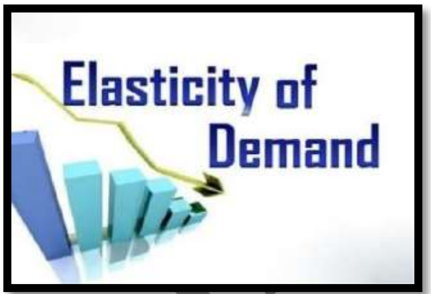
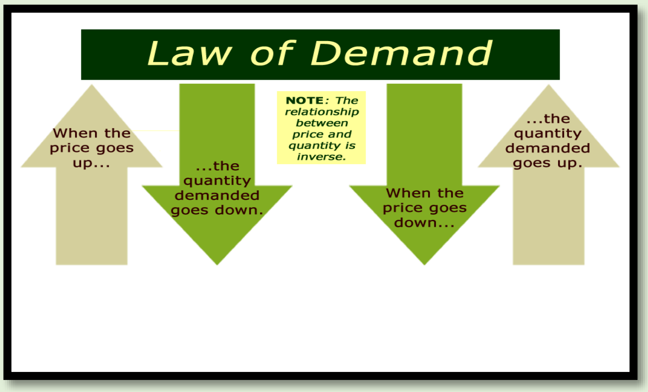
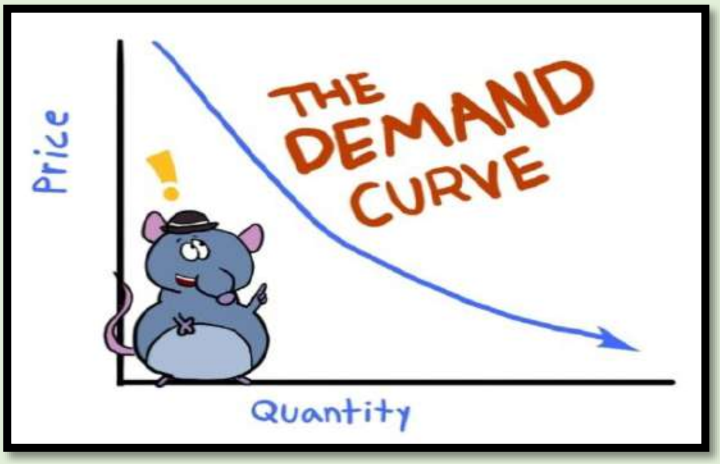
Chapter 2

UNIT 1:

LAW OF DEMAND AND ELASTICITY OF DEMAND



Demand	**Demand means desire or wish to buy and consume a commodity or service backed by adequate ability to pay and willingness to pay.**
Factor determine price.	The important factors that determine demand are price of the commodity, price of related commodities, income of the consumer, tastes and preferences of consumers, consumer expectations regarding future prices, size of population, composition of population, the level of national income and its distribution, consumer-credit facility and interest rates.
Law of demand.	**The law of demand states that people will buy more at lower prices and less at higher prices, other things being equal.** 

Demand curve.	According to Marshall, the demand curve slopes downwards due to the operation of the law of diminishing marginal utility. However, according to Hicks and Allen it is due to income effect and substitution effect. 
Exceptions to the Law of Demand	• Conspicuousgoods • Giffen goods • Conspicuousnecessities • Future expectations aboutprices • Demand fornecessaries • Speculativegoods 
Expansion and Contraction of Demand	When, as a result of decrease in price, the quantity demanded increases, in Economics, we say that there is an expansion of demand and when, as a result of increase in price, the quantity demanded decreases, we say that there is contraction of demand.

Increase andDecrease inDemand	**A rightward shift in the demand curve (when more is demanded at each price) can because by a rise in income, a rise in the price of a substitute, a fall in the price of a complement, a change in tastes in favour of this commodity, an increase in population, and. are distribution of income to groups who favour this commodity.** **A leftward shift in the demand curve (when lessisdemandedateachprice)canbecause by a fall in income, a fall in the price of a substitute,ariseinthepriceofacomplement,a change in tastes against this commodity, a decrease in population, and a redistribution of income away from groups who favourthis commodity.**
Movements along the Demand Curve vs. Shift of Demand Curve	**A movement along the demand curve indicates**
	changes in the quantity demanded because of price
	Changes, other factors remaining constant. A shift of
	the demand curve indicates that there is a change in
	demand at each possible price because one or more
	other factors, such as incomes, tastes or the price of **Some other goods have changed.**

Question 1

Which factor generally keeps the price – elasticity of demand for goods low?

(a) Variety of uses for that goods
(b) Its low price
(c) Close substitutes for that goods
(d) High proportion of the consumers Income spent on it

Answer: b

Explanation:

Lower the price of the good, the lower is its response to change in price lower is the price Elasticity. Demand of a commodity having very low price will not be affected that a low Priced commodity has a small price in consumer `s budget.

Question 2

What is an Engels curve?

(a) Another name of demand curve
(b) Curve showing both demand & supply

Curve.

(c) Curve named after Lord Engels (d) All

Answer: c

Explanation:

Engels`s curve was a named after Engel's the original of this curve

Question 3

Exception to the Law of demand includes

(a) Conspicuous goods (b) Giffen goods

(c) Conspicuous necessities (d) All

Answer: d

Explanation:

Exception to The law of demandincludes:-

Conspicuous goods

- Giffen goods
- conspicuous necessities
- Future expectation about
- Price
- Demand for necessaries
- Speculative goods

Question 4

The important Factor that determinesdemand:-

(a) Price of the commodity (b) Price of related commodities

(c) Income of the consumer (d) All

Answer: d

Explanation:

The important factors that determine demand are given below:

- Price of the commodity
- Price of related to commodities
- Income of the consumer
- Taste and preference of consumer
- Consumer's expectation

Question 5

Movement along the same demand curve show:

(a) Expansion of demand (b) Expansion of supply

(c)Expansion of contraction of demand (d) Increase and decrease of demand

Answer: c

Explanation:

Expansion of contraction of demand occurs when the demand of a commodity changes due to change in its own price. In other words, the demands curve moves along the same demand curve.

Question 6

An increase in demand can result from:

(a) A decline in the market price (b) An increase in income

(c) A reduction in the price of substitution (d) Increase in the price of complements

Answer: b

KITest.in

Explanation:
Increase in demand means when the demand of a commodity increases due to factors than its own price. Therefore, an increase in income of consumer will lead to increase in demand.

Question 7
Demand for a commodity refers to -___ _
(a) Desire for the commodity
(b) Need for the commodity
(c)Quantity demanded of that Commodity
(d) Quantity of the commodity demanded at a certain price during any particular period of time

Answer: d
Explanation:
Demand for a commodity refers to Quantity of the commodity demanded at a certain Price during any particular period of time.

Question 8
In case of an inferior good, the income elasticity of demand is:
(a) Zero
(b) Infinite
(c) Positive
(d) Negative
Answer: d
Explanation:
In case of inferior goods, are the income increases the demand for inferior goods, (Like jawar, bajra) decrease and vice- versa. Hence, inferior goods have negative income elasticity

Question 9
For what types of goods demand fall with rise in income levels of household?
(a) Inferior goods
(b) Luxuries
(c) Substitutes
(d) Necessities
Answer: a
Explanation:
An inferior good is one whose demand drops when people's incomes rise. When incomes are low or the economy contracts inferior goods become a more affordable.

Question10
In case of inferior goods like bajra, a fall in its price tends to:
(a) Makes the demand remain
(b) Reduce the demand
(c) Increase the demand
(d) Change the demand in an abnormal way
Answer: b
Explanation:
Fall in the price of such good like Bajra, will also reduce its demand as income effect dominates the substitution effect.

Question 11
Find the slope of an assumed liner demand curve for theater tickets, when person Purchase 1,000 at Rs. 5.00 per ticket and 200 at Rs. 15.00 per ticket.
(a) 1 / 80
(b) 2 / 80
(c)- 1/ 80
(c)- 1/ 80
Answer: c
Explanation:

KITest.in

The slope of a linear demand curve is simply:
Chang in Price / Change in Quantity
So when the price change from Rs. 5.00, the quantity changes from
1,000 to200. This gives us:
15 – 5 / 200 – 1000
-1 / 80
Thus the slope of the demand curve is given by -1/80.

Question 12

The price of hot – dogs Increase by 22% and the quantity demanded falls by 25% this Indicates for hot dogs are:

(a) Elastic
(b) Inelastic
(c) Unitary elastic
(d) Perfectly elastic

Answer: a

Explanation:

Demand for good is elastic when the percentage change in quantity demanded is more than the percentage change in price. Price of hot dogs increase by 22% hence, demand for hot dog is elastic.

Question 13

What is demand function?

(a) Relation between the demand for a Product And its supply.
(b) Relationship between the demand For a production and its supply
(c) Relationship between the demand And determinates
(d) None

Answer: c

Explanation:

The demand function states the relationship between the demand for a product (the dependent variable) and its determinates (the independent or explanatory Variables). $D_X = f(P_{x}, M, p_y P_C T, A)$

Question 14

A rightward shift in the demand curve is cause due to?

(a) When more is demand at each price
(b) When less is demanded at each price
(c) Both
(d) None

Answer: a

Explanation:

Can be caused by a rise in income, a rise in the price of a substitute, a fall in the price A complement, a change in tastes in favor of this commodity, an increase in population And a redistribution of income to groups who favor this commodity.

Question 15

The quantity demanded does not respond to price change and so the elasticity is:

(a) Zero
(b) Infinite
(c) One
(d) None

Answer: a

Explanation:

When the quantity demanded of a commodity does not change with respect to the price The elasticity is said to be zero. it can be explained follows;

KITest.in

Elasticity = $\frac{\%\ change\ in\ Qt.demanded}{\%\ changr\ in\ price}$

When Qt. demanded will be O the elasticity will be Zero as per the above the formula.

Question 16

In case of a straight line demand curve meeting the two axes. The price elasticity of Demand at the mid – point of the line would be:

(a) 1
(b) 2
(c) 0
(d) 1.5

Answer: a

Explanation:

Under Geometric Method, elasticity is determined by:

$e = \frac{lower\ segment\ of\ demand\ curve}{uper\ segment\ of\ demand\ curve}$

Therefore, elasticity of demand at the midpoint is equal to one, as the lower Part = upper part

Question 17

An increase in demand can result from:

(a) A decline in the market price
(b) An increase in income
(c) A reduction in the price of substitutes
(d) An increase in the price of complements

Answer: b

Explanation:

Increase in demand means when the demand of a commodity increases due to factors Other than its own price. Therefore, an increase in income of consumer will lead to increase in demand.

Question 18

Compute income elasticity if demand increase by 5 % and income by 1 %

(a) 2
(b) 5
(c)1.5
(d) 0

Answer: b

Explanation:

Income elasticity is calculated as follows:

$\frac{\%\ change\ in\ demand}{\%\ change\ in\ income}$

$\frac{5}{1} = 5$

So elasticity is 5.

Question 19

What is the value of elasticity of demand if the demand for the goods is perfectly elastic?

(a) 0
(b) 1
(c) Infinity
(d) Less than 0

Answer: c

Explanation:

The demand for a good is perfectly elastic when demand changes even if there is no change In price or a very slight change in price.

i .e. $\frac{change\ in\ Qt.demanded}{\%\ change\ in\ price}$

$= \frac{\Delta Q}{\Delta P}$

KITest.in

$=\frac{\Delta Q}{\Delta o}$ so elasticity = ∞

Any divided by o is infinity ....

Question 20

What is the original price of a commodity when price elasticity is 0.71 and demand changes?

From 20 units to 15 units and the new price is Rs .10? (Point elasticity)

(a) 15.4
(b) 20
(c) 18
(d) 8

Answer: a

Explanation:

E =0.17

Q_1 =20

Q_2= 15

P_1 =?

P_2= 10

As per point elasticity of demand:

$E=\frac{\Delta Q}{Q}\times\frac{P}{\Delta p}$

$E = \frac{5}{20}\times\frac{P}{P-10} = 0.71$

$0.71=\frac{P}{4p-40}$

0.71× (4P – 40) = P

2.84 P -28. 4 = p

$1.84 P = \frac{28.4}{1.84} = 15.43$

Question 21

Increase in price from 4 to 6 then decrease in demand from 15 units to 10 units .what Is the price elasticity (point elasticity)?

(a) 0.66
(b) 0.66
(c)1.5
(c)1.5

Answer: a

Explanation:

Given original price = RS .4

New price = RS. 6

Original quantity = 15 units

New quantity demanded = 10 units

Change in price = 6 – 4 = 2

Change in quantity demanded = 10 units – 15 units = -5 units

Price elasticity = $\frac{\%\ change\ in\ Qt.demanded}{\%\ change\ in\ price}$

$= \frac{\frac{-5}{15}\times 100}{\frac{2}{4}\times 100}$

= - 0. 66

Question 22

When price remains constant and quantity demanded changes, then the elasticity of demanded will be?

(a) Vertical to X axis
(b) Horizontal to X axis

(c) (A) or (B)
(d) Horizontal to yaxis

Answer: b

Explanation:

When price remain constant and quantity demanded changes, then the elasticity of Demanded will be horizontal to X axis in other words when at a given price, the quantity Demanded changes to any level, the demand said to be perfectly elastic i.e. a slight Fall – in price will bring an infinite increase in demand and a slight increase in price Will reduce the demand to zero.

Question 23

In case of substitute goods, cross elasticity is-___

(a) Negative
(b) Zero
(c) Positive
(d) None of these

Answer: c

Explanation:

In case of substitute goods cross elasticity is positive. It means when the price of the Substitute goods falls the demand the commodity also falls or vice versa.

Question 24

What will be the price elasticity if original price is 5? Original quantity is 8 units and changedPrice is 6, changed quantity is 4 units:

(a) 2. 5
(b) 2. 5
(c)1.5
(d) 1

Answer: a

Explanation:

$E= \frac{\Delta Q}{\Delta p} \times \frac{P}{Q}$

$= \frac{4}{1} \times \frac{5}{8}$

= 2.5

Question 25

Which of the following factors will cause the demand curve for labor to shift the right?

(a) The demand for the product by labor decline
(b) The prices of substitute inputs fall.
(c) The productivity of labor increase
(d) The wage rate decline

Answer: c

Explanation:

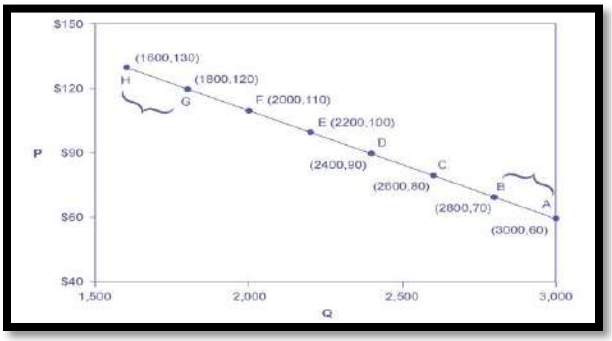
A shift to the right of the demand curve for labor means that the demand for labor as Increased at every wage rate we will examine [a] through [b] to see if any of these would Cause the demand for labor to rise.

- If the demand for the product produced by labor decline, then the demand for labor should decline. So this doesn`t work.
- If the prices of substitute inputs fall, then you would expect companies to switch From labor to substitute inputs. Thus the demand for labor should fall. So this doesn`t work.
- If the productivity of labor increases then employers will demand more. Labor so this one does work.
- The wages rate declining causes a change in quantity demanded not demand. So this Doesn`t work. Thus the correct answer is (c).

Question 26

KITest.in

Let`s calculate the elasticity between point A and B and between points G and H shown Calculating the price elasticity demand.



(a) 0. 25 (b) 0.45
(c) 0.35 (d) 0.65

Answer: b

Explanation:

First apply formula to calculate the elasticity as price decreases from $ 70 at point B to $ 60 At point A:

$$\begin{aligned}
\%\ change\ in\ quantity &= \frac{3{,}000-2{,}800}{(3{,}000+2{,}800)/2} \times 100 \\
&= \frac{200}{2{,}900} \times 100 \\
&= = 6.9 \\
\%\ change\ in\ price &= \frac{60-70}{(60+70)/2} \times 100 \\
&= \frac{-10}{65} \times 100 \\
&= -15.4 \\
Price\ Elasticity\ of\ Demand &= \frac{6.9\%}{-15.4\%} \\
&= 0.45
\end{aligned}$$

Question 27

In case of movement of the demand curve, it:

(a) Moves upward or downward (b) Moves left or right
(c) Both of the above (d) None of the above

Answer: a

Explanation:

Movement of the demand curve happens when all other factors affecting the quantity demanded remain constant and only the price changes. Hence the demand moves upward or downward along the same curve. Therefore, the correct answer is option A.

Question 28

The price elasticity of demand is defined as the responsiveness of:

(a) Price to change in quantity (b) Quantity demanded to a change in demanded
(c) Price to change in income (d) Quantity demanded to a change in Income.

Answer: b

Explanation:

KITest.in

By definition, the elasticity of demanded is the change in demanded due to the change in One or more of the variable factors that it depends on. Therefore, option a and c incorrect since they talk about the responsiveness of a price. The responsiveness of the quantity demanded to the change in income is called income Elasticity of demand while that to the price is called price elasticity of demand. Therefore, the correct answer is option B.

Question 29

The price of a commodity decrease from Rs. 6 to Rs. 4 this result in an increase in the quantity Demanded from 10 units to 15 units find the coefficient of price elasticity.

(a) 1.5 (b) 2.5

(c)1.25 (d) 2.25

Answer: a

Explanation:

The coefficient of price elasticity = $E_p = \frac{\Delta q}{\Delta p} \times \frac{P}{q}, \frac{5}{2} \times \frac{6}{10} = 1.5$

Where, q is quantity, p is a price and Δ is the change.

Therefore, we have

Δq = 15 – 10= 5

Δp = 6 – 4 = 2

Hence, $E_p = 5/2 \times 6/10 = 1.5$

Question 30

Contraction of demand is the result of:

(a) Decrease in the number consumers (b) Increase in the price of the good concerned

(c) Increase of the price of other goods (d) Decrease in the price of purchasers

Answer: b

Explanation:

Contraction in demand refers to a fall in the quantity demanded due to a rise in the price of commodity.

Question 31

Giffen goods are the Exceptions of law of Demand?

(a) True (b) False

(c)Can`t true (d) None

Answer: a

Explanation:

Giffen goods, in economic theory, is a good that is greater demanded as its price Increase which is exception of law of demand.

Question 32

The price of a good decrease ` 100 to `60 per unit. If the price elasticity of demand For it is 1.5 and the original quantity demanded is 30 units, calculate the new quantity Demanded.

(a) 42units (b) 40units

(c)45units (d) 48units

Answer: d

Explanation:

KITest.in

$E_P = \Delta q/\Delta p^*$ p/q, Here 1.5 = $\frac{\Delta q}{40} \times \frac{100}{30}$

$\Delta q = \frac{1.5 \times 1200}{100} = 18$

Therefore, new quantity demands = 30+ 48 units.

Question 33

The cross elasticity between bread and DVDs is:

(a) Positive (b) Negative

(c) Zero (d) One.

Answer: C

Explanation:

In case the two goods are not related, the coefficient of cross elasticity is zero.

Question 34

If the price of air – conditioner increase from `30,000 to` 30,010 and resultant change in Demand is negligible, we use the measure of ___ to measure elasticity

(a) Point elasticity (b) Perfect elasticity

(c) Perfect inelasticity (d) Price elasticity

Answer: a

Explanation:

Point elasticity method is used when there is very small change in prices. Here change Of Rs. 10 is very small in case of price of air conditioner.

Question 35

Which of the following pairs of goods is an example of substitutes?

(a) Tea and sugar (b) Tea and coffee.

(c)Pen and ink (d) Shirt and trousers.

Answer: b

Explanation:

Substitutes are the goods, which can be used in place of each other. In the question Tea and coffee can be used in place of each other whereas other pairs are complementary goods.

Question 36

If the local pizzeria raises the price of a medium pizza from Rs.60 to Rs. 100 and quantity demanded falls from 700 pizzas a night to 100 pizzas a night, the price elasticity of demanded for pizzas is:

(a) 0.67 (b) 1.5

(c)2.0 (d) 3.0

Answer: d

Explanation:

We know are elasticity method as

$= \frac{Q-Q1}{Q+Q1} * \frac{P+P1}{P-P1}$

$= \frac{700-100}{700+100} * \frac{60+100}{60-100}$

= 3.0

UNIT: 2

KITest.in

THEORY OF CONSUMER BEHAVIOR

NATURE OF HUMANWANTS	All desires, tastes and motives of human beings are called wants in Economics.
Classification of wants	**Classification of wants** Necessaries | Comforts | Luxuries
MARGINAL UTILITY ANALYSIS	"The additional benefit which a person derives from a given increase in the stock of a thing diminishes with every increase in the stock that he already has." In other words, as a consumer increases the consumption of any one commodity keeping constant the consumption of all other commodities, the marginal utility of the variable commodity must eventually decline
Consumer's Surplus	Marshalldefinedtheconceptofconsumer'ssurplusas the "excess ofthepricewhichaconsumerwouldbe willing to pay rather than go without a thing over that which he actually does pay", is called consumer's surplus." *Thus consumer's surplus = what a consumer is ready to pay - what he actually pays.*
Indifference	This approach to consumer behaviour is based on consumer preferences. It believes that human satisfaction, being a psychological phenomenon, cannot be measured quantitatively in monetary

Curve analysis	**terms as was attempted in Marshall's utility analysis. In this approach, it is felt that it is much easier and scientifically more sound to order preferences than to measure them in terms of money.**
Marginal rate	**Marginal rate of substitution is the rate at which the consumer is prepared to exchange goods X and Y.**
Others.	**Budget line or price line shows all those combinations of two goods which the consumer can buy spending his given money income on the two goods at their given prices.** **A consumer is said to be in equilibrium when he is deriving maximum possible satisfaction from the goods and is in no position to rearrange his purchase of goods.** **The consumer attains equilibrium at the point where the budget line is tangent to the indifference curve and MU_X / P_X =MU_Y /P_Y = MU_Z/P_Z**

Question 1

Show various combinations of two products that give same amount of satisfaction:

(a) ISO curve
(b) Indifference curve
(c) Marginal utility curve
(d) ISO quant

Answer: b

Explanation:

An indifference curve shows various combinations of two goods which gives the same satisfaction to the consumers.

Question 2

Total utility is maximum when:-

(a) Marginal utility is maximum
(b) Marginal utility is zero
(c) Average utility is maximum
(d) Average utility zero

Answer: b

Explanation:

Total utility will be maximum when marginal utility is zero when marginal utility becomes Negative total utility starts decreasing.

Question 3

Marginal utility curve of a consumer is also his:

(a) Indifference curve
(b) Total utility curve
(c) Supply curve
(d) Demand curve

Answer: d

Explanation:

As the marginal utility of consumer increase he demands more of a commodity therefore the marginal utility curve drives its shape from demand curve.

Question 4

At equilibrium the slope of the difference curve is:

(a) Equal to the slope of budget line
(b) Greater than the slop of budget line
(c)Smaller than the slop of budget
(d) None

Answer: a

Explanation:

A consumer is at equilibrium when the budget line touches as a tangent to the indifference Curve. At this point the slop of indifference curve is equal to the slop of budget line.

Question 5

The law of equal marginal utility considers price of money as:

(a) Zero
(b) Less than one
(c) More than one
(d) One

Answer: d

Explanation:

According to Marshall, money has constant marginal utility therefore the law of equal-marginal Utility consider price as one i.e. with a unit increase in price marginal utility increase.

Question 6

A in difference curve is always:

(a) Concave to the origin
(b) Convex to the origin
(c) L- shaped
(d) A vertical straight line

Answer: b

Explanation:

Indifference curve is always convex to the origin due to diminishing marginal rate of substitution.

Question 7

Indifference curve between income and Leisure for an individual are generally:

(a) Concave to the origin
(b) Convex to the origin
(c) Negatively sloped straight lines
(d) Positively sloped straight lines

Answer: d

Explanation:

As the income of an individual increases he prefers less of work and more of leisure there is A direct relation between income and leisure therefore the curve is positively sloped,

Question 8

Marginal utility approach was given by:

(a) J. R Hicks
(b) Alfred Marshall
(c) Robbins
(d) A. G. Pigou

KITest.in

Answer: b

Explanation:

Marginal utility approach was given by Alfred Marshall. Marshall gave the concept of Cardinal measurability of money.

Question 9

In case of a right angled indifference curve the goods are:

(a) Perfect complements (b) Perfect substitutes
(b) ImPerfect substitutes (d) Giffen good

Answer: a

Explanation:

In case of perfect complement like bread and butter. The increase in one commodity will lead to increase in other Hence the difference curve will be right angled.

Question 10

Indifference curves never intersect each other due to:

(a) Different levels of satisfaction (b) Same level of satisfaction
(c) Convex to origin (d) Concave to the origin

Answer: a

Explanation:

When there is more than one indifference curve each shows a difference level of satisfaction hence they never interest.

Question 11

A budget constraint line is a result of:

(a) Concave to origin (b) Market price of commodity Y
(c) Income of the consumer (d) All of these

Answer: c

Explanation:

A budget constraint line shows how the income of a consumer is spent in two or more commodities.

Question 12

The difference between what a consumer is ready to pay and what he actually pays is:

(a) Consumer Surplus (b) Both
(c) Consumer deficit (d) None

Answer: a

Explanation:

According to Alfred Marshall, Consumer surplus is the excess of the price which a consumer would be willing to pay rather than go without a thing over that which he actually pays. It is the economic measure of surplus satisfaction consumer surplus can be summed up us what consumer is ready to pay. What he actually pays.

Question 13

Total utility derived from the consumption of a commodity is equal to 5. Marginal Utility is equal to 1 and consumer has bought 3 units what will be his consumer surplus?

(a) 2 (b) 2.5
(c) 3 (d) 4

KITest.in

Answer: a

Explanation:

Consumer surplus = what a consumer is ready to pay- what he actually pays

= 5 – (3 × 1)

= 5 – 3

= 2

Question 14

The slop of I. C is always

(a) Downward
(b) Upward
(c) Straight line
(d) All above

Answer: a

Explanation:

The slope of indifference curve is due to the diminishing marginal rate of substitution so the lope of indifference curve is always downward sloping.

Question 15

Which economist said that money is the measuring rod of utility?

(a) A.C. PIGOU
(b) Marshall
(c) Adam Smith
(d) Robbins

Answer: a

Explanation:

As per the definition given by A.C. Pigou "Money is the Measuring rod of utility"

Question 16

According to the law of diminishing marginal utility____?

(a) Additional consumption always Yield extra utility
(b) Additional consumption leads to lower average total utility
(c) Additional consumption always Yield negative utility
(d) After a point any addition in the consumption causes a reduction

Answer: d

Explanation:

The law of diminishing marginal utility is similar to the law of diminishing returns Which states that as the amount of one factor of production increase as all other Factor of production are held the same the marginal return (extra by adding an Extra unity) decrease.

Question 17

Consumer Surplus is based on which concept?

(a) Diminishing Marginal Utility
(b) Law of Demand
(c) Indifference curve is approach
(d) None

Answer: a

Explanation:

The concept of consumer surplus is derived from the law of diminishing marginal utility According to this concept as the consumer consumes more and more of a commodity the utility derived from every additional goes on diminishing.

Question 18

On which approach, indifferent curve analysis is based?

(a) Cardinal approach
(b) Ordinal approach
(c) Cardinal and ordinal approach
(d) None

KITest.in

Answer: b

Explanation:

Indifference curve analysis is based on consumer preference. It believes that human Satisfaction is a psychological phenomenon and cannot be measured quantitatively In monetary terms. The consumer preference approach is therefore, an ordinal concept Based on ordering of preference compared with Marshall `s approach of cordiality

Question 19

Cardinal approach is related to:

(a) Indifference curve
(b) Equi – marginal utility
(c) Both
(d) None

Answer: b

Explanation:

The law of equal marginal utility states that the marginal utility derived by consuming an Additional unit of the commodity may equal therefore this law clearly states that utility is measurable and hence is a cardinal concept.

Question 20

The substitution effect of fall in the price of the commodity will lead to:

(a) Upward movement in indifference curve
(b) Downward movement in indifference curve
(c) Movement from lower IC to a higher one
(d) None

Answer: c

Explanation:

When there is a fall in the price of the commodity the real income of the consumer increase Due to the substitution effect. Due to the increase in real income of the consumer the quantity demanded of both the commodities increase in hence, the indifference curve shift to a higher one.

Question 21

The satisfaction which a consumer derives in the consumption of a commodity is equal to Rs. 320. The price of that commodity is t 180. What will be his consumer surplus?

(a) 180
(b) 200
(c)140
(d) 500

Answer: c

Explanation:

Consumer Surplus = what a consumer is willing to pay - what he actually pays.

= Rs 320 – 180

= Rs 140.

Question 22

The law of equi- marginal utility is one of the laws within whose parameters marginal utility analysis is framed the other one is:

(a) Law of diminishing marginal utility
(b) Law of proportion
(c) Law of consumer surplus
(d) Law of increasing returns

Answer: a

Explanation:

Marginal utility analysis is framed within the parameter of two laws: - One is law of diminishing marginal utility and the other is law of equi- marginal utility.

KITest.in

Question 23

When indifference curve is L shaped then two goods will be:

(a) Complimentary goods
(b) Perfect substitute goods
(c) Perfect Compliments goods
(d) Substitute goods

Answer: c

Explanation:

In case of perfect compliments like pen and ink, increase in consumption of one commodity will lead to increase in consumption of other commodity also. Hence the shape of the indifference Curve will be right angled because the movement along the x- axis will have an equal movement on y - Axis giving it a right angled shape.

Question 24

Curves are convex to the origin because they are based on:

(a) Increasing marginal rate of substitution
(b) Diminishing marginal rate of substitution
(c) Constant marginal rate of substitution
(d) Zero marginal rate of substitution

Answer: b

Explanation:

Indifference curve is always convex to the origin due to diminishing marginal rate of substitution

I.e. consumer has more and more units of A he is prepared to give less and less units B

Question 25

When TU is maximum then MU is?

(a) Zero
(b) Negative
(c) Both
(d) None

Answer: a

Explanation:

The relationship between TU and MU can be described as:

- When TU rises MU diminishes
- When TU maximum then MU is zero
- When TU diminishing MU is negative

Question 26

Total utility derived from the consumption of a commodity is equal to 5, marginal utility is Equal to 1 and consumer has bought 3 units. What will be his consumer surplus?

(a) 4
(b) 3.50
(c) 3.50
(d) 2

Answer: d

Explanation:

Consumer Surplus = what a consumer is ready to pay- what he actually pays. As per the cardinal measurement of utility a consumer is at equilibrium when his marginal Utility= price.

In the given question –

Total utility derived by the consumer by consuming 3 units = 5 (What he is ready to pay)

Where as the price for purchasing 3 units was t 3 (since for 3 units MU = 3 and MU = p so He paid 3)

SO consumer surplus = what a consumer is ready to pay – what he actually pays

KITest.in

= 5- 3 = 2

Question 27

When marginal utility from the consumption of a commodity is zero then the:

(a) Total utility is zero
(b) Total utility is rising
(c)Total utility is highest
(d) Total utility is falling

Answer: c

Explanation:

When marginal utility is zero, then total utility is maximum because any further consumption of that commodity will lead to negative marginal utility and therefore total utility will tend to decrease.

Question 28

The convexity of indifference curve is due to___

(a) Total utility is falling
(b) Rising marginal rate of substitution
(c) Constant marginal rate of substitution
(d) None of the above

Answer: a

Explanation:

Indifference curve is always convex to the origin due to diminishing marginal rate of substitution i.e. as consumer has more and more units of A he is prepared to give less and less units of B.

Question 29

Total utility starts decreasing when __

(a) Marginal utility is positive
(b) Marginal utility become units negatives
(c) Marginal utility becomes zero
(d) None of these

Answer: b

Explanation:

Relationship between TU and MU is expressed as follows:

- When MU increases at an increasing rate
- When MU is zero TU is maximum
- When MU is negative TU falls Hence when TU decreasing MU is negative

Question 30

The want satisfying power of a commodity is known as:

(a) Supply
(b) Consumption
(c)Utility
(d) Demand

Answer: c

Explanation:

The want satisfying power of a commodity is called utility. It is a quality possessed by a commodity or service to satisfy human wants. Utility can also be defined as value –in – use of a commodity because the satisfaction which we get from the consumption of a commodity is its value – in- use.

Question 31

The total utility divided by the number of units consumed is known as?

(a) Total utility
(b) Average utility
(c)Marginal utility
(d) None of above

KITest.in

Answer: b

Explanation:

Average Utility: Average Utility is that in which the total unit in which the total unit of consumption of goods is divided by number of total Units the Quotient is known as average Utility.

Question 32

Consumer`s surplus is also known as?

(a) Different surplus (b) Elasticity of demand

(c) Buyer`s surplus (d) Indifference surplus

Answer: c

Explanation:

Consumer`s surplus is also known as Buyer' Surplus

Question 33

Those want which are superfluous and expensive

(a) Comforts (b) Luxuries

(c) Necessaries (d) None

Answer: b

Explanation:

Luxuries are those wants which are superfluous and expensive they are not essential for Living item such as expensive clothing exclusive motor cars, classy furniture, goods used for vanity etc. fall under this category.

Question 34

Which is the rate at which a consumer is prepared to exchange goods?

(a) Marginal rate of substitution (b) Total rate of substitution

(c)Average rate of substitution (d) None

Answer: a

Explanation:

Marginal Rate substitution (MRS) is the rate at which a consumer is prepared to exchange goods.

Question 35

States the statement with reason two ICs never intersect each other:

(a) True (b) False

(c) Can't say (d) None

Answer: a

Explanation:

The important properties of an indifference curve are: Indifference curves slopes downward to the right, it is always convex to the origin, two ICs never intersect each Other, it will never touch the axes and higher the indifference curve higher is the level Satisfaction.

Question 36

In Economics wants are classified in to ………… Parts

(a) 1 (b) 2

(c)3 (d) 4

Answer: c

KITest.in

Explanation:
In Economics wants are classified in to necessaries, comforts and luxuries.

UNIT: 3

SUPPLY

Meaning.	"Supply' refers to the amount of a good or service that the producers are willing and able to offer to the market at various prices during a given period of time
The determinants of supply	The determinants of supply other than its own price are: prices of the related goods, prices of factors of production, state of technology, government policy and other factors.
The law of supply	The law of supply states that when the price of the good rises, the corresponding quantity supplied increases and when the price reduces, the quantity supplied also reduces. The direct relationship between price and quantity supplied.
The supply curve	The supply curve establishes the relationship between the amount of supply and the price. It is an upward sloping curve showing a positive relationship between price and quantity supplied.

	When the supply of a good increases as a result of an increase in its price we say that there is an increase inquantitysuppliedandthereisanupwardmovementonthes upplycurve. There verseisthecase when there is a fall in  the price of the good.
Elasticity of supply	Elasticity of supply means the responsiveness of supply to change in the price of the commodity.
Classification of elasticity of supply	The elasticity of supply can be classified in to perfectly inelastic supply, relatively less-elastic supply, relatively greater-elastic supply, unit-elastic and perfectly elastic supply.
The measurement of supply	The measurement of supply-elasticity is of two types-point elasticity and arc-elasticity.
Equilibrium price	Equilibrium price is one at which the wishes of both the buyers and the sellers are satisfied. At this price, the amount that buyers want to buy and sellers want to sell will be equal.
Type of Supply Elasticity	• Perfectly inelasticsupply • Relatively less-elasticsupply • Unit-elastic • Relatively greater-elasticsupply
	The elasticity of supply is defined as the responsiveness of

Elasticity of Supply	the quantity supplied of a good to a change in its price

$$E_1 = \frac{\%Change\ on\ quantity\ supplied}{\%change\ in\ price}$$

KITest.in

Question 1

The supply of goods refers to:-

(a) Actual production of goods
(b) Total stock of goods
(c)Stock available for sale
(d) Amount of goods offered for sale at a Particular price per unit of time

Answer: d

Explanation:

Supply of goods refers to the amount offered for sale at a particular price and during a particular period of time

Question 2

Increase or Decrease in Supply means:-

(a) Shift in Supply
(b) Movement along same supply cure
(c) Both (a) and (b)
(d) Neither (a) or (b)

Answer: a

Explanation:

When supply of a commodity changes the two factor other than its own price, the Supply the curve shifts.

Question 3

When the price of the commodity increase from 200 per unit to 250 per unit And consequently the quantity supply rises from 1000 units to 1100 units. What will be the coefficient of elasticity of supply?

(a) 4.0
(b) 0.4
(c)5.0
(b) 0.5

Answer: b

Explanation:

$$E = \frac{\Delta Q}{Q} \times \frac{P}{\Delta P}$$

$$= \frac{1000-1100}{1000} \times \frac{200}{200-250}$$

$$= \frac{-100}{1000} \times \frac{200}{-50}$$

= 0. 40

Question 4

The Supply curve shift to the right because of:

(a) Improved technology
(b) Increased price of factors of production
(b) Increase excise duty
(b) All of the above

Answer: a

Explanation:

When the supply curve bodily shifts toward the right as a result of a change in one of the Factors that influence the quantity supplied other than the commodity own price we say there is increase in the supply curve is due to improved technology among the various option

Question 5

As the price of a commodity increase normally its supply:-

(a) Decrease
(b) Remains unchanged
(c) Increase
(d) Cannot be determined

Answer: c

Explanation:

Other things being equal the higher the relative price of goods the greater the quantity of it that will be supplied this is because goods and service is product by the firms in order To earn profits and ceteris paribus profits profit rise if the price of its product rises

Question 6

If equilibrium is present in a market, then it can be said that:

(a) The price of the product will tend To rise
(b) Quantity demanded equals quantity supplied
(c) Quantity demanded exceeds quantity supplied
(d) Quantity supplied exceeds quantity demanded

Answer: b

Explanation:

Equilibrium refers to a market situation where quantity demanded is equal to quantity Supplied the intersection of demand and supply determines the equilibrium price. At This price the amount that the buyer wants to buy is equal to the amount that seller Want to sell. Equilibrium price also called as market clearing price.

Question 7

Supply is a ____ concept

(a) Flow
(b) Stock
(c)Flow and stock both
(d) Qualitative

Answer: a

Explanation:

Supply of a commodity is a flow concept. The commodity which the sellers or producers are able and willing to offer for sale at a particular price, during a certain period of time.

Question 8

If a 20 % fall in the price brings about s 10 % fall in the quantity supplied, then the Elasticity of supply will be equal

KITest.in

(a) 2
(b) 1
(c) 0.5
(d) 1.5

Answer: c

Explanation:

Elasticity of supply = $\frac{\textit{change in quantity supply}}{\textit{change in supply}}$

= $\frac{10}{15}$ = 0.5

Hence, 0.5 is the correct answer

Question 9

Elasticity of supply is greater than one when:-

(a) Proportionate change in the price is more than the proportionate change in quantity supplied
(b) Proportionate change in quantity Supplied Is more than the proportionate in price
(c) Change in price and quantity supplied are equal
(d) All of these

Answer: b

Explanation:

Elasticity of supply is greater than one when proportionate change in quantity supplied is more than the proportionate change in price.

Question 10

If the supply of bottles water decreases the equilibrium price.......and the equilibrium quantity.........

(a) Increase; decrease
(b) Decrease; increase
(c)Decrease; decrease
(d) Increase; increase

Answer: a

Explanation:

When supply decrease equilibrium price will increase but equilibrium quantity will decrease.

Question 11

If supply curve is perfectly Inelastic, the supply curve is:

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

Answer: a

Explanation:

A perfectly inelastic supply curve is a vertical line there is perfectly elastic supply when even A tiny increase or reduction in the price will lead to very large changes in the quantity supplied so That theprice elasticity of supply is infinite. A perfectly elasticity supply curve is a horizontal line.

Question 12

A change in the supply of a commodity along with same supply curve may occur due to

(a) Change in the price of the commodity
(b) Change in the cost of inputs
(c) Change in future expectation about the of the good
(d) None of these

Answer: a

Explanation:

KITest.in

When the supply of a commodity changes due to a change in its own price there is a movement along the same supply curve in other words, there is a change in quantity supplied.

Question 13

What is the elasticity of supply when price changes from 15 to 12 and supply changes from 6 units to 5 units?

(a) 0.77 (b) 0.87

(c)0.833 (d) 0.58

Answer: c

Explanation:

Elasticity of supply = as

$$\frac{\%\ change\ in\ quantity\ demanded}{\%\ change\ in\ price}$$

$= \frac{\Delta S}{S} \times \frac{P}{\Delta P}$

$= \frac{1}{6} \times \frac{15}{3}$

= 0.8333

Question 14

If the supply of a commodity is perfectly elastic an increase in the demand will result in:

(a) Decrease in both price quantities At equally equilibrium

(b) Increase in both price and quantity at

(c) Increase in equilibrium quantity equilibrium price remaining constant

(d) Increase in equilibrium prices equilibrium quantity remaining constant

Answer: c

Explanation:

When the supply of a commodity is perfectly elasticity and demand increase there will be an increase in equilibrium quantity and no change in equilibrium price.

Question 15

Exceptions to law of demand?

(a) Conspicuous goods (b) Both (a) and (c)

(c) Giffen good (d) None

Answer: b

Explanation:

The three exceptions to the law of Demand are Giffen goods, Conspicuous Goods and Speculative Goods.

Question 16

If the price of apples from 30 per Kg to 40 per Kg and the supply increase from 240 Kg to 300 Kg. Elasticity of supply is

(a) 0.75 (b) 0.67

(c)00.67 (d) 00.77

Answer: a

Explanation:

Elasticity of supply (es) = $\frac{\%\ change\ in\ quantity\ demanded}{\%\ change\ in\ price}$

$= \frac{60}{280} \times \frac{30}{10}$

= 0. 75

KITest.in

Question 17

A horizontal supply curve parallel to the quantity axis implies that the elasticity of supply is:

(a) Zero
(b) Infinite
(c)Equal to one
(d) Greater than zero but less than one

Answer: b

Explanation:

Elasticity of supply of a commodity is infinite when the supply changes even if there is no change in price. In this case elasticity = 8 and the curve is parallel to quantity or X axis.

Question 18

Increase or decrease in supply means:-

(a) Change in supply due to change In its own price
(b) Change in supply due to change in factor than its own price
(c) Both of above
(d) None of the above

Answer: b

Explanation:

Increase or decrease in supply means change in supply due to factor than its own price like cost of Production cost of inputs etc. whereas change in quantity supplied means change in supply due to Change in its own price

Question 19

An increase in supply with demand remaining the same brings about:-

(a) An increased in equilibrium quantity and Decrease in equilibrium price.
(b) An increase in equilibrium price and decrease in equilibrium quantity
(c) Decrease in both equilibrium price and quantity
(d) None of above

Answer: a

Explanation:

When there is a supply demand remaining the same the equilibrium price of goods decrease And equilibrium quantity increase

Question 20

Elasticity of supply is defined as responsiveness of quantity supplied of a good to change in:-

(a) Price of concerned good
(b) Price of substitute good
(c)Demand
(d) None of above

Answer: a

Explanation:

Elasticity of supply is defined as the responsiveness of the quantity supplied of goods to a change in its price.

Question 21

Short run price is also called by the name of:-

(a) Market price
(b) Showroom price
(c) Maximum retail price
(d) None of these

Answer: a

KITest.in

Explanation:
Market price depends on the demand as well as supply of various products along with The market condition prevailing at the time market condition is a factor which usually Does not change in short run Thus short run price is also known as market price

Question 22
Supply curve is a _____presentation of supply schedule?

(a) Pictorial
(b) Graphical
(c) Chart
(d) Diagrammatical.

Answer: b
Explanation:
Supply curve is a graphical presentation of supply schedule.

Question 23
The supply curve for perishable commodities is:-
(a) Elastic
(b) Inelastic
(c) Perfectly elastic
(d) Perfectly inelastic

Answer: d
Explanation:
The market-period supply curve of a perishable commodity is perfectly inelastic, or a vertical straight line.

Question 24
Elasticity of supply is measured by dividing the percentage change in quantity supplied Of a good by:
(a) Percentage change in income.
(b) Percentage change in quantity demanded ofgoods
(c) Percentage change in price
(d) Percentage change in taste and preference.

Answer: c
Explanation:
Elasticity of supply measures the degree of responsiveness of quantity supplied to a change In own price of the commodity it is also defined as the percentage change in quantity supplieddivided by percentage change in price.

KITest.in

PAST EXAMINATION QUESTION

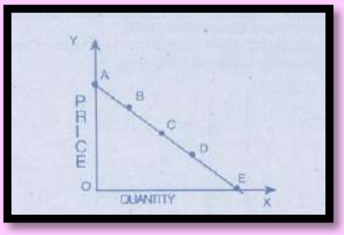
MAY 2018

Question 1
"High priced goods consumed by status seeking rich people to satisfy their need for conspicuous goods" is:
(a) Vebleneffect
(b) Bandwagoneffect
(c) Snobeffect
(d)Demonstrationeffect

Answer: a

Explanation:
Veblen effect was given by Veblen. Hence, this is called Veblen effect, also known as prestige goods effect. Related to conspicuous consumption. Veblen effect takes place as some consumer's measure the utility by its price i.e. if price rises they think it has got more utility so, it is used by rich people to satisfy their need.

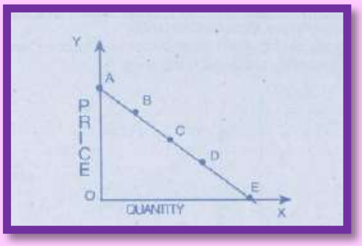
Question 2



(a) Elasticity at point A = INFINITY , at B= at C = 1, at D = < 1 and at E =0
(b) Elasticity at A=O, at B = < 1, at C = 1, at D = > 1 and at E =INFINITY
(c)Elasticity at A= 0, at B > 1, at C = 1, at D = < 1 and at E =0
(d) None of these.

Answer :a

Explanation:



- ✓ When change of demand is greater than price change then e > 1
- ✓ Whenchangeofdemandislessthanpricechangethan e<1
- ✓ When change of demand is same as change of price then it is e=1
- ✓ When these is no change in demand as change in price then e =O
- ✓ When price is change slightly but demand change at high then it is e = infinity
- ✓ Here, C shows e = 1 by which we can prove that C=>e=1·,A=>e=infinity,B=>e≥1
- ✓ D => e < 1, E => e = O

Question 3

Marginal utility is _________________

(a) Extra output firm obtains by adding another unit
(b) Explains why product supply curves slope upward
(c) Typically rises as successive units of a good are consumed
(d) Extra satisfaction from consumption of 1 more unit

Answer: d

Explanation:

Marginal means additional. Therefore, marginal utility means the additional utility which the consumer is getting after consuming a successive unit of that commodity.

Question 4

An Increase in demand can result from:

(a) Decline in the market price
(b) An increase in income
(c) A reduction in the price ofsubstitute
(d) An increase in the price of complement

Answer: b

Explanation:

PriceandDemandareinverselyrelatedaspricerises demand falls & vice versa but income and demand are directly related. As rise in income increase the quantity demanded and fall in income decreases the quantity demand.

Question 5

Cross elasticity of perfect substitutes is:

(a) Zero
(b) Negative
(c) One
(d) Infinity

Answer: d

Explanation:

When there are perfectly substitutes available the cross elasticity of these perfectly substitutes leads to infinity as rise in price of one good will cause rise in demand of its substitutes.

Question 6

The law of supply does not apply to ___________.

(a)Agricultural products
(b) Industrial products
(c) Perishable Commodities
(d)Both a and c

Answer: d

Explanation:

The law of supply does not apply to agricultural products & perishable Commodities

Question 7

For what type of goods increase in income leads to increase in demand?

(a) Interior goods
(b) Luxuries
(c) Substitutes
(d) Necessities

Answer: b

Explanation:
A luxury good (or up market good) is a good for which demand increases more than proportionally as income rises.

Question 8
Which economist authored the book "The Economics of Welfare"?
(a) Alfred Marshall (b) Prof. Robbins
(c) A C Pigou (d) None
Answer: c
Explanation:
The Economics of Welfare, originally published in 1920, by A. C Pigou reconceptualised economics as a science of economic welfare.

Question 9
Elasticity betweentwo points:-
(a) Point elasticity (b) Cross elasticity
(c) Arc elasticity (d) None
Answer: b
Explanation:
Whenpriceelasticityistobefoundbetweentwoprices or twopoints on the demand curve then it is not possible to know that what price and quantity should be taken as base. So, we use Arc elasticity method to know base price and quantity.

Question 10
Indifference curve is L shaped then two goods will be:
(a) Perfect substitute goods (b) Substitute goods
(c) Perfect complementary goods (d) Complementary goods
Answer : c
Explanation:
When two goods are perfect complementary goods (e.g.printer andcartridge), theindifferencecurvewillconsistoftwo straight lines with a right angle between them which is convex to the origin, or in other words, it will be L shaped.

Question 11
The concept of consumer's surplus is derivedfrom:
(a) The law of diminishing marginal Utility. (b) The law of equal-marginal utility
(c) The law of diminishing returns (d) Engel's law
Answer : a
Explanation:
Consumer surplus is a surplus which a consumer would be willing to pay rather than go without a

thing over that which he actually does pay. Consumer surplus is given by Marshall and it is derived from "what a consumer is willing to pay -what he actually pays".

Question 12

When supply curve shifts to the right thereis:

(a) An increase (b) Expansion
(c) Contraction (d) Decrease

Answer: a

Explanation:

When the supply curve shift to the right due to change in one or more factors other than commodity owns price. We say that there is increase in supply and when supply curve shift to left we say that there is decrease in supply

Question 13

What are the Determinants of Supply?

(a)Cost of inputs (b)Both a & c
(c)Taxes and Subsidies (d)None of these.

Answer: b

Explanation:

Supply determinants are :-

- Cost of inputs. Cost of supplies needed to produce a good.
- Productivity: -Amount of work done or goods produced.
- Technology: - Addition of technology will increase production and supply.
- Number of sellers.
- Taxes and subsidies.
- Government regulations

Question 14

Whensupplypriceincreasein theshortrun,theprofitoftheproducer.

(a) Increases (b) Remains constant
(c) Decreases (d) Decreases marginally

Answer: a

Explanation:

Supply and price are directly related as supply Increase, price increase and price decrease, supply decrease. So, increase in supply-price will increase the profit of producer.

NOV - 2018

Question 1

WhenPriceofacommodityincreaseswhatwillbetheeffectonQuantity demanded?

(a) Increases (b) No change

(c) Decreases (d) None of these

Answer: c

Explanation:

As perthe Lawofdemand,otherthingsbeingequal,ifthepriceofa commodityfalls,thequantitydemandedofitwillriseandiftheprice ofacommodity rises,itsquantitydemandedwilldecline.

Question 2

Accordingtolawofsupply,changeinsupplyisrelatedto?

(a) Price of goods (b) Price of related goods

(c) Factors of production (d) None of these

Answer :a

Explanation:

The law of supply can be started as other things remaining constant; the quantity of a good produced and offered for sale will Increase as the price rises.

Question 3

Incaseofinferiorgoods,withriseofincomeofconsumers demand of goodswill?

(a) Increases (b) Decreases

(c) No change (d) None of these

Answer : b

Explanation:

InGeneralcases,asconsumerIncomerisestheywill prefer high qualitygoodsandtherefore,demandforGiffengoods will Decreases.

Question 4

Incaseofnecessaries, consumer'ssurplusis?

(a) Infinite (b) Zero

(c) Equals to one (d) More than one

Answer: a

Explanation:

In case of necessaries, the managerial utilities of the earlier limits areInfinitelylarge.Insuchcasetheconsumer'ssurplus is always infinite.

Question 5

When price of a commodity Rises from 200to 300and Quantity supplyincreasesfrom2000to5000unitsfindelasticityofsupply.

(a) 3.0 (b) 2.5

(c) 0.3 (d) 3.5

Answer: a

Explanation:

$$\frac{\Delta q}{q} \times \frac{p}{\Delta p}$$

$= \frac{3000}{2000} \times \frac{200}{100}$

= 3.0

Question 6

Marginalutilityof3rd units?

(a) 200 (b) 280

(c)100 (d) 50

Answer: c

Explanation:

Doubtful = $Tu_3 - Tu_2$ => 480 – 380 = 100

Therefore, 100

Question 7

Which Equation iscorrect?

(a) $\frac{MU_X}{MU_Y} = \frac{P_X}{P_Y}$ (b) $\frac{MU_X}{MU_Y} > \frac{P_X}{P_Y}$

(c) $\frac{MU_X}{MU_Y} < \frac{P_X}{P_Y}$ (d) $\frac{MU_X}{MU_Y} \neq \frac{P_X}{P_Y}$

Answer : a

Explanation:

The law of utility states that consumer will be in equilibrium when $\frac{\mathbf{MU_X}}{\mathbf{MU_Y}} = \frac{\mathbf{P_X}}{\mathbf{P_Y}}$

Question 8

The scope of the indifference curve shows consumer equilibrium at point where

$MRS_{(XY)}$_____ $\frac{P_X}{P_Y}$ **(Price line)**

(a) Less than (b) More than

(c)Equal to (d) None of the above

Answer: c

Explanation:

Consumer will be in equilibrium only when $\mathbf{MRS_{(XY)\_} = P_X/P_Y}$(Price line)

Question 9

Which of the following is not the property of indifference curve?

(a) IC is convex to the origin (b) IC scopes downwards from left to right

(c) Two IC can touch each other (d) IC cannot touch either of the axis

Answer: c

Explanation:

Properties of Indifference curveare:

Indifference curves slope downward to thing

Indifference curve are always convex to origin.

Indifference curve can never intersect eachother

A higher Indifference curve represent higher level satisfaction

Indifference curve will not touch eitheraxis

Question 10

In case of Normal goods, Rise in priceleadsto____?

(a) Fall in demand
(b) Rise in demand
(c) No change
(d) Initially rise then ultimately fall

Answer: a

Explanation:

In general cases when price of commodities rise, purchasing power of customer will fall and therefore demand will fall.

Question 11

Method of demand forecasting does notinclude?

(a) Mathematical method
(b) Barometric method
(c) Expert opinion method
(d) Statistical method

Answer: a

Explanation:

Method of demand forecasting are

1. Survey of buyer's intentions
2. Collection opinionmethod
3. Expert opinionmethod
4. Statisticalmethod
5. Controlledexperiments
6. Barometricmethod.
7. Therefore, Mathematical method is not a method of forecasting.

Question 12

Ifpriceofthecommodityincreases,what willbetheeffectonQuantity demanded?

(a) Decreases
(b) Increases
(c) No change
(d) Can't say

Answer :a

Explanation:

As per the law of demand, other things remaining constant when price of commodity increases quantity demanded decreases and *vice versa.*

Question 13

AnICshows__________MRS between thecommodities?

(a) Increasing (b) Decreasing

(c) Constant (d) Zero

Answer : a

Explanation:

MRSisfallingbecauseastheconsumerhasmoreandmoreunits offood,heispreparedtogiveuplessandlessunitsofcommodity.

Question 14

Forecasting of demand is the Art and Science of predicting?

(a) Actual demand of a product at some future date (b) Probable demand in future

(c)Total demand in future (d) None of these

Answer: b

Explanation:

Forecasting in general, refers to knowing or measuring the status or nature of an event or variable before it occurs. Forecasting demandistheartandscienceofpredictingtheprobabledemand for a product or services.

Question 15

Addition made to total utility refersto?

(a) Total utility (b) Average utility

(c)Marginal utility (d) All of the above.

Answer: c

Explanation:

Marginal utility istheadditionmadetototalutilitybytheconsumption of an additional unit of acommodity.

Question 16

Elasticity of supply is zero means?

(a) Perfectly inelastic (b) Perfectly elastic

(c)Imperfectly elastic (d) All of the above.

Answer: a

Explanation:

Elasticity of supply:

e > 1 - elastic supply

e < 1 - inelasticsupply

e = 0 = Perfectly inelastic supply

e = ∞ = perfectly elastic supply
e = 1 =- Unit elastic
Therefore, elasticity of supply is zero means, it is perfectly inelastic Supply

MAY - 2019

Question 1

Humanwantsare_____incompaniontomeanstosatisfythem.

(a)Finite (b) Unlimited
(c) Unlimited (d) Limited

Answer : c

Explanation.

Wants are unlimited. A human is never truly satisfied, and so his wants to be endless. We may temporarily satisfy some of our wants but they always reoccur.

Question 2

Demand Function expresses ________relation between demand of commodity And its factor:

(a) Inverse (b) Direct
(c) Functional (d) None of these

Answer :c

Explanation:

Demand Function expresses functional relation between demand of commodity And its factor affecting it.

Question 3

When price increases from Rs. 200 to Rs. 300 and supply increases from 2000 units to 5000 units, then calculate elasticity of supply?

(a) 3 (b) 0.3
(c) 4 (d) 0.4

Answer: a

Explanation:

Price elasticity $= \frac{\%\ change\ in\ Qt.demanded}{\%\ change\ in\ price} = \frac{3000}{100} \times \frac{200}{2000} = 3$

Question 4

In an indifference curve analysis, the consumer attains equilibrium at a point where the marginal rate of substitution is ....the price ratio.

(a) Greater than (b) Less than
(c) Equal to (d) Not related to

Answer: c

Explanation:

In an indifference curve analysis, the consumer attains equilibrium at a point where the marginal rate of substitution is equal to the price ratio.

Question 5

Which of the following statement is not true?

(a)MU is the slope of TU curve
(b) MU cannot be negative
(c) MU is the rate of change of TU
(d) MU can become zero

Answer: C

Explanation:

MU is the rate of change of TU.

Question 6

Which of the following statements about indifference curve is not true?

(a) Indifference curve shows price of 2 commodities
(b) Indifference curve is convex to origin
(c) Indifference curve can' t touch either of the axis
(d) Two indifference curve can touch each other.

Answer : a

Explanation:

An indifference curve is a graph showing combination of two goods that give the consumer equal satisfaction and utility. Each point on an indifference curve indicates that a consumer is indifferent between the two and all points give him the same utility. Hence, Indifference curve shows price of 2 commoditiesstatements about indifference curve is not true.

Question 7

An indifference curve shows............marginal rate of substitution between two commodities

(a) Increasing
(b) Decreasing
(c) Constant
(d) Zero

Answer : b

Explanation:

An indifference curve showsdecreasing marginal rate of substitution between two commodities.

Question 8

The art and science of predicting the probable demand for a product at some

future date:

(a) Actual demand for a product at some future date | (b) Forecasting of demand
(c) Total demand for a product at some future date | (d) None of these

Answer: b

Explanation:

Forecasting of demand is the art and science of predicting theProbable demand for a product at some future date.

Question 9

Normally, when the price of a commodity increases its demand:

(a) Remains constant (b) Increases
(c) Decreases (d) Zero

Answer: c

Explanation:

Normally, when the price of a commodity increases its demand Decreases

Question 10

Addition made to the total utility by the consumption of an additional unit of a commodity is called:-

(a) Total utility (b)Average utility
(c) Marginal utility (d) All of the above

Answer: c

Explanation:

Addition made to the total utility by the consumption of an additional unit of a commodity is calledMarginal utility.

Question 11

Which one of the following is not a method of demand forecasting?

(a) Mathematical method (b)Statistical method
(c) Expert opinion method (d) Barometric method

Answer: c

Explanation:

The mathematical methods covered by this module are the core analytic methods that are useful for modelling the real world. The analytical (as opposed to numerical) solution of first and second-order ordinary differential equations is discussed, followed by linear algebra (vectors, matrices and determinants).

Hence,Mathematical method is not a method of demand forecasting.

Question12

In case of inferior commodity, the rise in income will result in demand curve:

(a)Upward
(b)Downward
(c) No change
(d) Initially downward but ultimately upward

Answer: b

Explanation:

In case of inferior commodity the rise in income will result in demand curve Downward.

Question 13

According to law of supply, the supply of commodity normally depends on:

(a) Price of related commodity
(b) Price of commodity
(c) Price of factors of production
(d) Demand for the product

Answer: b

Explanation:

According to law of supply, the supply of commodity normally depends on Price of commodity.

Question 14

Demand curve of a normal commodity:

(a)Downwards from left to right
(b) Upwards from left to right
(c)Parallel to x - axis
(d) Parallel to y –axis

Answer: a

Explanation:

Demand curve of a normal commodity is Downwards from left to right.

Question 15

From the following information:

Hours of labor	Total output	Marginal Product
0	-	-
I	200	200
2	-	180
3	480	-

What is the marginal product of third hour labour?

(a)120
(b)180

(c) 480 (d)100

Answer: d

Explanation:

100

Question 16

The shape of AFC curve is:

(a) Concave (b)Convex

(c) U shaped (d)Upward sloping

Answer: b

Explanation:

AFC Curve is in Convex.

NOV - 2019

Question 1

which one is a Flow concept?

(a) Supply (b)Demand

(c)Law of Demand (d) None of the above

Answer: a

Explanation:

Supply refers to what a firm offer for sale in the market, not necessarily to what they succeed in selling. What is offered may not get sold.

Supply is a flow concept. The quantity supplied is 'so much' per unit of time, per day, per week, or per year.

Question 2

Total utility is also known as:-

(a) Total satiety (b) Aggregate satiety

(c) Full satiety (d) Half satiety

Answer: a

Explanation:

Total utility is measurable and additive total utility may be defined as the sum of utility derived from different units of a commodity consumed by a consumer. Total utility is the sum of total marginal utilities derived from the consumption of different unit's i.e.

TU = Mu, + Mu, +.......... + Mu,

∴We can say that total utility is also known as total satiety.

Question 3

A vertical supply curve parallel to y axis implies the elasticity of supply is:-

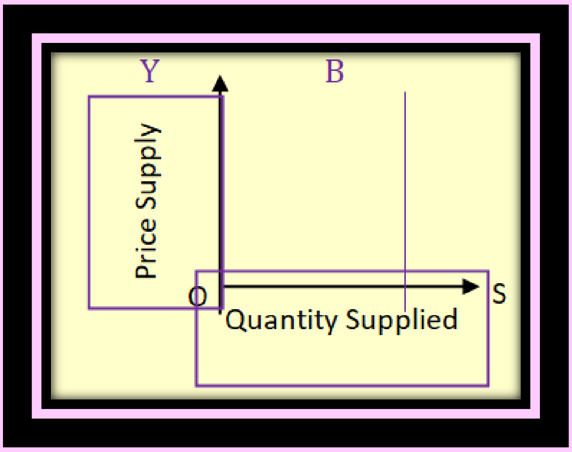
(a)Zero (b)Infinity

(c)Equal to one (d)Greater than zero but less than infinity

Answer: a

Explanation:

A Vertical supply curve parallel to y-axis implies that elasticity of



Question 4

Budget line is also called:-

(a)Price line (b)Iso cost line

(c) Iso-quant (d)None

Answer: a

Explanation:

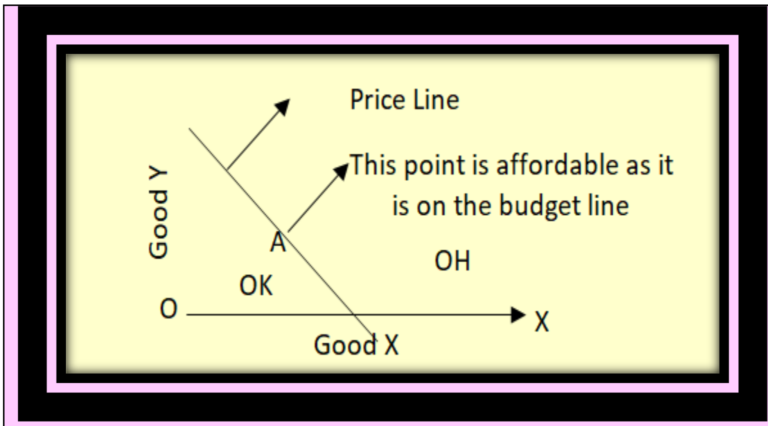
Budget line shows all those combinations of two goods which the consumer can buy spending his given money incomes on the two goods at their given prices. All those combinations which are within the reach of the consumer. Will lie on the budget line.

∴Px Ox + PyQy≤ B

Where Budget line is also called price line.

∴PxQy =>Price and Quantity of good X

PxQy => Price and Quantity of good Y = B is the Budget



Points K and H are not affordable because of budget constraints.

Question 5

The Quantity supplied of a goods or services is the amount that_

(a)As actually bought during a given time period at given price.

(b) Producers wish, they could sell at higher price

(c) Producers plan to sell during a given time period at given price.

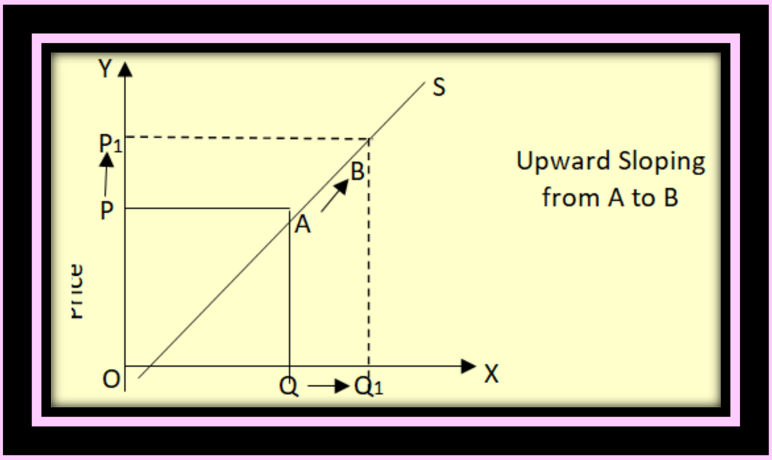
(d) People are willing to buy during a green their period at a given price.

Answer: c

Explanation:

The quantity supplied of a good or services is the amount that producers plan to sell during a given time period at given price. The quantity supplied of a good also depends upon government's industrial and foreign policies, goals of the firm, infrastructural facilities etc.

Law of supply states that other things remaining constant, the quantity of a good produced and offered for sale will increase as the price of the good rises and decreases as the price falls.



Question 6

Luxury goods have income elasticity:-

(a) Negative and less than 1 (b) Positive and greater than 1

(c)Zero (d)None

Answer: b

Explanation:

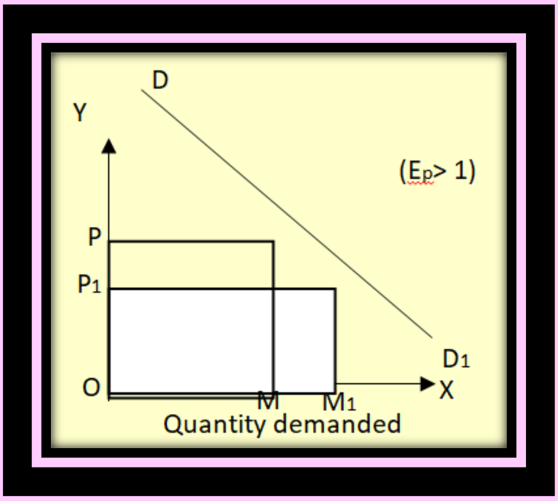
Luxury goods have income elasticity is positive and greater than one.

i.e. (Ep> 1)

Demand for luxury goods arise beyond a certain level of consumers income and keep on rising as income increases.

E.g. Car, TV etc.

Elasticity greater than one when the percentage change in quantity demanded is greater than percentage change in price.



Elasticity is greater than one.

Question 7

Percentage change quantity supplied is divided by _____to obtain elasticity of supply

(a) Percentage decrease in price (b) Percentage change in price

(c) Both (a) and (b) (d)None

Answer: b

Explanation:

Percentage change in quantity supplied is divided by percentagechange in price to obtain elasticity of supply.

E.s. = $\frac{\text{Percentage change in Quantity Supplied}}{\text{Percentage change in Price}}$

Question 8

If the price of the product is 20 per unit and if the price decreases by5% as a result of which quantity demanded increases by 10% find an u old quantity is 10 units)

(a)9 (b) 19

(c)10 (d) 12

Answer: a

Explanation:

Price (P) (₹)	Quantity units	Total Revenue TR = P x 20
20	10	200
19	11	209

MRn = TRn - TRn-1

MR11 = TR1 – TR11-1

MR11 = 209 - 200

MR11 = 9

Question 9

Law of demand relates to:

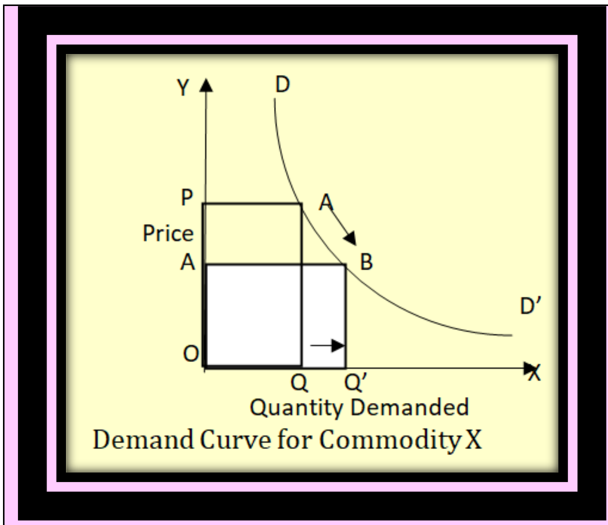
(a)Price only (b)Price and quantity demanded of a good

(c)Quantity demanded only (d)Supply

Answer: b

Explanation:

Law of demand relates to price and quantity demanded of a good. As "Prof. AlfredMarshall" defined Law of Demand as - The greater the amount to be sold, the smaller must be the price at which it is offered in order that it may find purchasers or in other words the amount demanded increases with a fall in price and diminishes with a rise in price.



Question 10

An in difference curve slopes down towards right since more of one commodity and of another commodity result in

(a) Same level of satisfaction (b) Maximum satisfaction

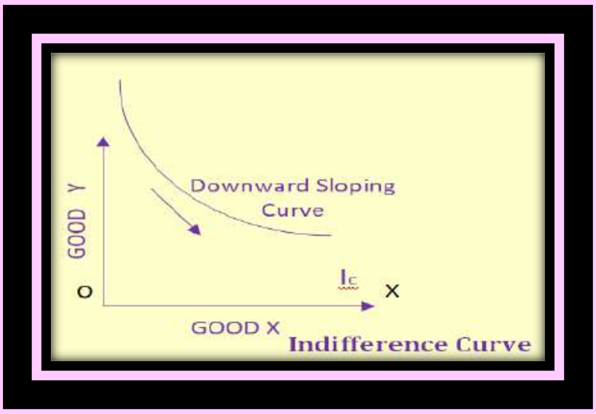
(c) Greater satisfaction (d) Less satisfaction

Answer: a

Explanation:

Indifference curve slopes down towards right since more of one commodity and of another commodity result in same level of satisfaction.

The downward slope of indifference curve states that two commodities can be substituted for each other and when the amount of one good in the combination is increased, the amount of the other good is reduced. This is essential if the level of satisfaction is to remain the same on an indifference curve.



Question 11

Elasticity for habitual goods is

(a) Perfectly elastic (b) Elastic

(c) Perfectly inelastic (d) Inelastic

Answer: d

Explanation:

Elasticity for habitual goods is inelastic. Elasticity is less than one when the percentage change in quantity demanded is less than the percentage change in price. In such case demand is said to be inelastic.

$$Ep = \frac{\text{Percentage Change Quantity Demanded}}{\textit{Percentage Chage in Price}}$$

Question 12

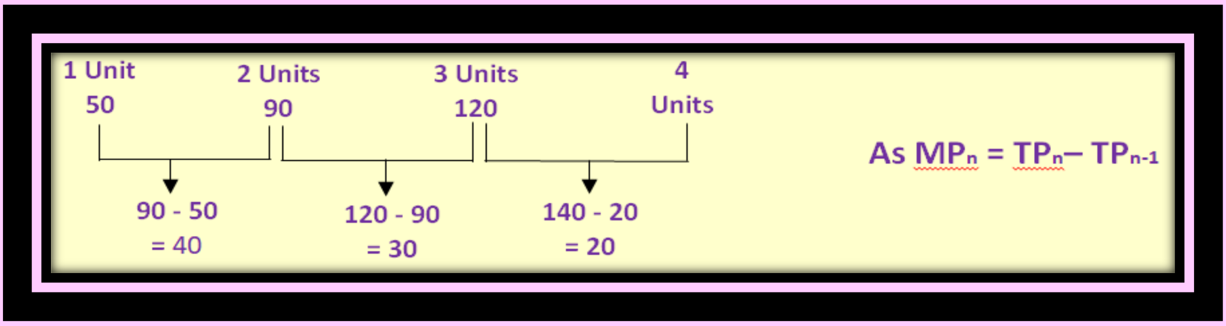
Diminishing marginal returns for the first four units of variable inputs is exhibited by the total product sequences.

(a) 50,100,150,200 (b) 50,50,50,50

(c) 50,110,150,260 (d) 50, 90,120,140

Answer: d

Explanation:



DEC - 2020

Question 1

To know the base price and quantity, which method of elasticity is used?

(a) Arc elasticity (b) Cross elasticity

(c) Point elasticity (d) Zero elasticity

Answer:a

Explanation:

We use midpoint formula (or what is also known as arc elasticity formula) for correctly calculating price elasticity of demand.

Question 2

The price elasticity of demand for X is 1 and the original quantity demand of X is

90 units. if the price of X decreases from Rs.300 to Rs.180 per unit, calculate the new quantity demand of X

(a) 126 units
(b) 36 units
(c) 144 units
(d) 120 units

Answer: a

Explanation:

We know,

Price elasticity of demand (Ed)=$(-)\frac{P}{Q}\times\frac{\triangle Q}{\triangle P}$

$= 1 = \frac{300}{90} \times \frac{\Delta Q}{120} = 36\, units = \ \Delta Q = 36 \text{ units} = \Delta Q$

In order to get unitary elasticity, new quantity should be126 units.

Question 3

Demand forecasting by means of asking customer what they are going to buy comes under:-

(a) survey of buyers intention
(b) statistical method
(c) grass roots method
(d) experts opinion method

Answer:a

Explanation:

Demand forecasting by means of asking customer what they are going to buy comes under survey of buyers intention.

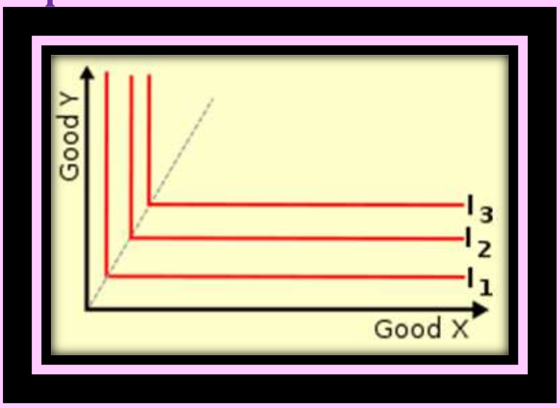
Question 4

If Indifference curve is L shaped, means two goods will be

(a) Perfect Complementary Goods
(b) Perfect Substitute goods
(c) Perfect inferior goods
(d) Perfect superior goods

Answer: a

Explanation:



A perfect complement is a good that must be consumed with another good.

Few goods behave as perfect complements. One example is a left shoe and a right; shoes are naturally sold in pairs, and the ratio between sales of left and right shoes will never shift noticeably from 1:1.

Question 5

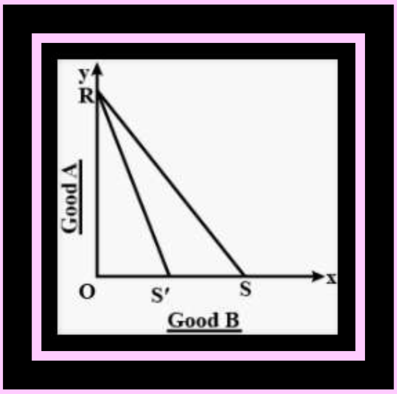
Let assume that in OY-axis we have good A and on OX-axis good B. If the price of good B increases by Rs.1 but the price of good A remains constant and income also remains unchanged, the budget line will shift

(a) Right on OY axis (b) Right on OX axis
(c) Left on OY axis (d) Left on OX axis

Answer: a

Explanation:

Perfect complementary goods are those goods which are consumed together to gain the utility.
When two goods are perfect complements they are represented by a "L shaped" Indifference curve.
Suppose RS is the original budget line. So if price of 'Good B' increases by Rs. 1 with no increase in price of 'Good A', the consumer can purchase smaller quantity of Good B than before.
Since, Good A with the same given income and price, there will be no shift in the point S (See the graph)
→ Thus with the rise in price of B the budget line will shift to the left to the new position "RS".
Therefore the Budget Line will shift Left on OX axis.



Question 6

Purushotham wanted to buy laptop by paying Rs. 60000 but the actual price is Rs. 55000, then consumer surplus is

(a) 60000 (b) 55000
(c) 5000 (d) 6500

Answer: c

Explanation:

Difference between what consumer is willing to pay and what he actually pays is Consumer surplus.

JAN - 2021

ELASTICITY OF DEMAND

Question 1

Identify the factor which generally keeps the price elasticity of a good low:

(a) Variety of uses for that good
(b) Very low price of a commodity
(c) Close sub substitutes for that good
(d) High proportion of the consumer's income spent on it

Answer: b

Explanation:

Lower the price of the good, the lower is its response to change in prices i.e. lower is the price elasticity. A low priced commodity has a small place in consumer's budget.

Question 2

In the case of inferior goods, the income elasticity of demand is:

(a) Positive
(b) Zero
(c) Negative
(d) Infinite

Answer: c

Explanation:

Inferior goods have a negative income elasticity of demand; as consumers' income rises, they buy fewer inferior goods. A typical example of such type of product is margarine, which is much cheaper than butter.

Question 3

What is numerical measures of elasticity for ''perfectly Elastic''

(a) Zero
(b) Infinity
(c) Greater than one and less than infinity
(d) Less than one

Answer: b

Explanation:

Demand is said to be perfectly elastic when the PED coefficient is equal to infinity. When demand is perfectly elastic, buyers will only buy at one price and no other.

Question 4

The price of 1 Kg of tea is Rs. 30. Demand at this price is 5 kg. If price of coffee rises from 25 to 35 per kg the quantity demanded of tea rises from 5 kg to 8 kg. Find out cross elasticity of tea?

(a) -1.5
(b) 1.5

(c) 3 (d) 1

Answer: b

Explanation:

1.5

THEORY OF CONSUMER BEHAVIORUR

Question 5

The second glass of lemonade gives lesser satisfaction to thirsty boy. This is a clear case of

(a) Law of Demand (b) Law of Dikrisme

(c) Law of diminishing marginal utility (d) Law of supply

Answer: c

Explanation:

The Law of Diminishing Marginal Utility states that all else equal, as consumption increases the marginal utility derived from each additional unit declines. Marginal utility is derived as the change in utility as an additional unit is consumed.

THEORY OF SUPPLY

Question 6

Supply is .... concept

(a) Flow (b) Stock

(c) Flow & Stock (d) None of the above

Answer: a

Explanation:

Supply of a commodity is a flow concept. the commodity which the sellers or producers are able and willing to offer for sale at a particular price, during a certain period of time.

Question 7

When supply curves moves to right, it means;

(a) Supply increases (b) Supply decreases

(c) Supply remains constant (d) Supply expands

Answer: a

Explanation:

The supply curve will move upward from left to right, which expresses the law of supply: As the price of a given commodity increases, the quantity supplied increases (all else being equal).

JULY - 2021

2.THEORY OF DEMAND

Question 1

Suppose the demand for automobile decreases due to increase in pnee of petrol. Both the goods are.

(a) Normal
(b) Substitute
(c) Perishable
(d) Complementary

Answer: (d)

Explanation:

If due to a fall in the price of good X, the demand of good Y rises, the two goods are complements because these goods complete the demand of each other.
Hence, D is the correct option.

Question 2

Goods which are inferior, with no close substitutes easily available and which occupy a substantial place in consumer's budget are called goods.

(a) Giffen
(b) Speculative
(c) Conspicuous
(d) Prestige

Answer: (a)

Explanation:

All Giffen goods are inferior. For a Giffen good, the income effect must be negative; that is a fall in income increases demand. This effect must, furthermore, be strong enough to outweigh the substitution effect whereby higher prices induce consumers to switch away from this good.

Question 3

By 'Change in demand' represents which of the following?

(a) Shift of the demand curve to the right or left.
(b) Movement upward and downwards on the same demand curve.
(c) Change in budget line with change income.
(d) Shift in the indifference curve

Answer: (a)

Explanation:

A change in demand represents a shift in consumer desire to purchase a particular good or service, irrespective of a variation in its price. ... An increase and decrease in total market demand is represented graphically in the demand curve.

Question 4

A group of people decrease or all stop consumption of a common pro to which of the following effect?

(a) Veblen effect
(b) Demonstration effects

(c) Bandwagon effect
(d) Snob effect

Answer: (d)

Explanation:

The snob effect is a phenomenon described in microeconomics as a situation where the demand for a certain good by individuals of a higher income level is inversely related to its demand by those of a lower income level.

Question 5

Highly priced goods are consumed by status seeking rich people to satisfy their need for conspicuous consumption. This is called

(a) Veblen effect
(b) Demonstration effect
(c) snob effect
(d) Bandwagon effect

Answer: (a)

Explanation:

An important point in Veblen's analysis is the recognition that all goods have elements of serviceability and waste. Examples of conspicuous consumption are wearing fur coats and diamonds and driving expensive cars.

3. ELASTICITY OF DEMAND

Question 6

For which of the following product elasticity of demand is highly elastic.

(a) Salt
(b) Jewelry
(c) Lifesaving medicine
(d) Water

Answer: (b)

Explanation:

The demand for gasoline from any single gas station, or chain of gas stations, is highly elastic. Buyers can choose between comparable products based on price. There are often many stations in a small geographic area that are equally convenient.

Question7

Assume that Wheat has (-) 0.4 as income elasticity. By this, we can say:

(a) Wheat is a normal good
(b) Wheat is an inferior good
(c) Wheat is a superior good
(d) Wheat is a luxurious good

Answer: (b)

Explanation:

Looking at the demand curve we can see that it is steep therefore it has a elasticity value closer to 0. This means wheat is relatively inelastic that is elasticity ranges between 0 and 1. This implies that change in price of wheat is greater than the change in quantity. This classifies wheat as normal goods.

Question 8

The demand for a generic good like soap is the demand for Lux soap is.

(a) Inelastic, elastic
(b) Elastic, inelastic
(c) Inelastic, inelastic
(d) Elastic, elastic

Answer: (d)

Explanation:

Elasticity of demand for a product depends upon various factors, one of them being availability of substitutes. If we go by a particular brand of soap, then the demand is perfectly elastic since the number of substitutes (soaps from other brands) is high. When we talk about soap in general, then also substitutes to soaps are available like shower gels (though maybe considered as a luxury) and also there are natural cleansers available.

Question 9

The quantity demanded of coffee increases by 2% when price of tea increases by 8%, the cross elasticity of two goods is

(a) -.30
(b) +.30
(c) +.25
(d) -.25

Answer: (c)

Explanation:

We know

Cross price elasticity = $\frac{\%\Delta Qx}{\%\Delta Py} = \frac{5\%}{20\%} = 0.25\%$

Question 10

If the price of a product decrease from ₹200-₹120, and price elasticity of product is 2 & original quantity demanded is 60, calculate new quantity demanded?

(a) 48 units
(b) 100 units
(c) 120 units
(d) 108 units

Answer: (d)

Explanation:

Price Elasticity of Demand = $\frac{\%\ change\ in\ quantity}{\%\ \text{change in price}}$

$2 = \frac{x-60}{200-120}$

108 Units

4.THEORY OF SUPPLY

NIL

5. THEORY OF CONSUMER BEHAVIOR

Question 11

Marshalldefinedtheconceptofconsumersurplusasthe______________

a) Area covered in between the average revenue and marginal revenuecurves

b) Difference between the maximum amount a person iswillingtopayfora good and the amount he actually pays

c) Difference between the minimum amount

d) Difference between the minimum amount a person is willing to pay for a good and its market price

Answer: (d)

Explanation:

Alfred Marshall, British Economist defines consumer's surplus as follows: "Excess of the price that a consumer would be willing to pay rather than go without a commodity over that which he actually pays."

Question 12

QuantityConsumed	TotalUtility
0	0
1	300
2	500
3	650
4	750
5	830
6	890
7	930
8	960

What is marginal utility when consumption increases from 4 units to 5 units?

(a) 130
(b) 80
(c) 160
(d) 100

Answer: (b)

Explanation:

MU = 750 - 830 = 80

Question 13

What is marginal utility when consumption increases from7units to 8 units?

(a) 60
(b) 100
(c) 40
(d) 30

Answer: (d)

Explanation:

MU = 960 – 930 = 30

Question 14

Indifference Curve analysis is based on which approach?

(a) Nominal (b) Cardinal

(c) Marginal (d) Ordinal

Answer: (d)

Explanation:

It can be shown that consumer analysis with indifference curves (an ordinal approach) gives the same results as that based on cardinal utility theory — i.e., consumers will consume at the point where the marginal rate of substitution between any two goods equals the ratio of the prices of those goods

Question 15

The Indifference curve for two perfect complementary goods is

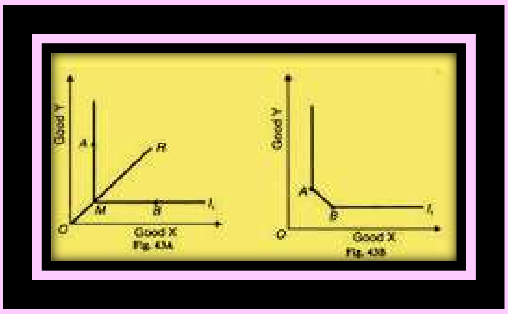
(a) Z-shaped (b) L-shaped

(c) U-shaped (d) Straight line

Answer: (b)

Explanation:

If the two goods are perfect complements the indifference curve is right-angled or L shaped, as shown in Figure 43 (A). The vertical portion of the I1, curve reveals that no amount of reduction in good Y will lead even to a slight increase in good X.



13 Demand Forecasting

Question 1

Of the following, who developed the Delphi technique of demand forecasting?

(a) Olaf helmer (b) David Richardson

(c) Michael porter (d) J.m. keynes

Answer: (a)

Explanation:

The Delphi method was invented by Olaf Helmer and Norman Dalkey of the Rand Corporation in the 1950s for the purpose of addressing a specific military problem. The method relies on the key assumption that forecasts from a group are generally more accurate than those from individuals.

DEC - 2021

Question 1

Is utility a Cardinal or Ordinal concept?

(a) Cardinal (b) Ordinal

(c) It can be both (d) Can't say

Answer: b

Explanation:

Ordinal: The Ordinal Utility approach is based on the fact that the utility of a commodity cannot be measured in absolute quantity, but however, it will be possible for a consumer to tell subjectively whether the commodity derives more or less or equal satisfaction when compared to another

Question 2

Budget line will be effected by.

(a) Change in demand (b) Change in income

(c) Change in supply (d) None

Answer: b

Explanation:

Change in income: When there is an increase in income, a consumer can buy more of both goods and this shows an outward i.e. rightward shift in the budget line. On the other hand, when there is a decrease in income, the consumer's consumption possibility decreases, and the budget line shifts inwards

Question 3

What is measure of utility?

(a) Unit (b) Utils

(c) Points (d) Numbers

Answer: b

Explanation:

Utility: Utility measures the amount of satisfaction that an individual receives from a product or service.

Question 4

Elasticity of demand vary from

(a) 1 and 0 (b) -1 and 1

(c) 0 and infinity (d) -1 and 0

Answer: c

Explanation:

0 and infinity: The price elasticity of a straight line demand curve varies from infinity at

the price axis to zero at the quantity axis

Question 5

Law of Diminishing marginal utility is derived from

(a) Consumer surplus (b) Additional utility

(c) Total utility (d) Producer surplus

Answer: a

Explanation:

Consumer surplus**:** The law of diminishing marginal utility states that all else equal, as consumption increases, the marginal utility derived from each additional unit declines. Marginal utility is the incremental increase in utility that results from the consumption of one additional unit.

Question 6

If the price of tea decrease by 25 percent, initial price is 25 rupees , the demand for coffee increase from 15 to 20 calculate marginal revenue

(a) 0 (b) 1

(c) -1 (d) None

Answer: a

Explanation:

There will no change, hence it will be 0

JUNE- 2022

Question 1

Elasticity measured at a given point on supply curve:

(a) Point elasticity (b) Arc elasticity

(c) Cross elasticity (d) None of the above

Answer: a

Explanation:

The point elasticity of demand is the price elasticity of demand at a particular point on the demand curve. The change in price elasticity when is infinitesimal (very negligible) we use point elasticity.

Question 2

Change in price is larger than proportionate to change in demand which type of elasticity?

(a) Elastic (b) Infinite

(c) Zero (d) Inelastic

Answer: d

Explanation:

Demand is inelastic when change in price is larger than proportionate he change in demand. Elasticity < 1
Demand curve of elasticity less then one.

Question 3

Veblen effect slopes toward:

(a) Downward to (b) Upward
(c) Negative (d) Positive

Answer: b

Explanation:

The demand curve for a veblen good is upward sloping, contrary to a normal demand curve, which is downward sloping. When price of a veblen good goes up.

Question 4

Advertising elasticity of demand is always:

(a) Positive (b) Negative
(c) Constant (d) All of the above

Answer: a

Explanation:

Advertisement elasticity of demand is most of the time positive. Advertisement elasticity is typically positive. Advertisement elasticity varies between zero and infinity.

Question 5

The graph of perfect complimentary goods is:

(a) Straight line (b) L shaped
(c) U shaped (d) None of the above

Answer: b

Explanation:

When goods are perfect compliments, consumers consume them in fixed proportions. The indifference curve will consist of straight lines with a right angle bent, convex to origin.
Hence, if will be 'L' shaped.

Question 6

Which of the following is not a exception of law of demand?

(a) Giffen goods (b) Conspicuous goods
(c) White goods (d) None of the above

Answer: c

Explanation:

White goods are heavily priced slow moving goods.
Ex- Computers, radios, washing machines etc.
Every other good example giffen goods, conspicuous goods and speculative goods are

exceptions to law of demand.

Question 7

When price increases fewer units are sold which tends to lower the revenue?

(a) Income effect (b) Price effect

(c) Quantity effect (d) Substitution effect

Answer: c

Explanation:

Quantity effect, after a price increases, fewer units are sold which tends to lower the revenue.

If the quantity effect, which sends to reduce total revenue, is the stronger, total revenue reduces.

Question 8

The price of sugar falls from R 10,000 to? 8,000 & Quantity decrease from 2500 to 2000 find elasticity of supply

(a) 0 (b) 1

(c) -1 (d) 2

Answer: b

Explanation:

$E(s) = \frac{\Delta Q}{Q} \times \frac{P}{\Delta P} = \frac{2,000}{10,000} \times \frac{2,500}{500} = 1$

Question 9

The law of demand states that the quantity purchased ____________.

(a) Varies Inversely with price. (b) Varies directly proportional with price

(c) Varies similarly with price (d) None of the above

Answer: a

Explanation:

Varies inversely with price

Reason: The law of demand states that the quantity purchased varies inversely with price. In other words, the higher the price, the lower the quantity demanded. This occurs because of diminishing marginal utility.

Question 10

If the quantity demanded of mutton increases by 5 % when the price of chicken increase by 25% the price elasticity of demand is

(a) 0.2 (b) -1

(c) 0 (d) 0.8

Answer: a

Explanation:

Cross Price elasticity is = $\frac{\text{Demand of Good X(\%)}}{\text{Price of God Y (\%)}} = \frac{5\%}{25\%} = 0.2$

Question 11

A vertical supply curve parallel to y axis implies that the elasticity of supply is -

(a) Zero (b) Infinity
(c) More than one (d) Less than one

Answer: a

Explanation:

A vertical supply curve parallel to y axis implies that the elasticity of supply is inelastic (highly) and is zero.

∴ No change in demand when price changes

Question 12

If customer is a habitual customer then elasticity is

(a) Relative elastic (b) Negative
(c) Zero (d) Inelastic

Answer: d

Explanation:

If a customer has habitual use of a commodity, no matter how much its price changes, the demand for the commodity will be inelastic. If buyer have preference demand will be inelastic.

Question 13

Consumer surplus what he is willing to pay less-

(a) What he actually pays (b) The price of the goods
(c) Money spent on goods (d) All of the above

Answer: a

Explanation:

Consumer Surplus:

= What the consumer is willing to pay - What he actually pays.

Question 14

If advertisement is increased by 25% & demand is only increased by 5%. Find advertisement elasticity.

(a) -1 (b) 1
(c) 0.2 (d) -0.2

Answer: c

Explanation:

Advertisement elasticity – $\frac{\text{Increase in Demand}}{\text{Advertisement Exp.}} \rightarrow \frac{5\%}{25\%} = 0.02$

Question 15

When demand decrease due to price increase it is?

(a) Change in demand (b) Increase in demand

(c) Contraction in demand (d) Decrease in demand

Answer: c

Explanation:

When demand decreases due to price increase it is contraction of demand.

Question 16

When demand decrease due to price increase it is?

(a) Change in demand (b) Increase in demand

(c) Increase in demand (d) Decrease in demand

Answer:

Explanation:

When demand decrease due to price increase it is contraction of demand.

Question 17

An indifference curve is L Shaped, then two goods will be.

(a) Perfect substitute goods (b) Substitute goods

(c) Perfect complementary goods (d) Complementary goods

Answer: c

Explanation:

When two goods are perfect complimentary goods, indifference curve will be L Shaped.

KIT