

# M.K.G CA EDUCATION

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## TEST-1

**QUESTION BOOKLET CODE: MKG**

**QUESTION PAPER BOOKLET NO. 1012022**

### CA FOUNDATION

**(16-01-2022 3:00 P.M. TO 5:00 P.M.)**

**Business Economics and Business and Commercial Knowledge**

**Topics covered upto Demand Chapter**

**Time allowed: 2 hours**

**Maximum Marks: 100**

#### **Instructions:**

1. Answer to be given in OMR sheet
2. Negative Marking Applies

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1. Demand for a commodity refers to:
    - a) Desire backed by ability to pay for the commodity.
    - b) Need for commodity and willingness to pay for it
    - c) The quantity demanded of that commodity at a certain price
    - d) The quantity of the commodity demanded at a certain price during any particular period of time.
  2. Contraction of demand is the result of :
    - a) Decrease in the number of consumers.
    - b) Increase in the price of the good concerned
    - c) Increase in the prices of other goods
    - d) Decrease in the income of purchasers.
  3. All but one of the following are assumed to remain the same while drawing an individual's demand curve for commodity. Which one is it?
    - a) The preference of the individual
    - b) His monetary income.
    - c) Price of the commodity
    - d) Price of related goods

4. 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
  
5. In the 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) 0
  - b) 1
  - c) 1.5
  - d) 2
  
6. The law of demand, assuming other things to remain constant, establishes the relationship between:
  - a) Income of the consumer and the quantity of a good demanded by him.
  - b) Price of a good and the quantity demanded.
  - c) Price of good and the demand for its substitute.
  - d) Quantity demanded of a good and the relative prices of its complimentary goods.
  
7. Identify the factor which generally keeps price-elasticity of demand for good low:
  - a) Variety of uses for that good
  - b) Very low price of a commodity
  - c) Close substitutes for that good.
  - d) High proportion of the consumer's income spent on it.
  
8. Identify the coefficient of price-elasticity of demand when the percentage increase in the quantity of a good demanded is smaller than the percentage fall in its price:
  - a) Equal to one
  - b) Greater than one
  - c) Smaller than one
  - d) Zero
  
9. In the case of an inferior good, the income elasticity of demand is:
  - a) Positive
  - b) Zero
  - c) Negative
  - d) Infinite
  
10. If the demand for a good is inelastic, and increase in its price will cause the total expenditure of the consumers of the good to:
  - a) Remain the same
  - b) increase
  - c) decrease
  - d) any of these
  
11. If regardless of changes in its price, the quantity demanded of a good remains unchanged, then the demand curve for the good will be:
  - a) Horizontal
  - b) Vertical
  - c) Positively sloped

- d) Negatively sloped
12. Suppose the price of Pepsi increase, we will expect the demand curve of Coca Cola to:
- Shift toward left these are substitutes.
  - Shift towards right since these are substitutes.
  - Remain at the same level.
  - None of the above.
13. All the following are determinants of demand except:
- Taste and preferences
  - Quantity supplied
  - Income of consumer
  - Price of related goods
14. A movement along the demand curve for soft drinks is best described as:
- An increase in demand
  - A decrease in demand
  - A change is quantity demanded
  - A change in demand
15. If the price of Pepsi decrease relative to the price of Coke and 7-UP the demand for:
- Coke will decrease
  - 7-UP will decrease
  - Coke and 7 UP will increase
  - Coke and 7 UP will decrease
16. If a good is a luxury, its income elasticity of demand is:
- Positive and less than 1
  - Negative but greater than -1
  - Positive and greater than 1.
  - Zero
17. The price of hot dogs increase, by 22% and the quantity of hot dogs demanded falls by 25% this indicates that demand for hot dog is:
- Elastic
  - Inelastic
  - Unitarily elastic
  - Perfectly elastic
18. If the quantity demanded of mutton increase by 5% when the price of chicken increase by 20%, the cross price elasticity of demand between mutton and chicken is:
- 0.25
  - .0.25
  - 4
  - 4
19. Given the following possibilities, which one result in an increase in total consumer expenditure?
- Demand is unitary and price falls.
  - Demand is elastic and price rises.
  - Demand is inelastic and price falls.
  - Demand is inelastic and price rises.

20. What will happen in the rice market if buyers are expecting higher rice prices in the near future?
- The demand for rice will increase
  - The demand for rice will decrease
  - The demand for rice will be unaffected
  - None of the above
21. In the case of a giffen good, the demand curve will be:
- Horizontal
  - Down-sloping to the right
  - Vertical
  - Upward-sloping to the right
22. Conspicuous goods are also known as:
- Prestige goods
  - Snob goods
  - Veblen goods
  - All of the above
23. The quantity purchased remains constant irrespective of the change in income. This is known as.
- Negative income elasticity of demand
  - Income elasticity of demand less than one.
  - Zero income elasticity of demand
  - Income elasticity of demand is greater than one.
24. As income increases, the consumer will go in for superior goods and consequently the demand for inferior goods will fall. This means:
- Income elasticity of demand less than one.
  - Negative income elasticity of demand.
  - Zero income elasticity of demand.
  - Unitary income elasticity of demand.
25. When income increases the money spent on necessities of life may not increase in the same proportion, This means:
- Income elasticity of demand is zero.
  - Income elasticity of demand is one.
  - Income elasticity of demand is greater than one
  - Income elasticity of demand is less than one.
26. The luxury goods like jewellery and fancy articles will have
- Low income elasticity of demand
  - High income elasticity of demand
  - Zero income elasticity of demand
  - None of the above
27. A good which cannot be consumed more than once is known as
- Durable good
  - Non-durable good
  - Producer good
  - None of the above

28. A relative price is
- Price expressed in terms of money.
  - What you get paid for babysitting your cousin
  - The ratio of one money price to another
  - Equal to a money price
29. Demand is the
- The desire for a commodity given its price and those of related commodities
  - The entire relationship between the quantity demanded and the price of a good other things remaining the same.
  - Willingness to pay for a good if income is larger enough
  - Ability to pay for a good.
30. If, as people's income increases, the quantity demanded of a good decreases, the good is called
- A substitute.
  - A normal good
  - An inferior good
  - A complement
31. The price of tomatoes increases and people buy tomato puree. You infer that tomato puree and tomatoes are.
- Normal goods
  - Complements
  - Substitutes
  - Inferior goods
32. Chicken and fish are substitutes, if the price of chicken increases the demand for fish will.
- Increase or decrease but the demand curve for chicken will not change
  - Increase and the demand curve for fish will shift rightwards.
  - Not change but there will be a movement along the demand curve for fish
  - Decrease and the demand curve for fish will shift leftwards.
33. Potato chips and popcorn are substitutes. A rise in the price of potato chips will \_\_\_\_\_ the demand for popcorn and the quantity of popcorn will \_\_\_\_\_
- Increase; increase
  - Increase; decrease
  - Decrease; decrease
  - Decrease; increase
34. If the price of Orange juice increases, the demand for Apple juice will \_\_\_\_\_.
- Increase
  - Decrease
  - Remain the same
  - Become negative
35. An increase in the demand for computers, other things remaining same, will:
- Increase the number of computers bought
  - Decrease the price but increase the number of computers bought.
  - Increase the price of computers.
  - Increase the price and number of computers bought.

36. When total demand for a commodity whose price has fallen increases, it is due to:
- Income effect
  - Substitution effect
  - Complementary effect
  - Price effect
37. With a fall in the price of a commodity:
- Consumer's real income increases.
  - Consumer's real income decreases.
  - There is no change in the real income of the consumer.
  - None of the above.
38. With an increase in the price of diamond, the quantity demanded also increases, this because it is a:
- Substitute good
  - Complementary good
  - Conspicuous good
  - None of the above
39. An example of a good that exhibit direct price demand relationship is.
- Giffen goods
  - Complementary goods
  - Substitute goods
  - None of the above
40. In Economics, when demand for a commodity increases with a fall in its price it is known as:
- Contraction of demand
  - Expansion of demand
  - No change in demand
  - None of the above
41. In case of inferior goods like bajra, a fall in its price tends to
- Make the demand remain constant
  - Reduce the demand
  - Increase the demand
  - Change the demand in any abnormal way
42. What is the value of elasticity of demand, if the demand for the goods is perfectly elastic?
- 0
  - 1
  - Infinity
  - Less than 0
43. Giffen Paradox is an exception of
- Demand
  - Supply
  - Production
  - utility

44. The commodity whose demand is associated with the name of Sir Robert Giffen?
- Necessary good
  - Luxury good
  - Inferior good
  - Ordinary Good
45. Contraction of demand result due to
- Increase in price of goods
  - Decrease in no. of producers
  - Decrease in output of sellers
  - Decrease in price of goods
46. Bricks for house is an example of which kind of demand?
- Composite
  - Competitive
  - Joint
  - Derived
47. Expansion and contraction in demand are cause by:
- Change in income of buyer
  - Change in taste and preference of buyer
  - Change in price of the commodity
  - Change in price of related goods
48. Which amongst the following is the right formula for calculating price elasticity of demand using ratio method?
- $(\Delta Q/\Delta P) \times (P/Q)$
  - $(\Delta P/\Delta Q) \times (Q/P)$
  - $(\Delta Q/\Delta P) \times (Q/P)$
  - $(\Delta P/\Delta Q) \times (1/P)$
49. Change in the quantity demanded in response to the change in the price of same commodity is called:
- Change in demand
  - Change in quantity demanded
  - Income demand
  - Cross demand
50. Movement along the same demand curve shows
- Expansion of demand
  - Expansion of supply
  - Expansion and contraction of demand
  - Increase and decrease of demand
51. If the price of any complement goods rises:
- Demand curve shifts to left
  - Demand curve shifts to right

- c) Demand curve moves downwards
  - d) Demand curve moves upward
52. Normal Goods have \_\_\_\_\_
- a) Zero income elasticity
  - b) Negative income elasticity
  - c) Positive income elasticity
  - d) Infinite income elasticity
53. Cross elasticity of demand between two perfect substitutes will be
- a) Very high
  - b) Very low
  - c) Infinity
  - d) Zero
54. If demand is parallel to x axis, what will be the nature of elasticity?
- a) Perfectly elastic
  - b) Inelastic
  - c) Elastic
  - d) Highly elastic
55. Assume that real estate developers are building thousands of new student friendly apartments close by your collage campus, if you want to pay the lowest rent possible, should you hope that demand for such apartments is elastic or inelastic?
- a) Elastic
  - b) Inelastic
  - c) Both (a) & (b)
  - d) Neither (a) nor (b)
56. In which of the following cases the demand for goods trends to be less elastic?
- a) Good is necessary
  - b) Time period is shorter
  - c) Number of close substitutes is less
  - d) All of the above
57. Which of the following is correct?
- a) Elasticity on lower segment of demand curve is greater than unity
  - b) Elasticity on upper segment of demand curve is less than unity
  - c) Elasticity at the middle of demand curve is equal to unity
  - d) Elasticity decreases as one move from lower part of demand curve to upper part
58. If the price elasticity of demand is zero, the shape of the curve will be:
- a) Horizontal
  - b) Vertical
  - c) Sloping downwards
  - d) None of these

59. All but one of the following are assumed to remain the same while drawing an individual's demand curve for a commodity. Which one is it?
- The preference of the individual
  - His monetary income
  - Price of the commodity
  - Price of related goods
60. Suppose Breads have 0.4 as income elasticity. We can say from the data given that:
- Breads are inferior goods
  - Breads are superior goods
  - Breads are necessities
  - There is a need to increase the income of consumers so that they can purchase breads
61. Torch and battery are complements. A rise in the price of torch will \_\_\_\_\_ the demand for battery and the quantity of battery will \_\_\_\_\_
- Increase; increase
  - Increase; decrease
  - Decrease; decrease
  - Decrease; increase
62. If a product is a Veblen good?
- Demand is inversely related to income
  - Demand is inversely related to price
  - Demand is directly related to price
  - Demand is inversely related to the price of substitutes
63. If the price of air conditioner increases from Rs 30,000 to Rs 30,010 and resultant change in demand is negligible, we use the measure of \_\_\_\_\_ to measure elasticity.
- Point elasticity
  - Perfect elasticity
  - Perfect inelasticity
  - Price elasticity
64. If the percentage change in supply is less than the percentage change in price it is called
- Unit elasticity of supply
  - Perfectly elastic
  - More elastic supply
  - Inelastic supply
65. The supply curve shift to the right because of \_\_\_\_\_.
- Improved technology
  - Increased price of factors of production
  - Increased excise duty
  - All of the above
66. Which of the following statements is correct?
- When the price falls the quantity demanded falls.
  - Seasonal changes do not affect the supply of a commodity.

- c) Taxes and subsidies do not influence the supply of the commodity.
  - d) With lower cost, it is profitable to supply more of the commodity.
67. Which of the following is an incorrect statement?
- a) When goods are substitutes a fall in the price of one (ceteris Paribus) leads to a fall in the quantity demanded of its substitutes.
  - b) When commodities are complements, a fall in the price of one (other things equal) will cause the demand of the other to rise.
  - c) As the income of the consumer increases the demand for the commodity increases always and vice versa.
  - d) When a commodity becomes fashionable people prefer to buy it and therefore its demand increases.
68. Suppose the price of movies seen at a theatre rises from Rs 120 per person to Rs 200 per person. The theatre manager observes that the rise in price causes attendance at a given movie to fall from 300 persons to 200 persons. What is the price elasticity of demand for movies? (Use Arc Elasticity Method)
- a) 0.5
  - b) 0.8
  - c) 1.0
  - d) 1.2
69. Suppose a department store has a sale on its silverware. If the price of a plate setting is reduced from Rs 300 to Rs 200 and the quantity demanded increases from 3,000 plate-sets to 5,000 plate-sets, what is the price elasticity of demand for silverware? (Use Arc Elasticity Method)
- a) 0.8
  - b) 1.0
  - c) 1.25
  - d) 1.50
70. When the numerical value of cross elasticity between two goods is very high, it means
- a) The goods are perfect complements and therefore have to be used together.
  - b) The goods are perfect substitutes and can be used with ease in place of one another.
  - c) There is a high degree of substitutability between the two goods.
  - d) The goods are neutral and therefore cannot be considered as substitutes.
71. Suppose the demand for meals at a medium-priced restaurant is elastic. If the management of the restaurant considering raising prices, it can expect a relatively:
- a) Large fall in quantity demanded
  - b) Large fall in demand
  - c) Small fall in quantity demanded
  - d) Small fall in demand
72. Demand for a good will tend to be more inelastic if it exhibits which of the following characteristics?
- a) The good has many substitutes.
  - b) The good is luxury (as opposed to a necessity).
  - c) The good is a small part of the consumer's income.
  - d) There is a great deal of the consumer's income to adjust to the change in prices.

73. Which of the following statements about price elasticity of demand is correct?
- a) Price elasticity of demand is a measure of how much the quantity demanded of a good responds to a change in the price of that good.
  - b) Price elasticity of demand is computed as the percentage change in quantity demanded divided by the percentage change in price.
  - c) Price elasticity of demand in the long run would be different from that of the short run
  - d) All the above.
74. The income elasticity of tomatoes is 0.25, it means tomatoes are:
- a) Inferior goods
  - b) Luxury goods
  - c) Normal goods
  - d) Can't say
75. The cross elasticity between personal computers and soft wares is
- a) Positive
  - b) Negative
  - c) Zero
  - d) One
76. The cross elasticity between Bread and DVD is:
- a) Positive
  - b) Negative
  - c) Zero
  - d) One
77. Suppose potatoes have (-) 0.4 as income elasticity. We can say from the data given that:
- a) Potatoes are inferior goods
  - b) Potatoes are superior goods.
  - c) Potatoes are necessities.
  - d) There is a need to increase the income of consumers so that they can purchase potatoes.
78. Suppose the income elasticity of education in private school in India is 1.6. What does this indicate:
- a) Private school education is a luxury.
  - b) Private school education is necessity.
  - c) Private school education is an inferior commodity.
  - d) We should have more private schools.
79. Law of demand is a
- (a) Quantitative statement
  - (b) Qualitative statement
  - (c) Both (a) & (b)
  - (d) Hypothetical
80. The demand for factors of production is
- (a) Fundamental demand
  - (b) Derived demand
  - (c) Market demand
  - (d) Joint demand

81. 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 consumer's income spent on it
82. Other things remaining constant, if the price of the inferior goods decreases then what will be the effect?
- (a) Demand increases
  - (b) Demand decreases
  - (c) Quantity demanded increases
  - (d) Quantity demanded decreases.
83. A fall in price of normal goods leads to:
- (a) Shift in demand curve
  - (b) Fall in demand
  - (c) A rise in consumer's real income
  - (d) A fall in consumer's real income
84. Expansion & contraction of Demand curve occur due to:
- (a) Change in the price of commodity
  - (b) Change in price of substitute or complementary goods
  - (c) Change in income
  - (d) None
85. The price of burgers increases by 25% and the quantity demanded falls by 40% this indicates that demand for burgers is:
- (a) Elastic
  - (b) Inelastic
  - (c) Unitary elastic
  - (d) Perfectly elastic
86. Computer income elasticity if demand increases by 25% and income by 5%.
- (a) 5
  - (b) 1/5
  - (c) 0
  - (d) None
87. For a commodity with a unitary elastic demand curve if the price of the commodity rises, then the consumer's total expenditure on this commodity would
- (a) Increase
  - (b) Decrease
  - (c) Remains constant
  - (d) Either increase or decrease

88. If maize has (-) 0.30 as Income elasticity of demand, then maize will be considered as
- (a) Necessity
  - (b) Inferior good
  - (c) Superior
  - (d) None
89. Which one of the following is correct about the price elasticity of demand of a commodity?
- (a) It remains same under all situations
  - (b) It has several degrees/nature
  - (c) It remains unaffected by the price of any other commodity
  - (d) It is an immeasurable concept.
90. 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.
91. What is income elasticity of demand when income changes by 30% and demand changes by 60%?
- (a)  $1/2$
  - (b) 2
  - (c) 0.33
  - (d) None
92. In case of substitute goods, cross elasticity is
- (a) Negative
  - (b) Zero
  - (c) Positive
  - (d) None of these
93. In case of luxury goods, the income elasticity of demand will be
- (a) Zero
  - (b) Negative but greater than one
  - (c) Positive but greater than one
  - (d) Positive but less than one
94. When price falls by 10% and demand increase by 15%, then elasticity of demand is
- (a) Elastic
  - (b) Inelastic
  - (c) Unitary elastic
  - (d) Zero
95. Which of the following elasticity of demand measures a movement along the demand curve rather than a shift in the curve?
- (a) Income elasticity of demand
  - (b) Price elasticity of demand

- (c) Substitution elasticity of demand
  - (d) None of these
96. When the total expenditure incurred by the consumers on a commodity due to a change in its price remains the same, then the elasticity of demand for that commodity will be:
- (a) Zero
  - (b) One
  - (c) More than one
  - (d) Less than one
97. What is the elasticity between midpoint and upper extreme point of a straight-line continuous demand curve?
- (a) Infinite
  - (b) Zero
  - (c) Greater than one
  - (d) Less than one
98. When the numerical value of cross elasticity between two goods is very high, it means
- (a) The goods are perfect complements and therefore have to be used together.
  - (b) The goods are perfect substitutes and can be used with ease in place of one another.
  - (c) There is a high degree of substitutability between the two goods.
  - (d) The goods are neutral and therefore cannot be considered as substitutes
99. If regardless of changes in its price, the quantity demanded of a good remains unchanged, then the demand curve for the good will be:
- (a) Horizontal
  - (b) Vertical
  - (c) Positively sloped
  - (d) Negatively sloped
100. In case of straight-line demand curve meeting two axis, the price elasticity of demand at the point where the curve meets y – axis would be
- (a) Zero
  - (b) Greater than one
  - (c) Less than one
  - (d) Infinity