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Basic Concepts of Economics

This Chapter Includes: Definitions of Economics, Scope of Economics, Subject Matter of Economics, Nature of Economics, Central Problem of all Economies, Wealth and Welfare, Money, Markets, Investment, Production, Consumption, Saving, Income, The Concept of Consumer Surplus, Law of diminishing Marginal Utility, Notion of the Law, Production Possibility Curve (PPC), Law of Demand, Demand Schedule, Demand Curve, Substitution Effect, Determinants of Demand, Movement and shift of Demand, Elasticity of Demand, Price Elasticity of Demand, Determinants of Elasticity of Demand, Importance of Price Elasticity of Demand, Income and Cross Elasticity, Law of Supply, Elasticity of Supply, Application, Returns to Scale, Cost Function, Short run Costs, Long Run Cost, Why is LAC Curve U-Shaped.

Economic problems arise due to two reasons

- (a) Unlimited wants
- (b) Scarce resources

Definitions

1. Wealth Definition:

- (i) **Adam Smith:** Economics is a Science which studies the nature and causes of the generation of wealth nations.
- (ii) **J.B. Say:** Economics is the science which deals with wealth.

2. Welfare Definition:

- (i) **Alfred Marshall:** Economics is a study of mankind in the ordinary business of life. It examines that part of individual & social action which is most closely connected with the attainment & with the use of material requisites of well-being".
- (ii) **A.C. Pigou:** The range of our inquiry becomes restricted to that part of social welfare that can be brought directly or indirectly into relation with the measuring rod of money.

3. Scarcity definition:

- (i) **Lionel Robbins:** Economics is the science which studies human behaviour as a relationship between ends and scarce means which have alternative uses.

4. Growth Definition:

- (i) **Samuelson:** Economics is the study of how men and society choose, with or without the use of money, to employ scarce productive resources which could have alternative uses to produce various commodities over time and distribute them for consumption now and in future amongst various people.

- (ii) **Keynes:** The science which treats the phenomena arising out of the economic activities of mankind in society.

Scarcity: The situation in which the quantity of resources is insufficient to meet all wants.

Difference between Micro Economics and Macro Economics

Micro Economics	Macro Economics
Study of economic behaviour of an individual, firm or industry in the national economy. It includes following:	Study of economic behaviour of large aggregates. It includes following:
<ul style="list-style-type: none"> • Theory of Product pricing • Theory of consumer behaviour • Theory of Factor pricing • Location of an industry • Study of a firm 	<ul style="list-style-type: none"> • Theory of National Income & output • Theory of Employment • Theory of money • Theory of general price level • Theory of Economic growth
Example: Lock out in TELCO	Example: Per capita income of India

Nature of Economics**1. Economics is Both a Science and an art**

Science: It is a systematized body of knowledge which studies the relationship between cause and effect.

Following reasons proves, economics is a science

It has cause and effect relationship. Example, Law of demand.

(a) It is capable of measurement in terms of money.

Art: Art is the practice of knowledge.

Following reasons proves, economics is a art

(a) It prescribes ideal solutions to various problems.

(b) To formulate a suitable monetary, fiscal and business policy to contain inflation and deflation.

2. Economics is both positive and normative science

(i) Positive Science: A positive science deals with things as they are.

It states that what is and not what ought to be. It is concerned with the facts about the economy.

Like

(a) Analysis of relationship between the price and quantity demanded.

(b) Higher levels of unemployment will lead to higher levels of inflations.

(ii) Normative Science: Economics involves value judgment. It is prescriptive in nature and described what should be the things. Method to correct undesirable economic happenings.

Like

(a) Reducing inequality should be major priority for mixed economy.

(b) Government ought to guarantee that farmer's income will not fall if harvest is poor.

Methods of Study

1. **Deductive Method:** This method is also called abstract, analytical and priori method as it is based on abstract reasoning and not on actual facts.

Logic proceeds from general to particular.

2. **Inductive Method:** In this method conclusions are drawn on the basis of collection and analysis of facts relevant to the inquiry.

Logic proceeds from particular to general.

Central Economic Problems: Economic problem is concerned with the use of scarce resources among alternative human wants and in using these resources towards the end of satisfying wants as fully as possible.

Four Central Economic Problems

What to produce: Human wants are unlimited and resources are limited to satisfy human wants. Then question arise what goods are to be produced and in which quantity.

How to Produce: An economy has to choose between labour intensive and capital intensive technique. A labour surplus economy chooses labour intensive technique and capital surplus economy chooses capital intensive technique.

For whom to produce: It has to decide about the shares of different people in the national cake of goods and services.

What provision should be made for economic growth: An economy has to decide how much saving and investment should be made for future progress.

Production Possibilities Curve (PPC)

PPC is also known as Production possibility frontier and transformation curve.

All points on PPC curve shows that goods and services are produced at least cost and no resource is wasted.

PPC may be straight line if opportunity cost is constant.

PPC is negative sloped not due to increasing opportunity cost but due to scarcity, as at any point of time we have limited resources.

PPC is **Concave** to the origin due to increasing opportunity cost. [It defines productive efficiency in the context of that Production Set.]

Economic Growth is Possible in the Following Circumstances

Improvement in overall technology

Greater Capital Formation

Increase in population growth / Labour force.

Economic Systems: It refers to the mode of production, exchange and distribution and the role which government plays in economic activity. It is of three types:

- (a) Capitalist Economy
- (b) Socialist Economy
- (c) Mixed Economy

Capitalist Economy (Free Market Economy)

This is the market where government interference is not found.

Characteristic of Capitalist Economy

1. **Right of Private Property:** The factors such as land, factories etc. are under the private ownership.
2. **Freedom of enterprise:** Everybody is free to engage in whatever economics activities he pleases.
3. **Freedom of choice by consumers:** There is a freedom of choice by the consumers. People are free to spend their income, as they like
4. **Profit motive:** Producers or entrepreneurs in their productive activities are guided by their profit motives.
5. **Competition:** Competition exists among sellers or producers of similar goods in the form of advertisement, price cutting etc.
6. **Price Mechanism:** When consumers increase their purchase of a good and the level of demand exceeds supply then price tend to rise. A Capitalist economy uses prices as the principal means of allocating resources.
7. **Inequalities of Income:** There is a wide gap of income between the rich and the poor which mainly arises due to unequal distribution of property. It is the disadvantage of the capitalist economy that income will tend to be unevenly distributed.

Solutions of Central Problems in Capitalist Economy

1. **Deciding what to produce:** To earn more and more profits the entrepreneur produces only those goods, which are demanded by the consumers. In a free market economy the allocation of resources is determined by the consumer preference.
2. **Deciding how to produce:** To earn more and more profits the entrepreneur use that technique of production in which cost of production is minimum.

3. **Deciding for whom to produce:** Goods and services are produced only for those who have buying capacity. Higher the income, higher will be his buying capacity.
4. **Deciding about the consumption, saving and investment:** Higher the rate of Interest, higher will be saving and higher the rate of return, higher will be the investment.

Socialist Economy (Controlled Economy)

All means of production i.e. Land, Capital and Mines etc. are owned by the whole community represented by the State.

Characteristics of Socialist Economy

1. **Collective ownership of means of production:** The firms producing goods and services such as factories, bank etc. are owned and managed by the state.
2. **Centrally Planned economy:** All the basic decisions pertaining to the what, how and for whom to produce are decided by the centrally planned authority.
3. **Economic equalities:** Socialism only guarantees equality of opportunity and equal pay for equal work.
4. **Social Welfare:** It becomes the guiding light in such a system. Price policy is guided by the aims of social welfare rather than profit motive.
5. **Lack of competition:** the state has the monopoly of production and investment; it avoids all sorts of competition and rivalry as between the production units.
6. **Elimination of exploitation:** Since property is state owned, class distinction do not exists in socialism. In the absence of class distinction there is no exploitation of employees in the hands of employers.

Mixed Economy (India)

An economy System, which contains elements of both private and public sectors, is called mixed economy.

Features of Mixed Economy

1. **Coexistence of both private and public sectors:** All the economic decisions are partly taken by the state and partly taken by the private entrepreneur.
2. **Planned Economy:** The government create necessary atmosphere for the private sector to develop on its own.
3. **Balanced regional development:** Public sector enterprises may be located in the backward regions so as to ensure its development. Subsidies may be offered to private sector to establish and develop industries in backward regions.
4. **Dual system of pricing:** In private sector price is decided by the help of price mechanism on the other hand in government sector prices are fixed by the government. The government may also fix the prices of certain essentials commodities, which are used by the common man.

Law of Demand: The Law of demand expresses the functional relationship between the price of commodity and its quantity demanded.

Assumptions of Demand:

- Income of the people remaining unchanged.
- Taste, preference and habits of consumers unchanged.
- Substitute and Complimentary goods remains unchanged.

Importance of law of demand:

- Law of Demand
- Consumption Expenditure
- Progressive Taxation
- Demand water Paradox.

Law of Supply: If the prices of commodity rises, the level of quantity supplied rises, after factors remaining constants.

Main Factors of Supply:

- Price of the commodity.
- Goals of the firm.
- Input prices.
- State of Technology.

Determinants of Elasticity of Supply:

- Nature of commodity
- Time factors
- Change in cost of production
- Nature of Inputs

Production Function: Relating inputs to outputs, have been given the name of production function. The relationship between the physical inputs and physical outputs of the firm from the given state of technology.

Types of production functions:

- Fixed factors and variable factors.
- Short period and long period.

Theory of Cost: The term 'cost' is used in many sense and hence has many concepts.

Various Concept of Cost:

- Real Cost
- Economic Cost
- Opportunity Cost

Time element and cost:

- Very Short Period
- Short Period
- Long Period

Total Cost Curves:

- Total Fixed Cost (TFC)
- Total Variable Cost (TVC)
- Total Cost (TC)

Unit Cost Curves:

- Average Fixed Cost (AFC) → TFC/Q
- Average Variable Cost (AVC) → TVC/Q
- Average Total Cost (ATC) → $AFC + AVC$

Questions and Answers of September 2014

1. In a Mixed Economy which sector is found:
 - (a) Private only
 - (b) Public sector only
 - (c) None
 - (d) Both (a) & (b)**Answer:** (d)
2. Marginal Revenue Product (MRP) Equals:
 - (a) The Product's price times marginal product
 - (b) The Product's price times marginal cost
 - (c) Marginal Revenue times the product's price
 - (d) Marginal Revenue times the marginal product**Answer:** (d)
3. Equilibrium State is achieved at:
 - (a) The Peak point of Supply curve
 - (b) The Bottom point of Demand curve
 - (c) The Inflection point of Demand curve
 - (d) The Intersection of demand & Supply curve**Answer:** (c)
4. Substitution & Income effects of a change in the price of a good may be used to explain the:
 - (a) Direct relationship between price and quantity purchased
 - (b) Inverse relationship between price and quantity purchased
 - (c) Direct relationship between income & demand
 - (d) Direct relationship between price and quantity supplied**Answer:** (b)
5. A supply curve parallel to X axis means the product supply is:
 - (a) Limited
 - (b) Unlimited
 - (c) Not available
 - (d) None**Answer:** (b)
6. The law of diminishing marginal utility states that:
 - (a) It will take larger & larger amounts of resources beyond some point to produce successive units of a product

- (b) Total utility is maximised when consumers obtain the same amount of utility per unit of each product consumed
- (c) Price must be lowered in order to induce firms to supply more of a product
- (d) Eventually additional units of a given product will yield less and less extra satisfaction to a consumer

Answer: (d)

7. NAFTA stands for:

- (a) North American Free Trade Agreement
- (b) North Asian Free Trade Agreement
- (c) North American Free Trade Association
- (d) None of these

Answer: (a)

Questions and Answers of December 2014

1. Allocative efficiency means that:
- (a) opportunity cost has been reduced to zero
 - (b) resources are allocated to use which has highest value of society
 - (c) technological efficiency has not been achieved
 - (d) only relative scarcity exists.

Answer: (b)

2. If marginal cost lies below average total cost, then:

- (a) average fixed cost must be rising
- (b) average total cost must be rising
- (c) average total cost must be falling
- (d) marginal cost must be falling
- (e) marginal cost must be rising.

Answer: (c)

3. Any point beyond PPF is:

- (a) Attainable
- (b) Unattainable
- (c) Attainable with increase in production facilities
- (d) None.

Answer: (c)

4. A typical demand curve will normally have a:

- (a) Positive slope
- (b) Horizontal slope
- (c) Vertical slope
- (d) Negative slope

Answer: (d)

5. Labour Costs Consists of:

- (a) All people officially employed or unemployed
- (b) All people over the age of 18 but less than 58 years of age
- (c) All youth having passed Matriculate Examination
- (d) All the three.

Answer: (a)

6. The law of indifference is/are also know by:

- (a) Law of substitution
- (b) Law of equi-marginal utility
- (c) Law of diminishing marginal utility
- (d) All the three

Answer: (d)

7. The principle of "Division of Labour" was given by:

- (a) Frederick Taylor
- (b) Joseph Juran
- (c) Adam Smith
- (d) W. Edwards Deming.

Answer: (c)

8. An imposition of excise duty would effect the demand of a product due to _____.

- (a) Income effect
- (b) Substitution effect
- (c) Both
- (d) None.

Answer: (c)

9. Tea and Coffee are:

- (a) Complementary goods
- (b) Alternative goods
- (c) Unrelated goods
- (d) None of these.

Answer: (b)

10. Complementary goods are those which are _____.

- (a) Consumed Simultaneously
- (b) Close Competitive
- (c) Both
- (d) Unrelated

Answer: (a)

11. Goods which are perfect substitute of each other will have elasticity of substitution _____.
- (a) Unity
 - (b) Less than 1
 - (c) More than 1
 - (d) Infinite

Answer: (d)

Questions and Answers of March 2015

1. Equilibrium relates to which of these:
 - (a) Market condition which oscillate
 - (b) Market state of falling price
 - (c) Market condition of rising price
 - (d) Market conditions which once achieved tends to persist

Answer: (d)
2. Who defined economics as “Science which deals with wealth”?
 - (a) J. B. Say
 - (b) A. C. Pigou
 - (c) Alfred Marshall
 - (d) Robbins

Answer: (a)
3. Economics cannot be given the status of science because:
 - (a) Of non-uniformity of opinion and approach of economist
 - (b) Economic behaviour of human being is unpredictable
 - (c) Measuring rod of money is unstable
 - (d) All the three

Answer: (d)
4. The central problem of how to produce is resolved by:
 - (a) Demand and supply of factor inputs

- (b) Demand and supply of goods
- (c) Relative prices and availability of factors of production
- (d) Government intervention

Answer: (c)

5. Which of these costs will increase or decrease with increase in production?
- (a) Marginal costs
 - (b) Financial costs
 - (c) Fixed costs
 - (d) All the three

Answer: (a)

6. Which of the following statement is true about average cost function?
- (a) $ATC = AFC - AVC$
 - (b) $AVC = AFC + ATC$
 - (c) $AFC = ATC + AVC$
 - (d) $ATC = AFC + AVC$

Answer: (d)

7. If the price of burger rises from ₹12 per piece to ₹20 per piece as a result of which the daily sales decreases from 300 to 200 pieces per day.

The price elasticity of demand can be estimated as:

- (a) 0.5
- (b) 0.8
- (c) 0.25
- (d) 2.10

Answer: (a)

8. If the price elasticity of demand for wine is estimated to be -0.6 , then a 20% increase in price of wine will lead toin quantity demanded of wine at that price:

- (a) 12% increase
- (b) 12% decrease
- (c) 19.6% increase
- (d) 20.6% decrease

Answer: (b)

9. If a dealer is prepared to supply 1000 sets of a 29" Color TV if the price is ₹12,000 per set, however if the price raises to ₹15,000 he is prepared to supply 1,500 pieces. The elasticity of supply of TV set is:
- (a) 1
 - (b) 2
 - (c) 0.75
 - (d) 1.4
- Answer:** (b)
10. If two goods are not substitutes at all for one another, the elasticity of substitution will be:
- (a) Infinite
 - (b) Zero
 - (c) > 1
 - (d) < 0
- Answer:** (b)
11. The demand function of a product x is as $dx = 12 - 2Px$, where Px stand for price. The quantity demanded corresponding to price of ₹2 will be _____.
- (a) 8
 - (b) 6
 - (c) 5
 - (d) 10
- Answer:** (a)
12. The demand for a product is 25 units when the price is ₹10, however the demand rises to 26 when the price is reduced to ₹9.9 per unit. The marginal revenue from production and sale of additional unit from 25 to 26 is:
- (a) ₹ 7.4
 - (b) ₹ (16)
 - (c) ₹ 10
 - (d) ₹ 257.6
- Answer:** (a)
13. Market demand curve for a commodity is a:
- (a) Horizontal summation of all the individual demand curve for that product
 - (b) Summation of demand curve of competitive products

- (c) Demand curve of average demand and price of previous six months
- (d) Projected demand schedule for next three months

Answer: (a)

14. If supply and demand both shift outward, but demand shifts outward more than supply, the equilibrium price:

- (a) will increase and quantity will increase
- (b) will increase and quantity will decrease
- (c) will decrease and quantity will decrease
- (d) will decrease and quantity will increase

Answer: (a)

Questions and Answers of June 2015

1. Micro economics theory deals with:
- (a) Economics behaviour of individual economic decision making units
 - (b) Economy as a whole
 - (c) Trade relations
 - (d) Economics growth of the society.

Answer: (a)

2. Economic resources are:
- (a) Unlimited
 - (b) Limited in supply and use
 - (c) Limited in supply but have alternative uses
 - (d) Unproductive.

Answer: (c)

3. In economic goods includes material things which

- (a) Can be transferred
- (b) Can be exchanged for one another
- (c) Both
- (d) None.

Answer: (c)

4. Which of the following is not a central problem of a society?
(a) What to produce
(b) How to produce
(c) For whom to produce
(d) What to eat.
Answer: (d)
5. PPF is negative sloped due to:
(a) Scarcity of production resources
(b) Unlimited wants
(c) Improvement in technology
(d) Increasing opportunity cost.
Answer: (a)
6. Total output is maximum when:
(a) $MP = 0$
(b) MP is increasing
(c) MP is decreasing
(d) MP is constant.
Answer: (a)
7. Which of the following statement is true about average cost function?
(a) $ATC = AFC - AVC$
(b) $AVC = AFC + ATC$
(c) $AFC = ATC + AVC$
(d) $ATC = AFC + AVC$.
Answer: (d)
8. Which of these curve never touch X-axis?
(a) AVC
(b) AFC
(c) TC
(d) MC.
Answer: (b)
9. If the price of burger rises from ₹ 12 per piece to ₹ 20 per piece as a result of which the daily sales decreases from 300 to 200 pieces per day. The price elasticity of demand can be estimated as.
(a) 0.5

- (b) 0.8
- (c) 0.25
- (d) 2.10.

Answer: (a)

10. Point elasticity concept was propounded by:

- (a) Marshal
- (b) Lipsey
- (c) Hicks
- (d) Samulson.

Answer: (a)

11. If the cross price elasticity of demand for two product is negative, then the two products are:

- (a) Complementary to each other
- (b) Perfectly substitute for each other
- (c) Completely competitive
- (d) Unrelated.

Answer: (a)

12. Goods which are not perfect substitute of each other but have to be consumed in a fixed ratio will have rate of substitution:

- (a) Unity
- (b) Less than 1
- (c) More than 1
- (d) Zero.

Answer: (d)

13. If prices of petrol rises from ₹ 40 to ₹ 48 per it. The demand for cars falls from 60 per month to 45 per month, the cross elasticity of petrol and car is:

- (a) 1.5
- (b) 1.25
- (c) 1.0
- (d) 1.59.

Answer: (b)

14. If the disposal income of a household increases by 10% and the demand for bread falls by 5%. The income elasticity of bread is:

- (a) 0.5
- (b) -0.5
- (c) 1.0
- (d) -1.0.

Answer: (b)

15. The minimum price that a supplier expect to make available a specific quantity for sale is called:

- (a) Demand price
- (b) Administered price
- (c) Cost price
- (d) Supply price.

Answer: (d)

16. The price that a customer is willing to pay for a given quantity is called demand price.

- (a) Maximum
- (b) Minimum
- (c) Bargained
- (d) Floor

Answer: (a)

17. Shift in Demand curve or change in demand curve occurs due to:

- (a) Increases in price
- (b) Decrease in cost of production
- (c) Change in ceteris paribus conditions
- (d) All the three.

Answer: (c)

18. The Supply function of a product is as $S_x = 5p_x + 3$. Where p_x stand for price. The quantity supplied corresponding to price of ₹ 2 will be

- (a) 18
- (b) 13
- (c) 15
- (d) 23.

Answer: (b)

19. The quantity of a commodity which an individual is willing to purchase over a specific period of time is a function of:

- (a) Price of the product

- (b) Disposal income
- (c) Taste and price of other commodities
- (d) All the three.

Answer: (d)

20. Goods or Services that are necessary for living are:

- (a) Needs
- (b) Desires
- (c) Wants
- (d) Essentials.

Answer: (a)

21. The price of Ford Automobiles increases and the price of Chevrolets remains constant, the demand for Chevrolets will:

- (a) Increase
- (b) Decrease
- (c) Decrease then increase
- (d) Increase then decrease.

Answer: (a)

Questions and Answers of September 2015

1. Which of the following is a central problem of every economy.

- (a) Abundance of resources
- (b) Scarcity of economic resources
- (c) Poverty
- (d) Moral and ethical

Answer: (c)

2. Who defined economics as "Science which deals with wealth?"

- (a) J. B. Say
- (b) A. C. Pigou
- (c) Alferd Marshall
- (d) Robbins.

Answer: (a)

3. Human wants are:

- (a) Unsatisfiable
- (b) Unlimited

- (c) Undefined
- (d) Limited

Answer: (a)

4. Which of the following statement is true about average cost function:

- (a) $ATC = AFC - ATC$
- (b) $AVC = AFC + ATC$
- (c) $ATC = AFC + AVC$
- (d) $AFC = ATC + AVC$

Answer: (a)

5. The slope of total variable costs curve equals.

- (a) AVC
- (b) MC
- (c) AC
- (d) MPP

Answer: (b)

6. In economics, in the long run all the cost _____.

- (a) Are Fixed
- (b) Are Variable
- (c) Except labour are variable
- (d) Are non controllable

Answer: (d)

7. If the price of burger rises from ₹ 12 per piece to ₹ 20 per piece as a result of which the daily sales decrease from 300 to 200 pieces per day. The price elasticity as:

- (a) 0.5
- (b) 0.8
- (c) 0.25
- (d) 2.10

Answer: (a)

8. If the price of coffee falls by 8% and the demand for tea declines by 2%. The cross price elasticity of demand for tea is.

- (a) 0.45
- (b) 0.25
- (c) + 0.44

(d) - 0.30

Answer: (a)

9. A supply curve parallel to X axis means the product supply is:

- (a) Limited
- (b) Unlimited
- (c) Not available
- (d) None

Answer: (b)

10. Goods or services that are necessary for living are:

- (a) Needs
- (b) Desires
- (c) Wants
- (d) Essentials

Answer: (b)

11. The quantity of a commodity that an individual is willing to purchase over a specified period of time is a function of expect:

- (a) Price of the commodity
- (b) Price of the competitive products
- (c) His disposal income
- (d) Price of factor of production

Answer: (b)

12. Quasi rent is:

- (a) Greater than firm's total profit
- (b) Equal to firm's total profit
- (c) Less than firm's total profit
- (d) It is not related to firm's total profit.

Answer: (b)

Questions and Answers of December 2015

1. In a mixed economy which sector(s) is are found:

- (a) Private only
- (b) Public sector only

- (c) None
- (d) Both (a) & (b)

Answer: (a)

2. The Terms Micro economics and Macro economics were coined by:

- (a) Professor A Samulson
- (b) Griffen
- (c) Professor, Ranger Frish
- (d) Eagle

Answer: (d)

3. The famous book “An enquiry into the nature and Courses of wealth of nation” was published in:

- (a) 1776
- (b) 1750
- (c) 1850
- (d) 1886

Answer: (a)

4. TVC curve begins to _____ with the onset of diminishing returns:

- (a) Rise at on increasing rate
- (b) Rise at on Decreasing rate
- (c) Fall at on Increasing rate
- (d) Stabilize

Answer: (a)

5. Marginal Cost Curve is:

- (a) Positively sloped
- (b) Negatively sloped
- (c) Parallel to X axis
- (d) Parallel to Y axis

Answer: (a)

6. Point elasticity of demand is not affected by:

- (a) Nature of the Commodity
- (b) Availability of close substitute
- (c) Cost of production
- (d) Consumption Habits

Answer: (d)

7. If two goods are perfect substitutes for one another the elasticity of substitution will be:
- (a) Infinite
 - (b) Zero
 - (c) >1
 - (d) < 0

Answer: (a)

8. Increase in price of a product reduces the purchasing power as a result of which demand for Tea is:
- (a) 0.45
 - (b) 0.25
 - (c) + 0.44
 - (d) - 0.30

Answer: (a)

9. Increase in price of a product reduces the purchasing power as a result of which demand for a product goes up. This effect is known as:
- (a) Substitution effect
 - (b) Income effect
 - (c) Not available
 - (d) Law of diminishing returns

Answer: (b)

10. If price of Chaco bar decrease we expect.
- (a) The quantity demanded to increase
 - (b) Quantity demanded to decrease
 - (c) Demand Curve to shift left
 - (d) No change in quantity demand.

Answer: (c)

11. If demand of a product decreases and supply remains constant equilibrium price will be:
- (a) Constant
 - (b) Move downward
 - (c) Move upward
 - (d) No effect

Answer: (b)

12. Which statement is a true statement?

- (a) $C = f(y)$
- (b) $C = f(x)$
- (c) $C = f(d)$
- (d) $C = f(R)$

Answer: (a)

Questions and Answers of March 2016

1. Which event will shift the butter/guns production possibilities frontier outward?
 - (a) an increase in the production of guns
 - (b) a reduction in the production of butter
 - (c) a new and superior method of producing butter
 - (d) a decrease in the resources devoted to the production of investment goods.

Answer: (c)

2. A driver wishes to buy gasoline and have his car washed. He finds that the market price of gasoline is ₹ 1.08 and that the wash costs ₹ 1.00 when he buys 19 gallons but that if he buys 20 gallons, the car wash is free. The marginal cost of the twentieth gallon is:
 - (a) ₹ 1.00
 - (b) Zero
 - (c) 8 paisa
 - (d) ₹ 1.08

Answer: (c)

3. The factors which cause economies and diseconomies of scale help explain:
 - (a) why the firm's long-run average total cost curve is U shaped
 - (b) the profit maximizing level of production
 - (c) the distinction between fixed and variable costs
 - (d) why the firm's short-run marginal cost curve cuts the short-run average variable cost curve at its minimum point.

Answer: (a)

4. The price of good X is ₹ 1.50 and that of good Y is ₹ 1. If a particular consumer's marginal utility for Y is 30 and he is currently maximizing his total utility, then his marginal utility of X must be:
- (a) 30 units
 - (b) 45 units
 - (c) 15 units
 - (d) 20 units

Answer: (b)

5. A price ceilings will not cause a shortage if the government:
- (a) enters the market and purchases the excess
 - (b) always has perfect information
 - (c) does not enforce the ceiling price
 - (d) sets the ceiling price below equilibrium price.

Answer: (c)

6. Suppose the price of a certain good fell from ₹ 1 to ₹ 1.50 and the quantity demanded increased from 250 to 750 units. Over this range of the demand curve the elasticity of demand is:
- (a) 1
 - (b) 0.75
 - (c) 1.5
 - (d) 1.2

Answer: (c)

7. Economics cannot be given the status of science because:
- (a) of non-uniformity of opinion and approach of economist
 - (b) economic behaviour of human being is unpredictable
 - (c) measuring rod of money is unstable
 - (d) all of these

Answer: (d)

8. The cross elasticity of complementary goods is generally:
- (a) > 1
 - (b) < 1
 - (c) < 0
 - (d) $= 0$

Answer: (c)

Questions and Answers of June 2016

1. Micro economics theory deals with:
 - (a) Economics behaviour of individual economics decision making units
 - (b) Economy as a whole
 - (c) Trade relations
 - (d) Economics growth of the society**Answer:** (a)
2. Market equilibrium of a commodity is determined by:
 - (a) Balancing of demand and supply position
 - (b) Aggregate demand
 - (c) Aggregate supply
 - (d) Government intervention**Answer:** (b)
3. Human wants are_____.
 - (a) Unsatisfiable
 - (b) Unlimited
 - (c) Under fined
 - (d) Limited**Answer:** (b)
4. Who defined by economics as “Science which deals with wealth”.
 - (a) J. B Say
 - (b) A C Pigou
 - (c) Alfred Marshall
 - (d) Robbins**Answer:** (a)
5. In economics goods includes material thing with_____.
 - (a) Can be transferred
 - (b) Can be exchanged for one another
 - (c) Both
 - (d) None**Answer:** (c)
6. The terms “micro” is derived from the _____ word which means ____.

- (a) Latin, Small
- (b) Greek, Small
- (c) English, Tiny
- (d) Roman, Small

Answer: (b)

7. Which of the following issue relates to micro-economic:
- (a) Impact of crude price hike on inflation
 - (b) Impact of change in bank rate on bank saving and investment
 - (c) Impact of information technology on economics growth
 - (d) Impact of shortage of wheat production on wheat prices
- Answer:** (d)
8. Production possibility curves show maximum combinations of _____ products.
- (a) 1
 - (b) 2
 - (c) 3
 - (d) 4
- Answer:** (b)
9. Which of the following statement is true about average cost function _____?
- (a) $ATC = AFC - AVC$
 - (b) $AVC = AFC + ATC$
 - (c) $AFC = ATC + AVC$
 - (d) $ATC = AFC + AVC$
- Answer:** (d)
10. When a firm enters the law of diminishing returns to scale
- (a) TVC Curve begins to fall at a decreasing rate
 - (b) TVC Curve begins to fall at an increasing rate
 - (c) TVC Curve begins to increase at an increasing rate
 - (d) TVC Curve begins to increase at a decreasing rate.
- Answer:** (a)
11. Which of these is not a factor of cost functions of a product _____.
- (a) Market price of product
 - (b) Size of the plants
 - (c) Output level

(d) Prices of inputs

Answer: (a)

12. Marginal cost curve is _____.

- (a) Positively sloped
- (b) Negatively sloped
- (c) Parallel + to X axis
- (d) Parallel + Y axis

Answer: (a)

13. Point elasticity concept was propounded by _____.

- (a) Marshal
- (b) Lipsey
- (c) Hicks
- (d) Samulson

Answer: (a)

14. Luxury goods have _____ degree of elasticity.

- (a) High
- (b) Low
- (c) Moderate
- (d) Completely inelastic

Answer: (a)

15. Which of the following is not factor is market supply of product _____.

- (a) Cost of productions
- (b) Numbers of buyers
- (c) Market price of the product
- (d) Price of related products

Answer: (b)

16. If the price of coffee falls by 8% and demand for tea declines by 2%. The cross price elasticity of demands for tea is:

- (a) 0.45
- (b) 0.25
- (c) + 0.44
- (d) - 0.30

Answer: (b)

17. A supply curve passing through the origin will have elasticity _____.

- (a) Less than – 1
- (b) More than – 1
- (c) Just one
- (d) Zero

Answer: (c)

18. Cross elasticity of complementary products will be _____.

- (a) Infinite
- (b) Zero
- (c) >1
- (d) < Zero

Answer: (d)

19. The maximum price that a supplier expert the make available a specific quantity for sale is called _____.

- (a) Demand price
- (b) Administered price
- (c) Cost price
- (d) Supply price

Answer: (d)

20. Under low of supply, ceteris paribus is:

- (a) Cost of production
- (b) Production technology
- (c) None
- (d) Both

Answer: (d)

Multiple Choice Questions

1. Scarcity is the concept like:

- (a) Absolute
- (b) Welfare
- (c) Relative
- (d) Restricted

Answer:

2. Inductive method moves from:
- (a) General to particular
 - (b) Only particular
 - (c) Particular to general
 - (d) None of the above
- Answer:**
3. How a capitalist economy solve their central problem?
- (a) By deciding what to produce?
 - (b) By deciding how to produce?
 - (c) Deciding for whom to produce?
 - (d) All of the produce
- Answer:**
4. Best shape of the production possibility curve reflects:
- (a) Diminishing opportunity cost
 - (b) Constant opportunity cost
 - (c) Increasing opportunity cost
 - (d) None of the above
- Answer:**
5. Which of the following is the first step in constructing economic theory?
- (a) To study about the human behaviour
 - (b) To hypothesis about the human behaviour
 - (c) Both (a) and (b)
 - (d) None of the above
- Answer:**
6. Scarcity refers to the situation in which:
- (a) Demand is more and supply is less
 - (b) Income is more and demand is less
 - (c) Price is more and demand is less
 - (d) None of the above
- Answer:**
7. Periods of high unemployment in an economy corresponds to:
- (a) Points that lie on the production possibility curve
 - (b) Points that lie outside the production possibility curve

- (c) Points that lie with in the production possibility curve
- (d) None of the above

Answer:

8. Which one of the following is not the feature of socialist economy?

- (a) Social welfare
- (b) Freedom on enterprise
- (c) Public ownership
- (d) Planning mechanism

Answer:

9. Economics cannot be neutral between ends, as it is:

- (a) More practical, realistic, growth oriented
- (b) Not only light giving but also fruit bearing
- (c) Both (a) and (b)
- (d) None of these

Answer:

10. An example of 'positive' economic analysis would be:

- (a) An analysis of the relationship between the price of food and the quantity purchased
- (b) Determining how much income each person should be guaranteed
- (c) Determining the 'fair' price for food
- (d) Deciding how to distribute the output of the economy

Answer:

11. Labour intensive technique would get chosen in a:

- (a) Labour surplus economy
- (b) Capital surplus economy
- (c) Developed economy
- (d) Developing economy

Answer:

12. The branch of economic theory that deals with the problem of allocation of resources is:

- (a) Micro-economic theory

- (b) Macro-economic theory
- (c) Econometrics
- (d) None of the above

Answer:

13. What does an outward shift of the production possibilities curve indicate?
- (a) Inflation
 - (b) Economic growth
 - (c) Over production
 - (d) Over employment production

Answer:

14. Monopoly State of production and Investment is the feature of a:
- (a) Mixed economy
 - (b) Socialistic economy
 - (c) Capitalistic economy
 - (d) None of above

Answer:

15. _____ Curve helps us to understand the problem of scarcity better
- (a) Isoquant
 - (b) P.P.F
 - (c) Isocost
 - (d) None of the above

Answer:

16. Economics is a science because:
- (a) It is a systematized study
 - (b) It has its own methodology
 - (c) It has Scientific Laws
 - (d) All of the above

Answer:

17. Oikos and Nemein means:
- (a) Micro and Macro
 - (b) Inductive and deductive

