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CA FOUNDATION

Assignment

Business Economics

Theory of Demand

1. 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
2. In case of inferior goods like bajra, a fall in its price tends to
 - (a) Make the demand remain constant
 - (b) Reduce the demand
 - (c) Increase the demand
 - (d) Change the demand in an abnormal way
3. 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) 0
 - (b) 1
 - (c) 1.5
 - (d) 2
4. 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

5. Law of demand is a

(a) Quantitative statement

(b) Qualitative statement

(c) Both (a) & (b)

(d) Hypothetical

6. Giffen Paradox is an exception of

(a) Demand

(b) Supply

(c) Production

(d) utility

7. Demand for electricity power is elastic because

(a) It is available at a very high price

(b) It is essential for life

(c) It has many uses

(d) It has many substitutes

8. The commodity whose demand is associated with the name of Sir Robert Giffen?

(a) Necessary good

(b) Luxury good

(c) Inferior good

(d) Ordinary Good

9. Contraction of demand results due to

(a) Increase in price of goods

(b) Decrease in no. of producers

(c) Decrease in output of sellers

(d) Decrease in price of goods

10. Bricks for houses is an example of which kind of demand?

(a) Composite

(b) Competitive

(c) Joint

(d) Derived

11. Expansion and contraction in demand are caused by:

(a) Change in income of buyer

(b) Change in taste and preference of buyer

(c) Change in price of the commodity

(d) Change in price of related goods

12. The demand for factors of production is

(a) Fundamental demand

(b) Derived demand

(c) Market demand

(d) Joint demand

13. Which amongst the following is the right formula for calculating price elasticity of demand using ratio method?

(a) $(Q/P) \times (P/Q)$

(b) $(P/Q) \times (Q/P)$

(c) $(Q/P) \times (Q/P)$

(d) $(P/AQ) \times (1/P)$

14. Change in the quantity demanded in response to the change in the price of same commodity is called:

(a) Change in demand

(b) Change in quantity demanded

(c) Income demand

(d) Cross demand

15. Elasticity between two points:

(a) Point elasticity

(b) Arc elasticity

(c) Cross elasticity

(d) None

16. Perishable commodities will have

(a) Perfectly elastic curve

(b) Perfectly inelastic curve

(c) Elastic

(d) Inelastic

17. Method of demand forecasting does not include?

(a) Mathematical Method

(b) Barometric method

(c) Expert opinion method

(d) Statistical method

18. 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

19. Movement along the same demand curve shows

(a) Expansion of demand

(b) Expansion of supply

(c) Expansion and contraction of demand

(d) Increase and decrease of demand

20. 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

21. If the price of any complement goods rises:

- (a) Demand curve shifts to left
- (b) Demand curve shifts to right
- (c) Demand curve moves downwards
- (d) Demand curve moves upward

22. 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.

23. Normal Goods have _____

- (a) Zero income elasticity
- (b) Negative income elasticity
- (c) Positive income elasticity
- (d) Infinite income elasticity

24. 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

25. Cross elasticity of demand between two perfect substitutes will be

- (a) Very high

- (b) Very low
- (c) Infinity
- (d) Zero

26. Which of the following will affect the demand for non-durable goods?

- (a) Disposable Income
- (b) Price
- (c) Demography
- (d) All of the above

27. If demand is parallel to x axis, what will be the nature of elasticity?

- (a) Perfectly elastic
- (b) Inelastic
- (c) Elastic
- (d) Highly elastic

28. Expansion & contraction of Demand curve occurs due to:

- (a) Change in the price of commodity
- (b) Change in price of substitute or complementary goods
- (c) Change in income
- (d) None

29. In expansion and contraction of demand.

- (a) Demand curve remains unchanged
- (b) Demand curve changes
- (c) Slope of the demand curve changes
- (d) Both (a) & (c) above

30. Assume that real estate developers are building thousands of new student friendly apartments close by your college 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)

31. Suppose the price of movies seen at a theatre rises from 60 per person to 100 per person, the theatre manager observed that the rise in price has led to a fall in attendance at a given movie from 150 persons to 100 persons. What is the price elasticity of demand for the movie? (Arc elasticity)

(a) 1.5

(b) 0.8

(c) 1.00

(d) None of these

32. 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

33. Compute income elasticity if demand increases by 25% and income by 5%.

(a) 5

(b) 1/5

(c) 0

(d) None

34. 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

35. If maize has (-) 0.30 as Income elasticity of demand, then maize will be considered as

(a) Necessity

- (b) Inferior good
- (c) Superior good
- (d) None

36. The price of a good decreases from ₹ 200 to ₹ 120 per unit. If the Price elasticity of demand for it is 3 and the original quantity demanded is 60 units, calculate the new quantity demanded.

- (a) 132
- (b) 112
- (c) 12
- (d) 60

37. Cross elasticity of demand in Monopoly market is:

- (a) Elastic
- (b) Zero
- (c) Infinite
- (d) One

38. 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.

39. 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.

40. 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

41. In case of substitute goods, cross elasticity is

(a) Negative

(b) Zero

(c) Positive

(d) None of these

42. When price falls from ₹ 12 to ₹ 8, the demand rises from 20 to 30 units. Calculate the price elasticity of demand.

(a) 1.5

(b) 2.5

(c) 0.5

(d) 2

43. If the elasticity of demand for college textbooks is -0.1, and the price of textbooks increases by 20%, how much will the quantity demanded change, and in what direction?

(a) The quantity demanded increases by 2%

(b) The quantity demanded decreases by 20%

(c) The quantity demanded decreases by 2%

(d) The quantity demanded remains the same

44. A consumer spends ₹160 on purchasing a commodity when its price is ₹ 2 per unit and spends 192 when the price is 4 per unit. Calculate the price elasticity of demand.

(a) 0.2

(b) 0.3

(c) 0.4

(d) 0.5

45. When the price of cylinder rises from ₹ 120 to ₹ 200, the demand falls from 300 to 200 units. Calculate price elasticity of demand.

(a) 1.00

(b) 0.50

(c) 5.00

(d) None

46. The demand function is given as $Q = 15,000 - 50P$; calculate the elasticity at a price of ₹ 100. (Point Elasticity)

(a) -0.5

(b) 1

(c) 10

(d) +0.5

47. 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

48. When price falls by 10% and demand increase by 15%, then elasticity of demand is

(a) Elastic

(b) Inelastic

(c) Unitary elastic

(d) Zero

49. What is income elasticity when demand of air coolers increases from 950 units to 980 units with an increase in income from ₹ 9,000 to ₹ 9,800?

(a) 0.53

(b) 0.35

(c) 0.43

(d) None

50. In which of the following cases the demand for goods tends 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

51. 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

52. “High priced goods consumed by status seeking rich people to satisfy their need for conspicuous goods” is:

- (a) Veblen effect
- (b) Bandwagon effect
- (c) Snob effect
- (d) Demonstration effect

53. 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

54. 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

55. A 20% increase in the price of tea results in 16% increase in the demand for coffee. Cross elasticity of demand will be:

- (a) 0.80
- (b) 1.25

(c) 1.50

(d) 1.80

56. 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

57. 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

58. The price of the tiffin box is ₹ 100 per unit and the quantity demanded in market is 1,25,000 units. Company increased the price to ₹ 125. Due to this increase in price, quantity demanded decreases to 1,00,000 units. What will be the price elasticity of demand?

(a) 1.25

(b) 0.80

(c) 1.00

(d) None of the above

59. The price of a commodity decreases from ₹ 20 to ₹ 16 and the quantity demanded of it increases from 50 to 60 units, then the coefficient of price elasticity will be

(a) 1.00

(b) -1.00

(c) 1.5

(d) -1.5

60. Generally, when the income of consumer increases, he goes in for superior goods, leading to a fall in demand for inferior goods. It means, Income elasticity of demand for superior goods

- (a) Less than 1
- (b) Unitary
- (c) Zero
- (d) Negative

61. The quantity demanded of X commodity increases by 10% when the price of Y commodity increases by 40%, the cross- price elasticity of demand between X and Y commodity will be :

- (a) 0.25
- (b) 0.25
- (c) 4.00
- (d) 4.00

62. From the given diagram, choose the correct sequence of elasticity at the points mentioned on the straight-line linear curve.

- (a) Elasticity at point Q > 1 , $R = 1$, $S < 1$ and $T = 0$
- (b) Elasticity at point P is 0, $Q < 1$, $R = 1$, $S > 1$ and $T = 0$
- (c) Elasticity at point P = 0, $Q > 1$, $R = 1$, $S < 1$ and $T = 0$
- (d) None of these

Read the following data and answer questions 63-65

A, B and C are three commodities. A and B are complementary goods whereas A and C are substitutes. Mr. XYZ, the shop keeper, sells the commodity A at ₹ 40 per piece. At this price he is able to sell 200 pieces of A per month.

After some time, he decreases the price of A to ₹ 20 per piece. Following the price decrease, he is able to sell 300 pieces of A per month.

The demand for B increases from 50 units to 100 units.

The demand for commodity C decreases from 150 units to 100 units.

63. The price elasticity of demand when price of A, decreases from ₹ 40 per piece to ₹ 20 per piece will be equal to:

- (a) 0.6
- (b) 1

(c) 0.5

(d) 1.5

64. The cross elasticity of demand from commodity B when the price of A decreases from ₹ 40 per piece to ₹ 20 per piece will be equal to:

(a) 1.5

(b) +1.5

(c) +1

(d) -1

65. Suppose income of the consumers increases by 100% and the demand for commodity A increases by 40% what will be the income elasticity of demand for commodity A?

(a) 0.04

(b) 0.4

(c) 4.00

(d) -4.00

66. A consumer demands 40Kg of a commodity when its price is ₹ 1 per Kg. if the price increases by ₹ 0.10, what would be the quantity demanded? Price elasticity is equal to (-)1.

(a) 40

(b) 36

(c) 4

(d) 30

67. 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

68. If the price of laptops increase from ₹ 20,000 to ₹ 20,010 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

69. If demand for milk is inelastic, and prices of milk increases, which of the following is likely to occur?

(a) Quantity demanded will fall by a relatively large amount

(b) Quantity demanded will fall by a relatively small amount

(c) Quantity demanded will rise in the short run, but fall in the long run

(d) Quantity demanded will rise by a relatively large amount

70. 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

71. Goods like Air conditioners and Refrigerators lies between:

(a) Inferior goods and necessities

(b) Luxuries and inferior goods

(c) Necessaries and luxuries

(d) None of the above

72. 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

73. 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?

- (a) The preference of the individual
- (b) His monetary income
- (c) Price of the commodity
- (d) Price of related goods

74. Which of the following statements is correct?

- (a) With the help of statistical tools, the demand can be forecasted accurately.
- (b) The more the number of substitutes of a commodity, more elastic is the demand.
- (c) Demand for butter is perfectly elastic.
- (d) Gold jewellery will have negative income elasticity.

75. 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 respond 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.

76. Suppose Breads have 0.4 as income elasticity. We can say from the data given that:

- (a) Breads are inferior goods
- (b) Breads are superior goods
- (c) Breads are necessities
- (d) There is a need to increase the income of consumers so that they can purchase breads

77. The price of a commodity decreases from ₹ 6 to ₹ 4 and the quantity demanded of the good increases from 10 units to 15 units, find the coefficient of price elasticity.

- (a) 1.5
- (b) 2.5
- (c) 1.5
- (d) 0.5

- 78.** With an increase in the price of diamond, the quantity demanded also increases. This is because it is a:
- (a) Substitute good
 - (b) Complementary good
 - (c) Conspicuous good
 - (d) None to the above
- 79.** When total demand for a commodity whose price has fallen increases, it is due to:
- (a) Income effect
 - (b) Substitution effect
 - (c) Complementary effect
 - (d) Price effect
- 80.** Torch and battery are complements. A rise in the price of torch will _____ the demand for battery and the quantity of battery will _____
- (a) Increase; increase
 - (b) Increase; decrease
 - (c) Decrease; decrease
 - (d) Decrease; increase
- 81.** Play station and X-box are substitutes. If the price of play station increases, the demanded for X-box will
- (a) Increase or decrease but the demand curve for play station will not change.
 - (b) Increase and the demand curve for X-box will shift rightwards.
 - (c) Not change but there will be a movement along the demand curve for X-box.
 - (d) Decrease and the demand curve for X-box will shift leftwards.
- 82.** What will happen in the wheat market, if buyers are expecting higher wheat prices in the near future?
- (a) The demand for wheat will increase
 - (b) The demand for wheat will decrease
 - (c) The demand for wheat will be unaffected
 - (d) None of the above

83. 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 a 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 time for the consumer to adjust to the change in prices

84. An increase in price will result in an increase in total revenue if:

- (a) The percentage change in quantity demanded is less than the percentage change in price.
- (b) The percentage change in quantity demanded is greater than the percentage change in price
- (c) Demand is elastic.
- (d) The consumer is operating along a linear demand curve at a point at which the price is very high and the quantity demanded is very low

85. Point elasticity is useful for which of the following situations?

- (a) The restaurant is considering doubling the price of its dishes.
- (b) A book shop is considering lowering the price of its most expensive books by 50 percent.
- (c) An automobile producer is interested in determining the response of consumers to the price of two-wheelers being lowered by ₹ 100.
- (d) None of the above.

86. A decrease in price will result in an increase in total revenue if:

- (a) The percentage change in quantity demanded is less than the percentage change in price.
- (b) The percentage change in quantity demanded is greater than the percentage change in price.
- (c) Demand is inelastic
- (d) The consumer is operating along a linear demand curve at a point at which the price is very low and the quantity demanded is very high.

87. 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 being 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.

88. Given the following four possibilities, which one results in an increase in total consumer expenditure?

(a) Demand is unitary elastic and price falls.

(b) Demand is elastic and price rises.

(c) Demand is inelastic and price falls.

(d) Demand is inelastic, and prices rises.

89. The elasticity of demand is 2.0. is the demand curve relatively steep or flat? Will a fall in price raise total revenue or lower it? Note: we present the elasticity in terms of its absolute value.

(a) Relatively steep; raise total revenue

(b) Relatively flat; raise total revenue

(c) Relatively steep; lower total revenue

(d) Relatively flat; lower total revenue

90. Henry Ford famously mass-produced cars at the beginning of the twentieth century, starting Ford Motor Company. He made millions because mass production made cars cheap to make, and he passed some of the savings to the consumer in the form of a low price. Cars became a common sight in the United States thereafter. Keeping total revenue and its relationship with price in mind, do you expect the demand for cars to be elastic or inelastic given the story of Henry Ford?

(a) Elastic

(b) Inelastic

(c) Both (a) and (b)

(d) Neither (a) nor (b)

91. If demand is _____ then price cuts will _____ spending?

(a) Inelastic; increase

(b) Elastic; increase

(c) Elastic, decrease

(d) None of the above

- 92.** Average income increase from ₹ 20,000 p.a. to ₹ 22,000 p.a. Quantity demanded per year increases 5000 to 6000 units. Which of the following is correct?
- (a) Demand is price inelastic
 - (b) The good is inferior
 - (c) Income elasticity is -2
 - (d) The good is normal
- 93.** If a product is a Veblen good?
- (a) Demand is inversely related to income
 - (b) Demand is inversely related to price
 - (c) Demand is directly related to price
 - (d) Demand is inversely related to the price of substitutes
- 94.** Which of the following will NOT cause a shift in the demand curve for compact discs?
- (a) A change in wealth
 - (b) A change in the price of compact discs
 - (c) A change in income.
 - (d) A change in the price of pre-recorded cassette tapes
- 95.** For a normal good?
- (a) The price elasticity of demand is negative the income elasticity of demand is negative
 - (b) The price elasticity of demand is positive the income elasticity of demand is negative
 - (c) The price elasticity of demand is negative the income elasticity of demand is positive
 - (d) The price elasticity of demand is positive; the income elasticity of demand is positive
- 96.** An increase in income should?
- (a) Shift demand for an inferior product outward
 - (b) Shift demand for an inferior product inward
 - (c) Shift supply for an inferior product outward
 - (d) Shift supply for an inferior product inward
- 97.** Adding up the quantities demanded of a good by different people facing the same price gives us the?

- (a) Supply curve
- (b) Market demand curve
- (c) Demand curve
- (d) Market supply curve

98. The long-run elasticity of oil demand has been estimated at -0.5. If the price of oil rises by 10%, how much will the quantity of oil demanded fall?

- (a) 5%
- (b) 0.5%
- (c) 2%
- (d) 20%

99. Which one of the following four possibilities, results in an increase in total consumer expenditure?

- (a) Demand is unitary elastic and price falls
- (b) Demand is elastic and price rises
- (c) Demand is inelastic and price falls
- (d) Demand is inelastic and price rises

100. A consumer spends ₹ 80 on a commodity when price is ₹ 1 per unit. If the price increases by ₹ 1, what would be his expenditure? $E_p = -0.4$.

- (a) 48
- (b) 96
- (c) 32
- (d) 80

101. When economists speak of the Utility of a certain product, they are referring to –

- (a) Demand for the product
- (b) Usefulness of the product in consumption
- (c) Satisfaction gained from consuming the product
- (d) Rate at which consumers are willing to exchange one good for another

102. Utility may be defined as –

- (a) Power of Commodity to satisfy wants

- (b) Usefulness of a Commodity
- (c) Desire for a Commodity
- (d) None of the above

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

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

104. Which of the Utility approaches suggest that Utility can be measured and quantified?

- (a) Cardinal
- (b) Ordinal
- (c) Both Cardinal and Ordinal
- (d) Neither approach makes such suggestion

105. If we assume that Utility can be expressed in numbers, we are adopting –

- (a) Cardinal Approach
- (b) Ordinal Approach
- (c) Both (a) and (b)
- (d) Neither (a) nor (b)

106. The cardinal Approach to Utility Analysis assumes that Utility is measurable and quantifiable. This means –

- (a) Utility can be expressed in numbers
- (b) Utility can only be ranked across products
- (c) Utility schedule is derived by the Consumer
- (d) All of the above

107. Marginal utility can be stated by –

- (a) $T_n - T_{n-1}$
- (b) Additional Utility derived from additional unit of commodity

(c) Change in Total Utility \div Change in Quantity

(d) All of the above

108. _____ is the sum total of the Utility derived from additional units of a commodity

(a) Average Utility

(b) Marginal Utility

(c) Total Utility

(d) Ordinal Utility

109. The law of Diminishing Marginal Utility states that the more a consumer consumes a product, he derives ____ from additional consumption.

(a) Equal Utility

(b) Higher Utility

(c) Lesser Utility

(d) Infinite Utility

110. Marginal Utility of a commodity depends on its quantity and is –

(a) Inversely proportional to its quantity

(b) Not proportional to its quantity

(c) Independent of its quantity

(d) None of the above

111. As per the Law of Diminishing Marginal Utility Continues Consumption means there should be ____ between the consumption of one unit and another units.

(a) Equal time gap or interval

(b) No time gap or interval

(c) Long time gap or interval

(d) Any of the above

112. The law of Diminishing Marginal Utility does not apply to _____, where personal preference are dominant.

(a) Music

(b) Hobbies like stamp and Coin Collection

(c) Both (a) and (b)

(d) Neither (a) nor (b)

113. The Law of Diminishing Marginal Utility will not hold good if the Income of the Consumer –

(a) Increases

(b) Decreases

(c) Remains constant

(d) Both (a) and (b)

114. Utility may be affected by the presence or absence of

(a) Substitute Goods

(b) Complementary Goods

(c) Both (a) and (b)

(d) Neither (a) nor (b)

115. The Consumer will attain maximum satisfaction, and will be in equilibrium when MU of money spent on various goods that he buys, are –

(a) Zero

(b) Decreasing

(c) Increasing

(d) Equal

116. The consumer will attain maximum satisfaction, and will be in equilibrium when ___ that he buys, are equal.

(a) MU of different goods

(b) MU of money as such

(c) MU of money spent on various goods

(d) All of the above

117. Identify the correct equation used for calculating equilibrium in case of two commodities.

(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) $\frac{MU_x}{MU_y} \neq \frac{P_x}{P_y}$

118. As per the Ordinal Approach –

- (a) Measurement of Utility is not possible through money
 (b) Measurement of Utility is possible but it cannot be ranked
 (c) Measurement of Utility is not possible in Cardinal Numbers, but it can be ranked
 (d) Measurement and ranking of Utility is possible

119. Ordinal Utility Approach is also called –

- (a) Indifference Curve Approach
 (b) Hicks and Allen Approach
 (c) Both (a) and (b)
 (d) Neither (a) nor (b)

120. Which of the approaches helps to explain the Law of Demand?

- (a) Cardinal Approach
 (b) Ordinal Approach
 (c) Both (a) and (b)
 (d) Neither (a) nor (b)

121. _____ shows various combinations of two products that give same amount of satisfaction.

- (a) Isocost Curve
 (b) Indifference Curve
 (c) Marginal Utility Curve
 (d) Isoquant

122. The Consumer is said to be ___ among different point on an IC –

- (a) Indifferent
 (b) Interesting

(c) Irrational

(d) intelligent

123. An indifference Curve slopes down towards right, since more of one commodity and less of another result in –

(a) Same satisfaction

(b) Greater satisfaction

(c) Maximum satisfaction

(d) Decreasing expenditure

124. _____ depicts complete picture of consumer's taste and preferences.

(a) Budget Line

(b) Average Cost Curve

(c) Indifference Map

(d) Marginal Revenue Curve

125. A set of _____ is called Indifference Map.

(a) Demand Curves

(b) Marginal Utility Curves

(c) Cost Curves

(d) Indifference Curves

126. In the context of Indifference Curve Analysis, MRS stands for –

(a) Marginal Rate of Substitution

(b) Marginal Rate of Satisfaction

(c) Marginal Return of Substitution

(d) Marginal Return of Satisfaction

127. If marginal rate of substitution is increasing then shape of indifference curve is _____

(a) Concave

(b) Convex

(c) L-shape

(d) None of these

128. Price Line is also called –

(a) Budget Line

(b) Budget Constraint Line

(c) Both (a) and (b)

(d) Neither (a) nor (b)

129. The price line/Budget line of a consumer is

(a) Parallel to X – axis

(b) Parallel to Y – axis

(c) Straight line joining two axis

(d) None of the above

130. At the equilibrium point on Indifference Curve which of the following equation is satisfied?

(a) $MRS_{xy} = MU_x \div MU_y < P_x \div P_y$

(b) $MRS_{xy} = MU_x \div MU_y = P_x \div P_y$

(c) $MRS_{xy} = MU_x \div MU_y = P_x \div P_y$

(d) None of the above

131. Rational decision – making requires that –

(a) One's choice be arrived at logically and without errors

(b) One's choices be consistent with one's goals

(c) One's choice never vary

(d) One's makes choice that do not involve trade-offs

132. A Buyer's willingness to pay is that Buyer's –

(a) Minimum amount he is willing to pay for a product

(b) Producer Surplus

(c) Consumer Surplus

(d) Maximum Amount he is willing to pay for a product

133. Consumer Surplus is the area –

- (a) Below the Demand Curve and above the price
- (b) Above the Supply Curve and below the price
- (c) Above the Demand Curve and below the price
- (d) Below the Supply Curve and above the price

134. “The excess of price which he would be willing to pay rather than go without the thing over that which he actually does pay in the economic measure of his surplus satisfaction” is given by

- (a) Alfred Marshall
- (b) Lionel Robbins
- (c) J.R. Hicks
- (d) Edge Worth

135. A Monopolist will try to use Consumer’s Surplus to his advantage by adopting

- (a) Price Rigidity
- (b) Price Exploitation
- (c) Price Discrimination
- (d) Price Equilibrium

136. Consumer Surplus is highest in the case of –

- (a) Necessities
- (b) Luxuries
- (c) Comforts
- (d) All of the above

137. If MU_x is the Marginal Utility of product X and P_x is the price of Product X, a Rational consumer will consume the Product X until –

- (a) $MU_x > P_x$
- (b) $MU_x < P_x$
- (c) $MU_x \leq P_x$
- (d) $MU_x = P_x$

138. A Buyer's willingness to pay is that Buyer's –

- (a) Minimum amount he is willing to pay for a product
- (b) Producer Surplus
- (c) Consumer Surplus
- (d) Maximum Amount he is willing to pay for a product

139. Budget Line shows all the combinations of ____ products.

- (a) Two
- (b) Three
- (c) Many
- (d) None of the above

140. Convexity of IC is due to –

- (a) Increasing trend of MRS
- (b) Decreasing trend of MRS
- (c) Constant trend of MRS
- (d) No trend of MRS at all

141. Which of the following is not a consumption:

- (a) Burning of gas when cooking of food
- (b) Burning of furniture in an accident of fire
- (c) Eating of an Ice-Cream
- (d) Burning of crackers on Diwali

142. Which of the following Utility measurement approaches is based on the Marshallian school of thought?

- (a) Cardinal Utility Approach
- (b) Ordinal Utility Approach
- (c) Independent variable Approach
- (d) Both (a) and (b)

143. Which one of the following assumptions is not necessary for the Cardinal Utility Theory?

- (a) Rationality of the Consumer
- (b) Constant Marginal Utility of Money
- (c) Perfectly Competitive Market
- (d) Additivity of Utility

144. Marginal Utility –

- (a) Will always be positive
- (b) Will always be negative
- (c) Can be Positive or negative but not zero
- (d) Can be Positive or negative or zero

145. Total Utility is maximum when –

- (a) Marginal Utility is zero
- (b) Marginal Utility is at its highest point
- (c) Marginal Utility is equal to Average Utility
- (d) Average Utility is maximum

146. After reaching saturation point consumption of additional units of commodity causes

- (a) Total utility to fall and marginal utility to increase
- (b) Total and marginal utility both to increase
- (c) Total utility to fall and marginal utility to become negative
- (d) Total utility to become negative and marginal utility to fall

147. Which of the following relation is true with MU?

- (a) When MU positive, Total utility rises at a diminishing rate
- (b) When marginal utility is zero, total utility is maximum
- (c) When marginal utility is negative, total utility is diminishing
- (d) All of the above

148. The Marginal Utility Curve is –

- (a) Horizontal to Y axis
- (b) Demand Curve of that commodity

(c) Vertical to X axis

(d) None of the above

149. Total Utility derived by Sriram by eating 5 Cakes is 125. Marginal Utility of the 6th Cake is – 30. What will be the Total Utility for 6 Cakes

(a) -30

(b) 125

(c) 95

(d) 155

Answer the question (# 150 & #151) based on the given table.

Units	T U	MU
1	40 0	
2		360
3	76 0	

150. Total Utility derived?

(a) 760

(b) 200

(c) 400

(d) 380

151. Marginal utility of 3 units is?

(a) 400

(b) 380

(c) 200

(d) 100

Use the following table and answer the next 13 Questions.

Units	TU	MU
0	0	?
1.	1800	M
2.	N	1600
3.	4800	O
4.	P	1200
5.	7000	Q
6.	R	800
7.	8400	S
8.	8800	T
9.	U	200
10.	V	0
11.	8800	W
12.	X	-600

152. Find the Value of “?” in the above Table

(a) 0

(b) 1

(c) 1800

(d) Cannot be determined

153. Find the Value of “N” in the above Table

(a) 0

(b) 1

(c) 1800

(d) Cannot be determined

154. Find the Value of “O” in the above Table.

(a) 2

(b) 3400

(c) 1600

(d) Cannot be determined

155. Find the Value of “P” in the above Table.

(a) 3

(b) 4800

(c) 1400

(d) Cannot be determined

156. Find the Value of “P” in the above Table.

(a) 6000

(b) 4

(c) 1200

(d) Cannot be determined

157. Find the Value of “Q” in the above Table.

(a) 7000

(b) 5

(c) 1000

(d) Cannot be determined

158. Find the Value of “R” in the above Table.

- (a) 6
- (b) 7800
- (c) 800
- (d) Cannot be determined

159. Find the Value of “S” in the above Table.

- (a) 7
- (b) 8400
- (c) 600
- (d) Cannot be determined

160. Find the Value of “T” in the above Table.

- (a) 8800
- (b) 400
- (c) 8
- (d) Cannot be determined

161. Find the Value of “V” in the above Table.

- (a) 9000
- (b) 200
- (c) 9
- (d) Cannot be determined

162. Find the Value of “V” in the above Table.

- (a) 9000
- (b) 0
- (c) 10
- (d) Cannot be determined

163. Find the Value of “W” in the above Table.

- (a) 200
- (b) -200

- (c) 11
- (d) Cannot be determined

164. Find the Value of “X” in the above Table.

- (a) 600
- (b) -600
- (c) 8200
- (d) -8200

165. Which of the following laws states that the more a consumer consumes a product, the lesser the Utility derives from additional consumption?

- (a) Law of Equal – Marginal Utility
- (b) Law of Ordinal Utility
- (c) Law of Cardinal Utility
- (d) Law of Diminishing Marginal Utility

166. The 3rd glass of water gives lesser satisfaction to a thirsty person. This is a case of

- (a) Law of Demand
- (b) Law of Diminishing Returns
- (c) Law of Diminishing Utility
- (d) Law of Supply

167. If MU of money spent on Commodity X is greater than the MU of money spent on Commodity Y, the consumer will withdraw some money from the purchase of Y, and will spend it on X, till the MU of money in the two cases becomes equal. Which theory says so?

- (a) Theory of Total Utility
- (b) Theory of Diminishing Marginal Utility
- (c) Theory of Equi-Marginal Utility
- (d) Theory of Diminishing Marginal Returns

168. Which of the following is not an assumption of Law of Diminishing Marginal Utility?

- (a) Units consumed should be identical in all respects
- (b) There is no time gap between consumption

- (c) Units consumed should be of a standard
- (d) None of the above

169. Which of the following is an assumption

- (a) Perfect Competition
- (b) Continuous Consumption
- (c) Constant Demand
- (d) Ordinal Approach to Utility

170. Which of the following laws say “If a person has a product which can be put to several uses, he will distribute it among these uses in such a way that it has the same Marginal Utility”?

- (a) Law of Equi – Marginal Utility
- (b) Law of Diminishing Marginal Utility
- (c) Law of Utility
- (d) Law of Diminishing Marginal Returns

171. Which of the following statements regarding Ordinal utility is true?

- (a) Utility can be measured, but cannot be ranked in order of preferences
- (b) Utility can neither be measured nor be ranked in order of preference
- (c) Utility can be measured and also be ranked in order of preferences
- (d) Utility cannot be measured, but can be ranked in order of preferences

172. Indifference Curve is convex slope, the reason is _____

- (a) Increasing Marginal rate of substitution
- (b) Constant Marginal rate of substitution
- (c) Diminishing Marginal rate of substitution
- (d) None of the above

173. Which of the following statements regarding Indifference Curve is not true?

- (a) An indifference Curve always has a positive slope
- (b) Indifference Curve slopes downward to the right
- (c) Indifference Curves do not intersect each other

(d) Higher level of Indifference Curve shows higher level of Utility

174. Which of the following is not a property of the indifference Curve?

- (a) Indifference Curves are convex to the origin
- (b) Indifference Curves slopes downwards from left to right
- (c) No two Indifference Curves can cut each other
- (d) None of the above

175. Which of the following is not an assumption of the Theory of Demand based on analysis of Indifference Curves?

- (a) Given scale of preferences as between different combinations of two goods
- (b) Diminishing Marginal Rate of Substitution
- (c) Constant Marginal utility of money
- (d) Consumers would always prefer more of a particular good to less of it, other things remaining the same

176. When two goods are perfect substitutes of each other, the Indifference Curve is a –

- (a) Straight Line on which MRS is Constant
- (b) Straight Line on which MRS is increasing
- (c) Concave on which MRS is diminishing
- (d) Convex on which MRS is constant

177. The farther the Indifference Curve is from the origin, then –

- (a) The higher is the satisfaction level
- (b) The lower is the satisfaction level
- (c) The same satisfaction level will be obtained
- (d) Nothing can be said about satisfaction

178. Combinations lying on a higher indifference Curve contain more of –

- (a) One Commodity only
- (b) Both Commodities
- (c) Either (a) or (b)
- (d) Neither (a) nor (b)

179. An Indifference Map can also be drawn such that two Indifference Curve cut each other. This statement is –

- (a) True
- (b) False
- (c) Partially true
- (d) Nothing can be said

180. Every Point below the Price Line represents –

- (a) Over – Spending by the Consumer
- (b) Under – Spending by the Consumer
- (c) Full Spending by the Consumer
- (d) Any of the above

181. As Consumers' Income and Spending increase, the Price Line of Budget Line – increase, the price Line of Budget Line –

- (a) Remains at the same level
- (b) Shift outward away from the origin
- (c) Shift income nearer to the origin
- (d) Any of the above

182. Consumer's objective of maximizing satisfaction and reaching the highest possible Indifference Curve is always restricted by –

- (a) Total Utility Curve
- (b) Marginal utility Curve
- (c) Marginal Rate of Substitution
- (d) Price Line

183. At the equilibrium point of Indifference Curve which of the following equation is satisfied?

- (a) Slope of Price Line = Slope of IC
- (b) Slope of Price Line > Slope of IC
- (c) Slope of Price Line < Slope of IC
- (d) Any of the above

184. MU_x of X is 40 and of Y is 30. If the price of Y is ₹ 9 what will be the price of X at equilibrium?

- (a) ₹ 9
- (b) ₹ 30
- (c) ₹ 15
- (d) ₹ 12

185. What will be the Marginal Utility of Product A, if the prices of A and B are ₹ 10 and ₹ 20 respectively, and the Marginal Utility of Product B is 50, assuming that the Consumer is at equilibrium?

- (a) ₹ 100
- (b) ₹ 25
- (c) ₹ 250
- (d) ₹ 4

186. Which of the following is not an assumption in Consumer Equilibrium analysis under Indifference Curve Approach?

- (a) There is a given Indifference Map with different levels of satisfaction
- (b) Income of the Consumer is fixed
- (c) Price of Commodities are constant
- (d) Only one Commodity is considered for the purpose of analysis

187. Consumer Surplus can be best represented as –

- (a) What a Consumer is ready to pay, less what he actually not pays
- (b) What a Producer actually produces, less, what actually pays
- (c) What a Consumer is ready to pay, less, what he actually pays
- (d) What a Consumer is ready to pay willingly, less, what he is forced to pay

188. In case of necessities, consumer surplus is?

- (a) Infinite
- (b) Zero
- (c) Equals to one

(d) More than one

189. Which of the following is / are the conditions of theory of consumer surplus if price is same for all the units purchased?

- (a) Consumer gains extra utility or surplus
- (b) Consumer surplus for the last commodity
- (c) Both
- (d) None

190. In the concept of Consumer's Equilibrium and Consumer's Surplus, for the quantity purchased at the equilibrium level –

- (a) Consumer's Surplus is positive
- (b) Consumer's Surplus is zero
- (c) Consumer's Surplus is negative
- (d) Any of these

191. A consumer consumed 3 units of a product. Marginal Utilities derived from the first two units are ₹ 500 and ₹ 400. If the price of the product is ₹ 300 per units and the Consumer is in equilibrium at 3 units, the Consumer Surplus will be –

- (a) 300
- (b) 400
- (c) 500
- (d) Cannot be determined

192. Which of the following statements regarding Consumer Surplus is not true?

- (a) Consumer Surplus is useful for designing Government policies and implementing welfare programs
- (b) Consumer Surplus helps the monopolist in fixing the price of a commodity
- (c) On the basis of Consumer Surplus only domestic trade can be advocated and international trade should be avoided
- (d) consumer surplus can also be used to measure the health of an economy.

Use the following diagram to answer the next 5 questions. MM' is the Marginal Utility Curve.

193. In the above diagram, Market Price at Consumer Equilibrium level is given by –

- (a) OA
- (b) OC
- (c) MM
- (d) None of the above

194. In the above diagram, the Consumer attains Equilibrium level consuming _____ units

- (a) OA
- (b) OC
- (c) MM
- (d) None of the above

195. In the above diagram, the Consumer's Total Utility is given by –

- (a) Area under OMBC
- (b) Area under OABC
- (c) Area under AMB
- (d) Cannot be determined

196. In the above diagram, the total price paid by the Consumer is given by –

- (a) Area under OMBC
- (b) Area under OABC
- (c) Area under AMB
- (d) Cannot be determined

197. In the above diagram, the Consumer's Surplus given by –

- (a) Area under OMBC
- (b) Area under OABC
- (c) Area under AMB
- (d) Cannot be determined

198. Suppose there are three identical vases available to be purchased. Buyer 1 is willing to pay ₹ 30 for one, Buyer 2 is willing to pay ₹ 25 for one, and Buyer 3 is willing to pay ₹ 20 for one. If the price is ₹ 25, how many vases will be sold and what is the value of consumer surplus in this market?

- (a) Three vases will be sold and consumer surplus is Rs.80
- (b) One vase will be sold and consumer surplus is Rs. 5
- (c) One vase will be sold and consumer surplus is Rs.30
- (d) Two vases will be sold and consumer surplus is Rs.5

199. If the value of MU_x/P_x is more than MU_y/P_y , then the Consumer –

- (a) Will increase the Consumption of Product X reduce Product Y
- (b) Will reduce the Consumption of Product X reduce Product Y
- (c) Will consume more of Product X and Y
- (d) Will consume less of Product X and Y

200. Which among the following is the drawback of Consumer Surplus (as explained in Marginal utility analysis)?

- (a) It is highly hypothetical and imaginary
- (b) It ignores independence between goods
- (c) It cannot be measured in terms of money because Marginal Utility of money changes
- (d) All of the above

Answers

1.	D
2.	B
3.	B
4.	C
5.	B
6.	A
7.	C
8.	C
9.	A
10.	D
11.	C
12.	B
13.	A
14.	B
15.	B
16.	B

17.	A
18.	B
19.	C
20.	B
21.	A
22.	D
23.	C
24.	C
25.	A
26.	D
27.	A
28.	A
29.	D
30.	A
31.	B
32.	A

33.	A
34.	C
35.	B
36.	A
37.	B
38.	C
39.	B
40.	B
41.	C
42.	A
43.	C
44.	C
45.	B
46.	A
47.	C
48.	A

49.	B
50.	D
51.	C
52.	A
53.	B
54.	B
55.	A
56.	B
57.	C
58.	B
59.	B
60.	A
61.	B
62.	A
63.	B
64.	D
65.	B

66.	B
67.	C
68.	A
69.	B
70.	B
71.	C
72.	D
73.	C
74.	B
75.	D
76.	C
77.	C
78.	C
79.	D
80.	C
81.	B
82.	A

83.	C
84.	A
85.	C
86.	C
87.	B
88.	D
89.	B
90.	A
91.	B
92.	D
93.	C
94.	B
95.	C
96.	B
97.	B
98.	A
99.	D

100.	B
101.	B
102.	A
103.	B
104.	A
105.	A
106.	A
107.	D
108.	B
109.	C
110.	A
111.	B
112.	C
113.	D
114.	C
115.	D
116.	C

117.	A
118.	C
119.	C
120.	C
121.	B
122.	A
123.	A
124.	C
125.	D
126.	A
127.	A
128.	C
129.	C
130.	C
131.	B
132.	D
133.	A

134.	A
135.	C
136.	A
137.	D
138.	D
139.	A
140.	B
141.	B
142.	A
143.	C
144.	D
145.	A
146.	C
147.	D
148.	B
149.	C
150.	A

151.	A
152.	A
153.	C
154.	B
155.	C
156.	A
157.	C
158.	B
159.	C
160.	B
161.	A
162.	A
163.	B
164.	C
165.	D
166.	C
167.	C

168.	D
169.	B
170.	A
171.	D
172.	C
173.	A
174.	D
175.	C
176.	A
177.	A
178.	C
179.	B
180.	C
181.	B
182.	D
183.	A
184.	D

185.	B
186.	D
187.	C
188.	A
189.	C
190.	B
191.	A
192.	C
193.	A
194.	D
195.	A
196.	D
197.	C
198.	D
199.	A
200.	D

