explanation:

A wholesale market is one in which commodities are bought and sold in large lots or in bulk. Transactions in these markets take place mainly between traders.

PRICE AND OUTPUT DETERMINATION IN DIFERENT MARKETS

Question 8

Which of the following is an example of monopolistic competition?

(a) DeBeers and diamonds (b) Hotel and pubs

(c) Microsoft and windows (d) Dell and Lenovo

Answer: b

Explanation:

Textbook examples of industries with market structures similar to monopolistic competition include restaurants, cereal, clothing, shoes, and service industries in large cities. Clothing: The clothing industry is monopolistically competitive because firms have differentiated products and market power.

Question 9

Which of the feature is not a feature of monopoly market?

(a) large seller of the product (b) No close substitutes

(c) Market power (d) Single seller of the product

Answer: (b)

Explanation:

A monopoly and an oligopoly are market structures that exist when there is imperfect competition. A monopoly is when a single company produces goods with no close substitute, while an oligopoly is when a small number of relatively large companies produce similar, but slightly different goods.

Question 10

Who propounded price rigidity kinked demand curve model of oligopoly

(a) Adam Smith (b) Karl max

(c) Keynes (d) Paul A. Sweezy.

Answer: (d)

Explanation:

The kinked demand curve of oligopoly was developed by Paul M. Sweezy in 1939. Instead of laying emphasis on price-output determination, the model explains the behavior of oligopolistic organizations

Question 11

A firm, to attain the equilibrium position under perfect competition has to

satisfy which of the following conditions?

(a) MR > MC

(b) MR = MC

(c) MR curve should cut MC curve from below

(d) MC curve should cut MR curve from below.

Answer: d

Explanation

Perfect competition will achieve equilibrium, when all firms make only normal profit in the long run, i.e., TC = TR. Each firm will produce at the profit maximizing level of output which is attained when MC = MR and the MC curve should intersect the MR curve from below for maximizing profit in absolute terms. Also, since firms are price takers, MR = AR = P.

Question 12

Which one of the following it not a characteristic of Oligopoly?

(a) Strategic interdependence

(b) large number of firms selling close substitutes

(c) Importance of selling cost

(d) Group behavior

Answer: b

Explanation:

Few large producers (3-4 firms) (alongside possibly a very large number of small firms but the few large firms produce most of the output).

Question 13

A group of firms that explicitly agree (collude) to coordinate their activities is called a / an _

(a) Oligopoly

(b) Duopoly

(c) Monopsony

(d) Cartel

Answer: d

Explanation:

A cartel is an agreement among competing firms to collude in order to attain higher profits.

Question 14

Electricity companies sell electricity as a cheaper rate for power consumption in rural areas than for industrial consumptions. This is an example of

(a) Product discrimination

(b) Perfect competition

(c) Price discrimination

(d) Price taker

Answer: c

Explanation:

Price discrimination is a microeconomic pricing strategy where identical or largely similar goods or services are sold at different prices by the same provider in different markets.

An example of price discrimination would be the cost of movie tickets. Prices at one theater are different for children, adults, and seniors. The prices of each ticket can also vary based on the day and chosen show time. Ticket prices also vary depending on the portion of the country as well.

Question 15

Non-price competition is observed in type of following market?

(a) Monopoly (b) Monopolistic Competition
(c) Duopoly (d) Oligopoly

Answer: b

Explanation:

Monopolistic market structures also engage in non-price competition because they are not price takers. Due to having rather fixed market prices, leading to inelastic demand, they engage in product differentiation.

DEC – 2021

Question 1

Perfect competition firm cannot earn in the long form

(a) Supernormal profits (b) abnormal profit
(c) both (d) none

Answer: c

Explanation:

Supernormal profits and abnormal profit: Under perfect competition, no firm can earn abnormal profits in the long run. This is because if any firm in the long run earns abnormal profits (that is price > minimum of average cost curve), then new firms are attracted into the market.

Question 2

When the industry is dominated by one large firm it is called -

(a) Full oligopoly (b) major oligopoly
(c) partial oligopoly (d) none

Answer: c

Explanation:

Partial oligopoly: Partial oliogopoly is a market situation where one large firm dominates the market and is locked upon by the price leader. Hence, in oligopoly, when the industry is dominated by one large firm which is considered as leader of the group. This is called partial oligopoly.

Question 3

Which market is having a single seller and single buyer -

(a) bilateral monopoly (b) cartoonist monopoly
(c) Lateral monopoly (d) semi- lateral monopoly

Answer: a

Explanation:

Bilateral monopoly: A bilateral monopoly exists when a market has only one supplier and one buyer. The one supplier will tend to act as a monopoly power and look to charge high prices to the one buyer. The lone buyer will look towards paying a price that is as low as possible.

Question 4

Automobile company is an example of

(a) monopoly (b) monopolistic
(c) oligopoly (d) None

Answer: c

Explanation:

Oligopoly: The automobile industry is an example of an monopolistically competitive market because it an oligopoly for legal reasons.

Question 5

Price discrimination refers to practices of changing _____ prices for___ units of the _____ commodity

(a) different, different, same (b) different, same, same
(c) same, different, same (d) different, different, different

Answer: b

Explanation:

Price discrimination is a competitive pricing strategy used by businesses and sellers. Price discrimination involves the use of different prices charged to various customers for the same product or service. It is commonly used by larger, established businesses to profit from differences in supply and demand from consumers.

JUNE -2022

Unit :1 – Meaning and Types of Market

Question 1

Demand Curve is also Known as:

(a) MR Curve (b) AR Curve
(c) MC Curve (d) MR Reserve

Answer: a

Explanation:

Demand curve is also known as Marginal revenue curve in a market.

Question 2

Prices in monopoly are higher than price under:

(a) Oligopoly (b) Duopoly

(c) Monopoly (d) Perfect Competition

Answer: d

Explanation:

Prices in monopoly are most high as compared to prices in perfect competition. Monopolies being price makers and charging prices to increase there revenues more as compared to other market forms.

Question 3

In Oligopoly upper part shows which elasticity:

(a) Less than (b) Greater than

(c) Zero (d) Negative

Answer: b

Explanation:

In oligopoly the kinked demand curve has two parts the upper part being relatively more elastic and the lower part being less elastic then the upper part.

Question 4

Which of the following is closely related to perfect competition?

(a) Mobiles (b) Cars

(c) Utensils (d) Agricultural Products

Answer: d

Explanation:

Agricultural products are not highly perfect competitive market but are closely related to perfect competitive market.

Question 5

If the price of good is & 100 per unit & quantity demanded is 900 units. If the price decreased to ‹ 90 per unit then the demand increases to 100 units calculate marginal revenue.

(a) 0 (b) Rs 10

(c) Rs 90 (d) Rs 100

Answer: a

Explanation:

Price	Quantity	Total Revenue	Marginal Revenue
100	900	90,000	-
90	1000	90,000	0

Marginal Revenue is 0

$$\begin{bmatrix} \text{Total Revenue} = \text{Price} \times \text{Quantity} \\ \text{Marginal Revenue} = \text{TR}_n \times \text{TR}_{n-1} \end{bmatrix}$$

Question 6

No substitution are found in which form of Market:

(a) Perfect competition (b) Oligopoly
(c) Monopoly (d) Monopolistic Competition

Answer: c

Explanation:

No substitutes are found in monopoly form of market. Oligopoly has less substitutes as compared to monopoly, but in perfect competition every product is a substitute of each other.

Question 7

The market is the direct relationship between-

(a) Buyer and seller (b) Whole seller and retailer
(c) Consumer and manufactures (d) None of the above

Answer: a

Explanation:

The market is the direct relationship between a buyer and seller. Where the buyer and seller are the essential elements of market and they influence the price.

Question 8

Which commodity is best for the short term period market?

(a) Fruits and Vegetables (b) Automobiles
(c) Electronic goods (d) All of the above

Answer: a

Explanation:

For short term period market is best for perishable goods like fruits and vegetables that are needed in day to day life.

Question 9

Demand for a firm's product when express as in percentage of an industry demand it signifies the ____________ of firm.

(a) Product share (b) Market share
(c) Demand (d) Supply

Answer: b

Explanation:

Demand for a firms product when express as in percentage of an industry demand it signifies the market share of the firm.

Question 10

Which of the following is true?

(a) Perfect competition sells heterogeneous product

(b) Oligopolistic incurs a good amount of selling cost.

(c) Monopolist always earns super normal profit

(d) Oligopolistic economy do not get hike in their normal profit.

Answer: b

Explanation:

In an oligopolistic market, advertising & selling and have great importance. Therefore, oligopolistic incurs a good amount of selling cost.

Question 11

Which of the following is correct?

(a) Total revenue is equal to price× Quantity

(b) Sum of Average Revenue

(c) Sum of Quantity sold × marginal revenue

(d) All of the above

Answer: a

Explanation:

The Formula for the total revenue (TR) is

TR= P × Q, where P is price and Q is quantity sold.

Unit :2 – Determination of Prices

Question 12

In monopoly MR is ___AR

(a) Less than

(b) Greater than

(c) Equal

(d) Any of the above

Answer: a

Explanation:

In monopoly MR is always less than AR, as AR i.e. prices are always greater then marginal revenue to earn economic profit.

Question 13

Non- Price competition typically occurs within:

(a) Monopoly

(b) Perfect Competition

(c) Monopolistic

(d) Oligopoly

Answer: c

Explanation:

A monopolistic competition has non-price competition. In non- price competition all firms are safe and they don't need to reduce the profit margins.

Sellers attempt to provide and promote their products not by cutting prices but by incurring expenditure on publicity and advertisement.

Question 14

On the upper side of kinked demand curve what is elasticity of demand-

(a) Less elastic (b) Inelastic

(c) Relatively elastic (d) Infinite

Answer: c

Explanation:

On the upper side of kinked demand curve elasticity of demand is relatively more elastic then elasticity on the lower side of demand curve.

Question 15

Price rigidity is a concept of -

(a) Perfect competition (b) Monopoly

(c) Monopolistic (d) Oligopoly

Answer: d

Explanation:

Price rigidity is feature of oligopoly as price does not change easily in response to change in demand. If an firm raises price others keep constant. Hence, it is not rational to keep prices increases, so prices are rigid.

Question 16

A firm should produce fill MC ______MR

(a) Greater (b) Less

(c) Equal (d) All of the above

Answer: c

Explanation:

According to the economic theory, a firm should expand production until the point where marginal cost is equal to marginal revenue.