PRACTICE PAPER - 8

1. The theory of distribution (factor pricing) concerns itself with
a) personal distribution
b) functional distribution
c) distribution of commodities
d) any of the above

2. Production function is
a) purely a technical relationship between inputs and outputs
b) purely an economic relationship between inputs and outputs
c) both the technical and the economic relationship between inputs and outputs
d) none of the above

3. Who first compared the problem of price determination with a pair of scissors?
a) Meir
b) Smith
c) Ricardo
d) Marshall

4. Traditional theory distinguishes
a) four factors of production
b) three factors of production
c) only two factors
d) none of the above

5. A method of production is
a) a process of production
b) an activity of production
c) a combination of factors
d) all the above
a. none of the above

6. Marshall's classification of time period depends on
a) adjustment of technology
b) price adjustment
c) demand adjustment
d) supply adjustment

7. Capitalisation refers to
a) replacing of labour by capital
b) valuation of fixed non-human factors
c) valuation of human labour
d) valuation of variable factors

8. Isoquant is a locus of combinations of two
a) factors yielding same level of output
b) commodities yielding same level of satisfaction
c) commodities yielding different level of satisfaction
d) factors yielding different level of output

9. Perfect competition can be best defined as a market situation in which
a) innumerable buyers and sellers are present
b) firms are price-takers
c) products are homogeneous
d) all the above are present

10. Given that annual return from a machine is Rs. 1000 and the rate of interest is 10 percent, the worth of the machine is
a) Rs. 10,000
b) Rs. 20,000
c) Rs. 1,000
d) Rs. 2,000

11. Factor Intensity is
a) capital — labour ratio
b) measured by the slope of a line passing through the origin
c) elasticity of substitution of one factor witli another
d) only (a) and (b)

12. Reserve price refers to the price
a) at which sellers prefer to sell whole stock
b) at which sellers refuse to supply the good
c) fixed by the manufacturer
d) reserved for wholesalers

13. The principles applicable to commodity pricing
a) are rarely applicable to factor pricing
b) are not applicable to factor pricing
c) are sometimes applicable to factor pricing
d) are also applicable to factor pricing

14. When the isoquant is convex, its factor intensity (K/L)
a) remains constant throughout the curve
b) increases in the lower part and decreases in the upper part
c) increases in the upper part and decreases in the lower part
d) none of these

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15. Normal profit is included in the traditional theory of a firm in a
a) demand curve
b) marginal cost curve
c) average cost cure
d) average fixed cost curve

16. Factor pricing implies that
a) the quantity of each factor is priced in the market
b) the quality of each factor is priced in the market
c) the productive services yielded by factors are priced in the market
d) all the above

17. "An increase in the capital and labour applied in the cultivation of land causes in general a less than proportionate increase in the amount of product raised unless it happens to coincide with an improvement in the arts of agriculture". This was stated by
a) Stigler
b) Marshall
c) Samuelson
d) K.E. Boulding

18. The level of profit just sufficient to keep a firm in the industry is
a) survival profit
b) entry preventing profit
c) normal profit
d) any of the above

19. The market demand for factors is
a) derived from the demand for commodities
b) a primary demand
c) an indirect demand
d) none of the above

20. The law of diminishing returns was modified and rechristined as
a) the law of variable proportions
b) law of returns to scale
c) the law of demand
d) law of supply

21. Marginal revenue in any competitive situation is
a) earned by marginal firm
b) $TR_n - P_{n-1}$
c) TR_n / Q_{n-1}
d) the revenue earned by selling one more unit of output $TR_n - TR_{n-1}$

22. A factor's demand depends on
a) the physical productivity
b) the opportunity cost
c) both the physical productivity and price of the product
d) only on price of the product

23. The ridge lines connect the points where
a) the average products of capital and labour arc zero
b) the marginal products of capital and labour are zero
c) the slopes of isoquants are equal to slopes of budget lines
d) none of the above

24. A firm earns TR of Rs. 200 by selling 20 units, If it increases its sales by one more unit, the rise in sale results in an increase of TR to Rs. 220. What is the marginal revenue and the average revenue?
a) Rs. 20 and Rs. 20.47
b) Rs. 20 and Rs. 10.47
c) Rs. 10 and Rs. 10.47
d) Rs. 10 and Rs. 20.47

25. Marginal productivity theory is "a principle that humanity can approve and perpetuate" because it "give to every factor of production the amount of wealth which that agent creates" Who said this?
a) Marshall
b) Pigou
c) Joan Robinson
d) J.B. Chirk

26. Law of diminishing returns was propounded by
a) Adam Smith
b) Marshall
c) Ricardo
d) J.S. Mill

27. In which of the following aspects does pure competition differ from perfect competition?
a) Free entry and exit
b) Homogeneity of products
c) Perfect knowledge and perfect mobility of factors
d) Absence of government regulation

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28. The theory of distribution can be better expressed as
a) the sharing of total income among different individuals in the economy
b) the sharing of total income between capital and labour
c) the distribution of income between the owners of factor resources
d) the distribution of income between centre and states

29. Why do increasing returns occur in the initial stages of production?
a) Indivisibilities of fixed factors
b) Increase in the specialisation of variable factors
c) Technical progress
d) Indivisibilities of fixed factors and the specialisation in variable factors

30. The horizontal shape of the demand curve exists in perfect competition because of
a) a large number of buyers and sellers
b) homogeneity of products
c) both a large number of buyers and sellers and homogeneous products
d) none of the above

31. Value of Marginal Product (VMP) is defined as
a) MPP x MR
b) MPP x P
c) W x P
d) MPP x W

32. When Marginal product falls
a) AP > MP
b) AP < MP
c) slope of TP increases
d) AP = MP

33. Perfect competitive firms are
a) price-searchers
b) price-makers
c) price-discriminators
d) price-takers

34. Marginal Revenue Product can be defined as
a) MPP x MR
b) MPP x P
c) W x P
d) MPP x W

35. What is the difference between returns to a factor and returns to scale?
a) Size of inputs
b) Size of outputs
c) Variability of inputs in the production function
d) All the above

36. Which of the following statements is not true under perfect competition?
a) There is no waste due to advertisement
b) Individual firms cannot influence price
c) Real situations represent it
d) All the above

37. Which is not an accepted factor of production?
a) land
b) labour
c) coal
d) sunshine

38. The prime object of production activity is
a) to satisfy consumer wants
b) to create a private business kingdom.
c) to earn profit
d) to capture the market

39. A firm under perfect competition maximises its profit if
a) MC = MR, rate change of MC< rate of change of MR
b) MC = MR, rate change of MC> rate of change of MR
c) AC = MC, rate change of AC > rate of change of MC
d) AC = MC, rate change of AC < rate of change of MC

40. The MRP of a variable factor fortunately declines when the other factors are kept constant,
a) as the output expands, provided the price of the product does not rise
b) as the output contracts, provided the price of the product does not fall
c) as the output remains constant, provided the price of the product does not fall
d) as die output contracts, provided the price of the product does not rise

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41. The extra output resulting from the use of one more unit of a factor, ceteris paribus, is known as
a) marginal product
b) average product
c) marginal return
d) average return

42. Firms under perfect competition in the short run can earn only
a) a normal profit
b) an abnormal profit
c) a loss
d) any of the above

43. A firm will purchase its profit maximising amount of a factor if
a) the variable factors are employed until their MRPs are equal
b) it is hired until MRP becomes zero
c) it is hired until MPP = MW
d) it is hired until its MRP equals Marginal Cost of purchasing it

44. Increasing returns imply
a) optimum use of capital and other factors
b) full utilisation of factors and optimum allocation
c) diminishing expenditure on factors per unit of output as output increases.
d) constant average cost.

45. A supply curve is derived from SMC under perfect market conditions. Why does the portion 'ab' of SMC not form a part of supply curve?
a) The law of supply can be established only after point 'b'
b) No production will be there below point 'b'
c) Only after point 'b' is abnormal profit possible
d) None of the above

46. Perfect competitive firms demand factors upto
1. MRP = P
2. MPP = P
3. VMP = P
4. MRP $\geq$ P
5. P $\leq$ MRP
a) 1 and 2 only
b) 1 and 3 only
c) 2 and 5 only
d) 1, 2 and 3 only

47. Returns to scale and laws of returns are
a) long-run and short-run analysis of production respectively
b) short-run and long-run analaysis of production respectively
c) market period and short-period analysis production respectively
d) long and very long period analysis of production respectively.

48. The market price in perfect competition is determined by
a) profit maxmising condition MC = MR
b) operation of demand and supply mechanism
c) government
d) average cost

49. Under perfect competition, the supply of a factor for a firm
a) is likely to increase when wage increases
b) is likely to decrease as wage increases
c) will be responsive without limit at a market determined wage rate
d) will not respond to increase in wage

50. In the ray OA, points a to d represent
a) increasing returns to scale
b) decreasing returns to scale
c) constant returns to scale
d) none of these

51. The abnormal profit earned by any firm under perfect competition in the long run will be wiped out by
1. consumers drift
2. sellers exit
3. new firms entering the industry
4. shift in costs
a) 1, and 3 only
b) 2, 3 and 4 only
c) 1, 2, 3 and 4
d) only 3 and 4

52. Why does the resource demand curve of an imperfect competitive seller slope downwards?
a) The Marginal product diminishes and product price falls as output increases
b) The Marginal product falls and product price rises as output increases
c) The Marginal product increases and product price falls as output increases
d) The Marginal product remains constant and price of the product falls as output increases

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53. A technical progress in the production method tends to
a) shift the isoquant downwards
b) shift the isoquant upwards
c) keep isoquant as it is
d) either (a) or (b)

54. optimal allocation of resources is possible only under
a) perfect competition
b) monopolistic competition
c) oligipoly
d) all the above

55. Supply of a factor, in general, to an industry will respond positively. This means that
a) more will be supplied at less reward
b) more will be supplied at a constant rate of reward
c) more will be supplied as the reward increases
d) more will be supplied at less taxes

56. If production function is a linear homogeneous function, it exhibits
a) constant returns
b) constant returns to scale
c) increasing returns
d) increasing or decreasing returns depending on the amount of input added.

57. Match the following

Nature of cost	Nature of supply curve
A. Increasing cost	1. Shift in supply curve
B. Constant cost	2. Upward sloping
C. Decreasing	3. Horizontal
D. Increasing in variable cost	4. Downward sloping

a) A1, B2, C3 and D4
b) A4, B3, C2 and D1
c) A2, B3, C4 and D1
d) A3, B2, C4 and D1

58. The reward paid to a factor depends
a) entirely upon its cost of production and the price of product it makes
b) entirely upon its output minus taxes paid to government
c) entirely upon the government policy of wages
d) entirely upon its productivity and the price of the product it makes

59. When $\alpha = 0.85, \beta = 0.82$ in Cobb-Douglas production function, the returns to scale is
a) decreasing
b) increasing
c) constant
d) first increasing and then decreasing

60. An industry is an increasing cost industry if
a) The prices of factors of production increase as the market expands
b) The total cost expands as the market expands
c) The total revenue decreases as the market expands
d) The prices of factors of production decrease as the market expands

61. The MRP of a factor tends to diminish as input of that factor increases because of
1. the technical impact of diminishing marginal returns
2. the diminishing rate of substitutability of a factor
3. the diminishing marginal utility of a factor
4. the tendency of MR of the product to fall
a) 1 and 2 only
b) 1 and 4 only
c) 2 and 3 only
d) 2, 3 and 4 only

62. A firm employs 'n' factors of production, then the least cost combination of 'n' inputs will be at the point where
a) $MPx/Px = MPy/Py = \cdots = MPn/Pn$
b) $Px/Py = Pz/Py = \cdots = Pn/Py$
c) $MPx = MPy = \cdots = MPn$
d) $Px = Py = \cdots = Pn$

63. Which of the following do not affect MC and price under perfect competition?
1. Increase in plant and machinery expenses
2. Imposition of lump sum tax
3. Imposition of profit tax
4. Imposition of specific sales tax
a) 1 and only
b) 2 and 3 only
c) 1, 2 and 3 only
d) 2, 3 and 4 only

64. The marginal productivity theory of distribution was propounded by
a) Ricardo
b) John Bates Clark
c) Marshall
d) Hicks

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65. A curve which shows the optimal inputs combination at different levels of income of a company is the
a) optimum production frontier
b) producer optimum path
c) manufacturing curve
d) price-factor curve

66. The extent of rise in price due to imposition of specific sales tax depends on
a) Elasticity of supply
b) Elasticity of demand
c) Tax rate
d) All the above
e) None of the above

67. Which one of the following statements is true
a) VMP = MRP always
b) VMP = MRP only in imperfect competition
c) MP > MRP in imperfect competitive situations and VMP = MRP in perfect competition
d) MRP > VMP in imperfect competitive situations and VMP = MRP in perfect competition

68. The law of increasing returns is applicable, according to classical, to
a) all fields of production
b) agricuture
c) manufacturing
d) services

69. The price faced by a perfect competitor is Rs.2. Its average revenue will be
a) Equal to Rs.2
b) More than Rs.2
c) Less than Rs.2
d) Dependent on the amount of sales.

70. Under perfect competition, the demand curve of labour can be derived from
a) The value of marginal product of labour curve
b) The marginal cost of labour curve
c) The supply curve of labour
d) The marginal productivity curve of labour

71. The rate of which factor Y is replaced by another factor X to keep output unchanged is called
a) MRS of x for y
b) MRS of y for x
c) MRTS of x for y
d) MRTS of y for x

72. Monopoly is a market structure where there is
a) Single seller
b) No close substitutes
c) Strong barriers to entry
d) All the above

73. Marginal Productivity theory is only a
a. Theory of supply of factors
b. Theory of demand for factors
c. Both (a) and (b)
d. None of the above

74. A producer attains the least cost combination when the relation between MRTSxy and prices of factors x and y is
a) MRTSxy>Px/Py
b) MRTSxy=Px/Py
c) MRTSxy<Px/Py
d) MRTSxy=MRTSyx

75. Natural monopoly arises when
a) The size of the market allows only one large plant
b) Strategic raw materials are owned by a firm
c) There is exclusive knowledge of production techniques
d) None of the above

76. Market demand for a factor when there are several variable factors is
a) a horizontal summation of individual demands
b) not a horizontal summation of individual demands
c) a vertical summation of individual demand
d) any of the above

77. In perfect competition in both the markets product and factor the firm faces
a) a more elastic supply curve of the factor input
b) a more inelastic supply curve of the factor input
c) an infinite elastic supply curve of the factor input
d) a perfectly inelastic supply curve of the factor input

78. According to marshall, law of diminishing returns is applicable to
a) manufacturing
b) agriculture
c) all fields of production
d) none of the above

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79. The monopolist demand curve is
a) Horizontal
b) Upward sloping
c) Downward sloping
d) Vertical

80. The marginal productivity theory is
a) normative only
b) positive and normative
c) positive only
d) more positive and less normative

81. Increasing returns to scale can be explained in terms of
a) optimum factor proportions
b) fixed scale of plant
c) internal economies
d) labour productivity

82. The relationship between MR and elasticity of demand can be expressed as
a) $MR = P(1 + 1/e)$
b) $MR = P(1 - 1/e)$
c) $MR = P(1 + P/e)$
d) $P = MR\left(1 - \frac{1}{e}\right)$

83. The changes in marginal physical product and marginal revenue product are exactly similar when
a) The price of the product remains constant
b) The output remains unchanged
c) The price of the product falls regularly
d) None of these

84. Diseconomies of management results in
a) decreasing returns to scale
b) constant returns to scale
c) increasing returns to scale
d) decreasing returns to factors

85. Given that price elasticity of demand is Rs.2 and MR is Rs.2.50. What is the price of the commodity?
a) Rs.4.75
b) Rs.5
c) Rs.6
d) Rs.2.75

86. Under pure competition, in the long run, the firm's equilibrium is at the point where
a) MC = ARP > MRP
b) MC = ARP < MRP
c) MC = MRP
d) MC = ARP = MRP

87. If by increasing the quantity of capital by one unit, the firm can give up two units of labour ro produce the same level of output, the $MRTS_{KL}$ is
a) ½
b) 2
c) 1
d) 4

88. A monopolist sells his product at Rs. 9 per unit, he also finds that his MR is Rs.6, His price elasticity of demand will be
a) 3
b) 3.2
c) 3.02
d) 4

89. Provided that there is only imperfect competition in the product market and the factor market is perfect,
a) The factor price will be equal to VMP
b) The factor price will be greater than VMP
c) The factor price will be less than VMP
d) only (a) and (b) are possible

90. Pick-out the correct statement:
a) The optimum combination of the two factors is yielded by the point at which the equal product curve is tangent to isocost line.
b) The optimum combination of the two factors is yielded by the point at which equal product curve cuts the isocost line.
c) The optimum combination of the two factors is yielded by the point at which the equal product curve runs parallel to the isocost line.
d) Only statements (a) and (c) are correct

91. Monopolist can determine
a) Price
b) Output
c) Either price or output
d) None of the above

92. Exploitation occurs when the VMP of labour is
a) less than the wage rate
b) equal to marginal cost of factors
c) less than MRP
d) greater than the wage rate

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93. Iso cost line or isocline represents
a) price ratio of factors
b) price ratio of products
c) optimum factor combination
d) optimum product combination

94. Which of the following statement is correct?
a) Price elasticity of demand at any one point of the demand curve of a monopolist changes from the others.
b) Cross elasticity of demand is larger in a monopoly
c) The demand depends reasonably on the prices of others.
d) None of the above

95. Which of the following holds good for equilibrium under the conditions of imperfect competition in the product market and monopsony in the factor market?
a) VMP = MRP = MFC = P_f
b) VMP > MRP = MFC > P_f
c) VMP > MRP = MFC < P_f
d) MRP = MFC > P_f < VMP

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96. The production possibility curve (PPC) is also called
a) opportunity cost curve
b) transformation curve
c) production possibility frontier
d) all the above

97. Monopolist demand curve slopes downward because
a) The industry's demand curve is the monopolist demand curve
b) He can influence price
c) He can influence output
d) All the above
e) Any of the above

98. Which of the following holds good for equilibrium under the conditions of perfect competition in the product market and monopsony in the factor market?
a) MRP = MFC < VMP > P_f
b) MRP = MFC > P_f
c) P_f = MRP = MFC
d) None of the above

99. PPC has its application in
a) theory of production
b) international trade
c) economics of growth
d) all the above

100. The slope of MR of the monopolist is
a) Twice the slope of his demand curve
b) Twice the slope of TR
c) Two times less than the slope of AR
d) None of the above

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MICRO ECONOMICS PRACTICE PAPER ANSWER KEY - 8

1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
B	A	D	A	D	D	B	A	D	A	D	B	D	C	C	C	B	C	A	A
21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36	37	38	39	40
D	C	B	B	D	C	C	C	D	C	B	A	D	A	C	C	D	C	B	A
41	42	43	44	45	46	47	48	49	50	51	52	53	54	55	56	57	58	59	60
A	D	D	C	B	B	A	B	C	A	D	A	A	A	A	B	C	D	B	A
61	62	63	64	65	66	67	68	69	70	71	72	73	74	75	76	77	78	79	80
B	A	C	B	C	D	C	C	A	A	C	D	B	B	A	B	C	B	C	C
81	82	83	84	85	86	87	88	89	90	91	92	93	94	95	96	97	98	99	100
C	B	A	A	B	D	B	A	C	A	C	D	A	A	B	D	D	B	D	A

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