PRACTICE PAPER - 21

1. **When $e_D > e_s$, equilibrium is**
   (a) stable (b) unstable
   (c) oscillating (d) none of these

2. **From the resource allocation view point, perfect competition is preferable because**
   (a) The firms operate at excess capacity levels
   (b) There is a whole variety of output produced
   (c) There is no restriction on entry and exit of firms
   (d) There is no idle capacity

3. **Marginal cost curve always cuts the average cost curve**
   (a) From below on the falling portion of the AC curve
   (b) From below on the rising portion of the AC curve
   (c) From below at the minimum point of the AC curve
   (d) From below at any point on the AC curve

4. **When $e_D = e_s$, equilibrium is**
   (a) Stable (b) Unstable
   (c) Oscillating (d) None of these

5. **'The competition among buyers, each trying to get enough of the product to satisfy his wants' tends to move**
   (a) The consumer's price
   (b) The market price
   (c) The equilibrium price
   (d) All of the above

6. **The economies and diseconomies of large scale production is determined by—**
   (a) The long run MC curve
   (b) The long run AC curve
   (c) The normal long run AC curve
   (d) The normal long run TC curve

7. **In case of price discrimination if $e_1 > e_2$, then which will be true?**
   (a) $P_1=P_2$ (b) $P_1>P_2$
   (c) $P_1<P_2$ (d) None

8. **The supply function, would shot downward and to the right if the MC of all of the firms in a perfectly competitive industry were to**
   (a) Decrease (b) Increase
   (c) No change (d) None of these

9. **Which is an inverted 'U' shaped curve?**
   (a) AC (b) MC
   (c) TC (d) FC

10. **If company is following price discrimination, then it will lead to**
    (a) Rise in profit (b) Rise in total
    (c) Both of these (d) None

11. **Excess capacity is not found under**
    (a) Monopoly
    (b) Monopolistic competition
    (c) Perfect competition
    (d) Oligopoly

12. **An entrepreneur will stay in business in the long run as long as he meets**
    (a) His domestic expenditure
    (b) All costs of production
    (c) Fixed costs of production
    (d) Variable costs of production

13. **In case company is following- maximisation objective, equilibrium t:' will be**
    (a) MR=MC (b) MR>MC
    (c) MR<MC (d) None of these

14. **Consumers are likely to get a variety of goods under**
    (a) Perfect competition (b) Monopoly
    (c) Imperfect competition (d) Oligopoly

15. **Profit as reward for innovation was formulated by**
    (a) Knight
    (b) Clark
    (c) J.Schumpeter
    (d) Kaleki

16. **Which of the following is an implicit cost of production?**
    (a) Wages of the labour
    (b) Charges for electricity
    (c) Interest on owned money capital
    (d) Payment for raw materials

17. Under perfect competition a firm can produce with
(a) An optimum plant
(b) An optimum output
(c) Maximum profit
(d) Identical products at low cost

18. Average fixed cost
(a) Increases as output increases
(b) Remains the same whatever the level of output
(c) Diminishes as output increases
(d) All the three are possible

19. Under perfect market and in case of decreasing marginal cost the firm's equilibrium with respect to level of production—
(a) Cannot be achieved
(b) Can be achieved after a small level of output
(c) Can be achieved after a high level of output
(d) Will result in run-away inflation

20. Monopoly theory of profit was formulated by
(a) Schumpeter
(b) Kaleki
(c) Kaldor
(d) None of these

21. If the total cost curve is plotted, marginal cost can be illustrated by—
(a) A U-shaped curve cutting the total cost curve at its lowest point
(b) The slope of a tangent to the curve at any given output
(c) A straight line from the origin to the midpoint of the curve
(d) A straight line cutting the curve at its lowest point

22. A monopoly producer has
(a) Control over production but not price
(b) Control over production as well as price
(c) Control neither on production nor on price
(d) Control over production, price and consumers

23. Profit / wages are higher if
(a) Degree of monopoly is high
(b) Degree of monopoly is less
(c) Degree of monopoly does not affect the price-wage ratio
(d) None of the above

24. 'The price which is necessary to retain a given unit of a factor in a certain industry may be called its transfer earnings or transfer price.' Defined by
(a) Prof. Lipsey
(b) Alfred Marshall
(c) Robertson
(d) Joan Robinson

25. What is its elasticity in market-1 at where profit is maximum ?
(a) 0 (b) 1
(c) 2 (d) 3

26. A profit-maximising monopolist in two separate markets will—
(a) Charge the same price in both markets
(b) Always charge a higher price in the market, where he sells more
(c) Always charge a higher price in the market where he sells less
(d) Adjust his sales in the two markets so that his MR in each market just equals his aggregate marginal cost

27. Share of profit in national income will be high if
(a) Rate of investment is high
(b) Propensity to save of the capitalist is high
(c) Propensity to save of the wage earners is less
(d) All of the above

28. **"The opportunity cost of using any factor is what is currently forgone by using it." This definition of opportunity cost is given by—**
(a) Joan Robinson (b) Prof. Lipsey
(c) Marshall (d) Paul A. Samuelson

29. What is its elasticity in market-2 at where profit is maximum ?
(a) 1.25 (b) 1.57
(c) 1.67 (d) 1.72

30. A circumstance in which it might pay a monopolist to cut the price of his product is where
(a) MC is falling
(b) MR is greater than MC
(c) His advertising costs are increasing
(d) Average costs seem about to fall

31. According to Arthur Lewis, supply of labour in less developed countries is
(a) Limited
(b) Flexible
(c) Rigid
(d) Unlimited

32. A loss bearing firm will continue to produce in the short run so long as the price at least covers
(a) Average variable costs
(b) Average fixed costs
(c) AVC+AFC
(d) Marginal costs

33. What is the profit in case it resorts to discrimination at the maximization i.e.
(a) 300 (b) 400
(c) 500 (d) 600

34. Equilibrium of monopolist will never lie below the middle point of the average revenue curve because below the middle point—
(a) Elasticity of demand is less than one
(b) MR is negative
(c) Both (A) and (B)
(d) Market laws cease to be operate

35. Marginal cost curve
(a) A Has the shape of a rectangular hyperbola
(b) Has the shape of the alphabet U
(c) Has the shape of the inverted U
(d) All of these

36. It were to sell in simple monopoly market, what is the maximum profit it will earn?
(a) 300 (b) 400
(c) 500 (d) 600

37. In a monopoly market an upward shift in the market demand results in a new equilibrium with
(a) A higher quantity and the same price
(b) A higher quantity and a lower price
(c) A higher quantity and higher price
(d) All the above

38. Labour owns all the means of production in case of
(a) Feudalism
(b) Capitalism
(c) Communism
(d) None of these

39. "Steps downwards at first and then upwards" it is the movement of
(a) AVC curve
(b) TFC curve
(c) TVC curve
(d) TC curve

40. Who was the author of the book "The Economics of Welfare" ?
(a) A. C. Pigou (b) Pareto
(c) Keynes (d) Marshall

41. A centralised cartel
(a) Leads to the monopoly solution
(b) Behaves as the multiplant monopolist if it wants to minimise the total cost of production
(c) Is illegal in the U.S.
(d) All of the above

42. The optimum output is the one which is produced
(a) By the optimum firm
(b) At the maximum average cost
(c) At the minimum average cost
(d) At zero marginal cost

43. Take it or leave it' price discrimination is of what degree ?
(a) 1 (b) 2
(c) 3 (d) None

44. Price discrimination is possible
(a) When elasticities of demand in different markets are the same at the ruling price
(b) When elasticities of demand are different in different markets at the ruling price
(c) When elasticities cannot be known
(d) None of these

45. The marginal product of the variable factors are maximum when marginal cost of the output is
(a) Negative
(b) Zero
(c) Minimum
(d) Maximum

46. A concept which has importance in the equilibrium analysis and thus economic analysis is
(a) AFC
(b) TFC
(c) Opportunity Cost
(d) MC

47. Demand curve becomes the MR curve in which degree of price discrimination?
(a) 3 (b) 2
(c) 1 (d) None

48. The imposition of a per unit tax causes the monopolist's—
(a) Average cost curve to shift up
(b) Average cost and marginal cost curves to shift up, because the per unit tax is like a fixed cost
(c) Average cost and marginal cost curves to shift up, because the per unit tax is like a variable cost
(d) All of the above

49. The demand for factors of production is determined by
(a) Derived demand curve
(b) Supply curve
(c) MC curve
(d) MR curve

50. To maximise profits during short run, a firm should produce the output that will
(a) Minimize marginal cost
(b) Yield maximum total revenue
(c) Maximize marginal revenue
(d) Equate marginal revenue with marginal cost

51. In case of Bains' limit pricing, equilibrium will be at point where
(a) MR is negative (b) MR is maximum
(c) MR is minimum (d) None of the above

52. One way the government can induce a monopolist to expand his output is by imposing
(a) A specific tax on the monopolist's output
(b) A price ceiling that make the monopolist lower his price
(c) A price floor that make the monopolist raise his price
(d) A heavy tax on the monopolist's profits

53. The prime cost may be considered as
(a) Variable cost (b) Direct cost
(c) Sunk cost (d) Fixed cost

54. At sales maximisation level, elasticity of price is equal to
(a) e > 1 (b) e = 1
(c) e < 1 (d) e < 2

55. When a monopolist is in
(a) Short-run equilibrium, he will also be in long-run equilibrium
(b) Long-run equilibrium, he will also be in short-run equilibrium
(c) Long-run equilibrium, he may or may not be in short-run equilibrium
(d) None of the above

56. According to the Modern theory rent arises on
(a) Labour
(b) Land
(c) Capital
(d) All factors

57. An Iso-cost line represents—
(a) Combinations of two inputs which yield the same amount of output
(b) Combinations of two inputs which cost the same amount to a firm
(c) Combinations of two inputs which yields varying amounts of output
(d) Combinations of two inputs which cost different amounts of outlay to a firm

58. In monopoly, the relationship between average revenue and marginal revenue curves is as follows—
(a) Average revenue curve lies above the MR curve
(b) AR curve coincides with the MR-curve
(c) AR curve lies below the MR-curve
(d) AR curve is parallel to the MR-curve

59. A firm practising price discrimination will be—
(a) Charging different prices for different qualities of a product
(b) Buying in the cheapest and selling in he dearest markets
(c) Charging different prices in different markets for a product
(d) Buying only from firms selling in bulk at a distance

60. The book 'Barriers to New Competition' was written by
(a) Baumol (b) Sylos
(c) Labini (d) Bains

61. In case of monopoly, demand curve is same as
(a) MR curve (b) AR ourve
(c) MC curve (d) AC curve

62. Equilibrium of a discriminating monopolist requires the fulfilment of which one of the following conditions—
(a) It must be profitable for him to sell output in more than one market
(b) MR in both markets must be the same
(c) MR in both markets must also be equal to the marginal cost of producing the monopolist's aggregate output
(d) All the above

63. The most profitable output for the firm to produce is
(a) OS (b) OV
(c) OK (d) OA

64. A factor will not earn rent if
(a) Its supply is elastic
(b) Its supply is inelastic
(c) Its supply is fixed
(d) Its supply is perfectly elastic

65. The theory of distribution refers to
(a) The distribution of income among different individuals in the economy
(b) The distribution of income among various factors of production
(c) Both of the above
(d) None of the above

66. Minimum wage legislation is implemented where
(a) Population is decreasing
(b) Population is stagnant
(c) Population is increasing
(d) None of the above

67. A firm may be considered to be of optimum size when—
(a) Its fixed and average costs are equal
(b) Its average cost is at a minimum
(c) Its total cost and total revenue curve coincide
(d) It is faced with a horizontal demand curve

68. Which of the following market situations explains marginal cost equal to price for attaining equilibrium—
(a) Perfect competition
(b) Monopoly and imperfect competition
(c) Oligopoly
(d) Monopoly only

69. Who is likely to be the price leader under an oligopoly?
a) Any unit with efficient production capabilities.
b) No firm can be termed as price leader under oligopoly.
c) The largest firm.
d) The average firm.

70. Which economies of scale arises from indivisibility of factors of production?
a) Technical
b) External
c) Marketing
d) Managerial

71. Net interest equals
a) Gross interest plus pure interest minus Insurance against risk and wages of management plus return for inconvenience
b) Gross Interest minus pure interest plus Insurance against risk and wages of management minus return for inconvenience
c) Gross interest minus Insurance against risk minus wages of management minus return for inconvenience.
d) Gross interest plus Insurance against risk plus wages of management plus return for inconvenience.

72. In a Barometric price leadership
a) the price leader by his armoury of weapons makes others submit to the price fixed by him.
b) the price leader is simply the first firm to announce price changes.
c) the price leader is a dominant and low cost firm.
d) the price leader maximises the industry's profit.

73. Pure interest will be
a) equal to gross interest
b) smaller than gross interest
c) bigger than gross interest
d) none of the above

74. In case of price leadership by the dominant firm, all the firms in the purely oligopolistic industry will produce their optimum level of output
a) always
b) never
c) sometimes
d) often

75. Pure interest differs between investments because of
1. distance of the market
2. period of maturity
3. imperfect knowledge of market conditions
4. ruling of a Central Bank
a) 1,2 and 4 only
b) 1,2 and 3 only
c) 3 and 4 only
d) 1 and 2 only

76. If an oligopolist incurs losses in the short-run, then in the long-run
a) the oligopolist will go out of business.
b) the oligopolist will stay in business.
c) the oligopolist will break even.
d) any one of the above is possible.

77. "Interest is the reward for parting with liquidity / for a specified period". This was said by
a) J.M. Keynes
b) Alfred Marshall
c) Fisher
d) Joan Robinson

78. According to the "kinked demand curve" theory of oligopoly
a) an oligopolistic industry will always have a price leader.
b) firms will hesitate to follow a price decrease initiated by one firm in the industry.
c) the elasticity of demand is higher for a price decrease than a price increase.
d) the marginal revenue is a continuous function.

79. According to the loanable funds theory of interest, interest is determined by
a) real forces such as productivity of capital, thriftness etc.,
b) monetary forces such as supply of money, hoarding dishoarding etc
c) only liquidity preference
d) none of the above

80. The break-even point of a firm refers to that level of output at which
a) losses cease and profits begin, assuming that there are fixed prices.
b) losses cease and profits begin, assuming that there arc variable prices.
c) losses cease and profits begin, assuming that there are fixed outputs.
d) average cost reaches its minimum.

81. Which theory is called the Neoclassical Theory of Interest?
a) the Keynesian Theory
b) the Time Preference Theory
c) the Waiting Theory of Marshall
d) the Loanable Funds Theory

82. Long-run economic profits are possible in an oligopolistic industry primarily because
a) the firms set the profit maximising price and output
b) oligopolist firms use the most efficient production methods.
c) the demand is quite elastic.
d) the entry of new firms is difficult,

83. Which of the following arc relevant to the definition of capital as a factor of production?
1. All existing goods which can be used in future production
2. All existing goods in current use
3. The ability to contribute to the future satisfaction of wants
4. Marketability on the stock exchange
a) 1 and 2 only
b) 1 and 3 only
c) 2, 3 and 4 only
d) 2 and 4 only
e) 3 and 4 only

84. Sales maximisation implies
a) maximising the units of output sold
b) minimising the cost of the firms
c) maximising the profit of the firm
d) maximising the total receipts of the firms.

85. "Liquidity preference is the preference to have an equal amount of cash rather than of claims against others" Who said this?
a) J.M. Keynes
b) Hansen
c) Meyer
d) Dudley Dillard

86. The condition for maximising sales is
a) MR = 0
b) cd = 1
c) both (a) and (b)
d) neither (a) nor (b).

87. Liquidity preference means
a) refraining from consumption
b) desire of the public to hold money
c) desire to hold assets like bonds and securities which are liquid
d) desire to hold money which is more liquid than bonds and securities

88. Limit price is
a) a price to limit excess profit.
b) a control levied by governments to stop price escalation.
c) a price which prevents entry.
d) a price that restricts the output.

89. Substitution of bonds for money holdings will be done by the people if they expect
a) a fall in rate of interest
b) a rise in rate of interest
c) a rigidity of interest rates
d) a rise in the price of real goods

90. "Tooth paste" in India is close to
a) Monopolistic competition
b) Oligopoly
c) Perfect competition
d) any of the above.

91. One reason why people hold money is that
a) it has intrinsic value
b) it is the most convenient asset for making payments
c) it plays a passive role as a medium of exchange
d) it is the only asset which is perfectly liquid

92. The Edgeworth model provided
a) no stable solution
b) a stable solution
c) stable solution under collusion
d) none of the above.

93. People will tend to demand money if they expect that
a) the rate of interest will fall
b) the prices of goods will fall
c) the prices of bonds will fall
d) the prices of bonds will rise

94. Which form of monopoly regulation is the most advantageous for the consumer?
a) Price control
b) Lumpsum tax
c) Per unit tax
d) All the above are equally advantageous.

95. Money demanded for transactions motive depends niostly on the current level of
a) expectations
b) profits
c) income
d) rate of interest

96. Match the following and choose the correct answer:

Market Situations	Characteristics
A. Open Oligopoly	1. No product differentiation
B. Pure Oligopoly	2. Absence of leadership
C. Full Oligopoly	3. Presence of leadership
	4. Differentiated entry of new firm

a) A4, B1, C2
b) A2, B5, C3
c) A3, B2, Cl
d) Al, B2, C3.

97. The demand for money for speculative purpose depends chiefly on the current level of
a) income
b) prices
c) wages
d) rate of interest

98. When a firm reduces its price of the product then
a) total revenue always increases.
b) profits will always increase.
c) output sold will increase.
d) nothing certain can be said.

99. Changes in the rate of interest do not particularly affect the amount of money held for
a) transaction motives
b) precautionary motives
c) both (a) and (b)
d) speculative motives

100. Which of the following has been labelled as x- efficiency by Harvey Leibenstein?
a) The marginal benefit equals marginal cost for all products.
b) The minimum cost of production by a firm.
c) A firm operating at no profit-no loss situation.
d) None of the above.

PRACTICE PAPER ANSWER KEY - 21

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