MULTIPLE CHOICE QUESTION

MICRO-ECONOMICS

Question Bank

1) Worth a rupee to a consumer is called:
   (a) Marginal utility of money (b) total utility of money (c) diminishing marginal utility of money (d) consumer’s equilibrium

2) A consumer attains equilibrium, in case of one commodity, when:
   (a) MUx = Px (b) MUx > Px (c) MUx < Px (d) MUx = 0 (c) MUxMUy/Py
   (d) MRSxyMUy/Py

3) Consumer equilibrium in case of two commodities (say X and Y) is struck when:
   (a) MUx/Px = MUm (b) MUx/Px > MUy/Py (c) MUx/Px = MUy/Py = MUm
   (d) MUx/Px

4) A consumer reaches the point of equilibrium when:
   (a) MRSxy > Px/Py (b) MRSxy < Px/Py (c) MRSxy = Px/Py (d) none of these

5) A consumer will start buying less of good-X and more of Good-Y, when:
   (a) MUx/Px = MUm (b) MUx/Px < MUy/Py (c) MUy/Py = MUm
   (d) MUx/Px > MUy/Py

6) According to IC approach, at the point of equilibrium:
   (a) slope of IC > slope of price line (b) slope of IC < slope of price line
   (c) slope of IC # slope of price line (d) slope of IC = slope of price line

7) Additional utility derived from the consumption of an additional unit of a commodity is called:
   (a) Average utility (b) total utility (c) Marginal utility (d) none of these

8) The slope indifference curve is equal to:
   (a) One (b) marginal rate of substitution (c) Marginal utility (d) none of these
9) Why is indifference curve convex to origin?
   (a) Due to law of diminishing marginal utility (b) Due to monotonic preferences
   (c) Due to continuous decline of marginal rate of substitution (d) Both a and b

10) It is the property of indifference curve that no two IC can intersect each other. The reason behind this is:
    (a) Consumer preferences are monotonic (b) Preferences are complete
    (c) Same combination of two goods cannot give different level of satisfaction (d) Diminishing marginal rate of substitution

11) Slope of budget line is:
    (a) \( \frac{P_x}{P_y} \) (b) \( \frac{P_y}{P_x} \) (c) MRS (d) \( P_x \cdot P_y \)

12) Which of the following is not the property of indifference curve:
    (a) Higher the indifference curves higher the level of satisfaction
    (b) Two indifference curves cannot intersect each other
    (c) Indifference curve is concave to origin
    (d) Indifference curve is downward sloping

13) An Indifference curve slope 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

14) Hicks and Allen believed that utility:
    (a) Cannot be measured (b) Cannot be expressed (c) Can be measured in cardinal numbers (d) Can be measured in ordinal numbers

15) An indifference curve is related to:
    (a) Consumer’s income (b) prices of goods X and Y
    (c) Total utility from goods X and Y (d) choices and preferences of consumer

16) As we move down the indifference curve left to right, the slope of indifference curve tends to:
    (a) Unity (b) rise (c) Zero (d) declines

17) A shift in budget line, when prices are constant, is due to:
    (a) change in demand (b) change in income
    (c) change in preferences (d) change in utility
18) Marginal rate of substitution of X for Y is calculated as:
   (a) $\frac{P_x}{P_y}$ (b) $\frac{P_y}{P_x}$ (c) Change in Y / change in X (d) change in X / change in Y

19) A set of ICs drawn in a graph is called:
   (a) Indifference curve (b) indifference map (c) budget line (d) all of these

20) In indifference map, higher IC indicates:
   (a) Lower level of satisfaction (b) same level of satisfaction
   (c) Higher level of satisfaction (d) either higher or same level of satisfaction

21) MRS is determined by:
   (a) satisfaction level of the consumer (b) income of the consumer
   (c) taste of the consumer (d) preferences the consumer

22) In a situation when MRS > $\frac{P_x}{P_y}$, the consumer would react by:
   (a) Diminishing the consumption of commodity-x
   (b) Increasing the consumption of commodity-y
   (c) Increasing the consumption of commodity-x
   (d) None of these

23) Two indifference curves cannot cut each other because:
   (a) They slope downwards.
   (b) They are convex to origin
   (c) They represent those combinations of two goods that give the same satisfaction
   (d) Each indifference curve represents a different level of satisfaction

24) Specific quantity to be purchased against a specific price of the commodity is called:
   (a) Demand (b) quantity demand
   (c) Movement along demand curve (d) shift in demand

25) The graphic presentation of a table showing price and relationship for a commodity in the market is called:
   (a) Individual demand curve (b) producer’s demand curve
   (c) Market demand curve (d) consumer’s demand curve
26) Downward slope of the demand curve shows:
(a) Positive relationship between price and quantity demanded
(b) Inverse relationship between price and quantity demanded
(c) No relationship between price and quantity demanded
(d) None of these

27) How two goods (apple and orange) are related when, as a result of rise in the price of apples, demand for oranges increases?
(a) Substitute goods       (b) complementary goods
(c) normal goods          (d) inferior goods

28) In case of normal goods, demand curve shows:
(a) a negative slope_ (b) a positive slope   (c) zero slope     (d) none of these

29) Law of demand must fail in case of:
(a) normal goods      (b) giffen goods (c) inferior goods   (d)none of these

30) Inferior goods are those whose income effect is:
(a) negative       (b) positive     (c)zero     (d) none of these

31) Which of the following pairs represents substitute goods?
(a) car and petrol   (b) juice and cold drink   (c) bread and butter   (d) all of these

32) In case of Giffen’s paradox, the slope of demand curve is:
(a) negative       (b) positive     (c) parallel to X-axis     (d) parallel to Y-axis

33) As a result of rise in consumer’s income, demand curve for coarse grain(inferior good):
(a) becomes a horizontal straight line        (b) becomes a vertical straight line
(c) shifts to the right                       (d) shifts to the left

34) If two goods are complementary then rise in the price of one results in:
(a) rise in demand for the other         (b) fall in demand for the other
(c) rise in demand for both            (d) none of these

35) Demand curve is upward sloping for:
(a) normal goods (b) inferior goods      (c) giffen goods     (d) none of these
36) Movement along the demand curve occurs due to change in:
   (a) own price of the commodity (b) determinants of demand, other than own
   price of the commodity (c) both (a) and (b) (d) none of these

37) An increase in the price of electricity will cause the demand for electric appliances to:
   (a) rise (b) fall (c) remain the same (d) none of these

38) Shift in demand curve means:
   (a) Fall in demand due to rise in own price of the
   (b) Rise in demand due to fall in own price of the
   (c) Change in demand due to factors other than own price of the commodity
   (d) None of these

39) A fall in income of the consumer (in case of normal goods) will cause:
   (a) Upward movement on the demand curve
   (b) Downward movement on the demand curve
   (c) Rightward shift of the demand curve
   (d) Leftward shift of the demand curve

40) Change in quantity demanded of a commodity due to change in its own price, other
    things remaining constant, is called:
   (a) cross price effect (b) price effect (c) income effect (d) substitution effect

41) In case of contraction of demand, we move:
   (a) From lower point to upper point on the same demand curve
   (b) To right on the another demand curve
   (c) From upper point to lower point on the same demand curve
   (d) To left on the another demand curve

42) Increase in demand occurs due to:
   (a) Decrease in price of the complementary good (b) Increase in income of the
   consumer (c) Increase in price of the substitutes (d) all of these
43) Assumptions of the law of demand refer to:
(a) constant own price of the commodity  (b) determinants of demand, other than own price of the commodity  
(c) constant cost of production  (d) none of these

44) Law of demand is violated when:
(a) income effect is negative  (b) substitution effect is negative  (c) negative income effect is greater than substitution effect  
(d) negative income effect is less than substitution effect

45) A fall in own price of the commodity leads to:
(a) increase in real income of the consumer  (b) decrease in real income of the consumer  
(c) increase in purchasing power of the consumer  (d) both (a) and (c)

46) Substitution effect takes place when price of the commodity becomes:
(a) relatively cheaper  (b) relatively dearer  (c) stable  
(d) both (a) and (b)

47) Different quantities purchased at different possible prices of a commodity is called:
(a) demand schedule  (b) quantity demanded  
(c) demand function  (d) individual demand

48) Diagrammatic presentation of demand schedule of an individual buyer of a commodity in the market yields:
(a) market demand schedule  (b) individual demand curve  
(b) (c) individual demand schedule  (d) market demand curve

49) Goods are undemanded because these possess:
(a) utility  (b) capacity  (c) needs  
(d) none of these

50) Complementary goods:
(a) complete the demand for each other  (b) are substituted for each other  
(b) (c) are demanded together  (d) both (a) and (c)

51) In case of normal goods, the relationship between income and quantity demanded is:
(a) negative  (b) positive  (c) zero  
(d) infinite

52) In case of normal goods, the relationship between own price of the commodity and its quantity demanded is:
(a) constant  (b) inverse  (c) positive  
(d) none of these

53) An exception to the law of demand is:
(a) normal good  (b) Giffen good  
(c) article of distinction  (d) both (b) and (c)
54) Distribution of income is a determinant of:
   (a) individual demand function (b) market demand function (c) both (a) and (c) (d) none of these

55) In case of giffen goods, demand curve is:
   (a) upward sloping (b) downward sloping
   (b) (c) parallel to X-axis (d) parallel to Y-axis

56) When increase in the price of one good causes an increase in demand for the other, the goods are:
   (a) substitutes (b) complementary (c) inferior (d) giffen

57) In case of inferior goods:
   (a) income effect is negative (b) income effect of positive
   (b) (c) income effect is zero (d) none of these

58) Shift in demand curve occurs when demand for a commodity changes due to change in:
   (a) own price of commodity (b) determination of demand, other than own
   (c) price of the commodity (d) both (a) and (c)

59) Change in quantity demanded of a commodity due to change in real income of the consumer caused by change in own price of the commodity is called:
   (a) cross price effect (b) price effect
   (b) (c) income effect (d) substitution effect

60) When income of the consumer rises in case of a normal good:
   (a) demand curve shifts to the left (b) demand curve shifts to the right
   (c) there is upward movement along the demand curve (d) there is downward movement along the demand curve

61) An increase in the price of computer will cause the demand for internet services to:
   (a) rise (b) remain the same (c) fall (d) none of these

62) The concept of utility was introduced by
   (a) Marshall (b) Hicks and Allen (c) Geremy Bentham (d) Gossen

63) Cardinal utility analysis to consumer equilibrium was developed by
   (a) Marshall (b) Hicks and Allen (c) Geremy Bentham (d) Gossen

64) Ordinal utility analysis is otherwise known as
   (a) Gossens second law (b) Cardinality approach
65) Ordinal utility analysis was developed by
(a) J.R. Hicks & R.J. R.J.D. Allen (b) Samuelson
(c) Marshall and Jevons (d) Slutsky

66) Total utility curve
(a) Always rises (b) First falls then rises
(c) Always falls (d) First rises and then falls after reaching its maximum

67) Total utility is maximum when
(a) Marginal utility is zero (b) Marginal utility is maximum
(c) Marginal utility increases (d) Average utility is maximum

68) Marginal utility is
(a) Always zero (b) Increases at a diminishing rate
(c) The utility derived from last unit (d) All the above

69) Total utility is
(a) The sum total of marginal utilities (b) Entire utility derived from whole consumption
(c) Increases at a diminishing rate (d) All the above

70) When total utility is increasing at a decreasing rate, marginal utility is
(a) Constant (b) Negative (c) Increasing (d) Decreasing

71) Which of the following is called gossens first law
(a) Law of substitution (b) Law of equi marginal utility
(c) Law of diminishing marginal utility (d) None of the above

72) At saturation point MU of a commodity is
(a) Positive (b) Negative (c) Zero (d) Increasing

73) A consumer reaches equilibrium when
74) Marshalian cardinal utility analysis assumes
(a) Marginal utility of money is zero  
(b) Marginal utility of money is decreasing  
(c) Marginal utility of money is increasing  
(d) Marginal utility of money is constant

75) When individuals income rises (everything remain the same) his demand for a normal good
(a) Rises  
(b) Falls  
(c) Remains the same  
(d) negative

76) When individuals income falls (everything remain the same) his demand for a normal good
(a) Rises  
(b) Falls  
(c) Remains the same  
(d) negative

77) When individuals income falls (everything remain the same) his demand for an inferior good
(a) Rises  
(b) Falls  
(c) Remains the same  
(d) We cannot say without additional information

78) Other things being equal a decrease in demand can be caused by
(a) A fall in price of the commodity  
(b) A fall in income of the consumer  
(c) A rise in price of the substitute  
(d) None of these

79) When price of a product falls, more of it is purchased because of
(a) The substitution effect  
(b) The income effect  
(c) Neither substitution effect nor income effect  
(d) Both the substitution and income effects

80) “Utility or satisfaction is a subjective concept; therefore it could only be ranked”. The statement supports
(a) Cardinal utility theorist  
(b) Ordinal utility theorist  
(c) Behavioral theorist of the firm  
(d) None of the above

81) The basic doctrine of consumers surplus is based on
(a) Indifference curve analysis  
(b) Revealed preference theory  
(c) Law of substitution  
(d) Law of diminishing marginal utility

82) According to Marshall, The law of diminishing marginal utility
(a) Applies on money in the manner in which it applies on commodity
(b) Do not applies on money except bank money
(c) Does not applies on bank money but applies on cash
(d) Applies on all commodities except money

83) An indifference curve represent
   (a) Four commodities                     (b) Less than two commodities
   (c) Only two commodities                 (d) Only one commodity

84) Indifference curve is always
   (a) Concave to the origin                (b) Convex to the origin
   (c) L shaped                            (d) A straight line

85) Engel curve for giffen good is
   (a) Positively sloped                    (b) Negatively sloped
   (c) Horizontal straight line             (d) Vertical straight line

86) Price effect is
   (a) Income effect – substitution effect (b) Substitution effect – income effect
   (c) Income effect + substitution effect  (d) Income effect + substitution effect-negative effects

87) For a giffen good, when price falls
   (a) Demand increases at a faster rate    (b) Demand decreases
   (c) Demand remains constant              (d) Demand curve has a negative slope

88) Inferior goods are the goods with
   (a) Falling Income effect                (b) Rising Income effect
   (c) Negative income effect               (d) Positive Marshallian effects

89) Indifference curves are
   (a) Always parallel                     (b) May be parallel
90) Revealed preference theory assumes
   (a) Weak ordering               (b) Strong ordering
   (c) Constant ordering           (d) Multiple ordering

91) Hicks Allen indifference theory is based on
   (a) Weak ordering               (b) Strong ordering
   (b) (c) Constant ordering       (d) Multiple ordering

92) Income consumption curve of an inferior commodity is
   (a) Positively sloped            (b) Backward bending
   (c) Downward slopping straight line   (d) Showing constant income effect

93) In case of a convex indifference curve
   (a) MRS xy is constant          (b) MRS xy is increasing
   (c) MRS xy is negligible        (d) MRS xy is diminishing

94) ‘Higher the indifference curve higher will be level of satisfaction’. The statement is
   (a) Always true                 (b) Always false
   (c) Sometimes true and sometimes false (d) True only if price effect is positive

95) As per indifference curve analysis, consumer always try to reach
   (a) Higher indifference curve    (b) Lower indifference curve
   (c) Middle indifference curve    (d) Lower income price line

96) As per indifference curve analysis consumer equilibrium is attained when
   (a) Slope of indifference curve is constant
   (b) Slopes of both indifference curve and income price line are equal
   (c) Slopes of both indifference curve and income price line are opposite
   (d) Both income price line and indifference curve are parallel.

97) The slope of a budget line is
   (a) The satisfaction level of both the commodities
   (b) The income level of the consumer
   (c) The price ratio of both the commodities under consideration
   (d) Price level of a country
98) At the point of tangency the slope of indifference curve is
   (a) Differ from point to point          (b) Is equal on the other side of the mid point
   (c) Is the same                          (d) Is increasing

99) The slope of a budget line throughout its length is
   (a) The satisfaction level of both the commodities     (b) The income level of the consumer
   (c) The price ratio of both the commodities under consideration   (d) Price level of a country

100) The income effect for a commodity is
      (a) Is always positive                             (b) Is always negative 
      (c) Depends upon price effect                (d) Determines the nature of the commodity

101) The substitution effect for a commodity is
      (a) Is always positive                        (b) Depends upon the nature of the commodity
      (c) Depends upon price effect              (d) Sometimes negative and sometimes positive

102) Which method is used by Hicks to eliminate the income effect when price of a product is changed
      (a) Compensating variation in income                 (b) The cost difference
      (c) The over compensation effect            (d) Substituting variation in price

101) Which of the following statements is true
      (a) Hicksian substitution effect is greater than Slutsky substitution effect
      (b) Slutsky substitution effect is greater than Hicksian substitution effect
      (c) Hicksian substitution effect is same and equal to Slutsky substitution effect
      (d) Hicksian substitution effect is the reverse of slusky substitution effect

102) According to Hicks substitution effect is
      (a) The movement to a higher indifference curve    (b) The movement to a lower indifference curve
      (c) The movement along an indifference curve     (d) The movement to a decreased consumption

103) Strong ordering means
      (a) Absence of indifference                      (b) Presence of indifference
      (c) No difference between different combinations (d) None of the above

104) In the fundamental theorem of consumption and to prove the law of demand, Samuelson uses
      (a) Compensating variation in income              (b) The cost difference
105) If negative income effect is greater than positive substitution effect: price effect will be
   (a) Zero     (b) Negative     (c) Positive     (d) Positive and greater than one

106) If negative income effect is greater than positive substitution effect: the product will be
   (a) A normal good          (b) An inferior good
   (c) A giffen good          (d) A complementary good

107) If both the products X & Y are normal goods
   (a) Slopes down towards right     (b) Slopes up towards right
   (c) Slopes up towards left        (d) Slopes down towards left

108) If negative income effect is less than positive substitution effect: the product will be
   (a) A normal good              (b) An inferior good
   (c) A giffen good              (d) A complementary good

109) Which of the following statement is FALSE with regard to marginal utility
   (a) Marginal utility is the utility derived from last unit
   (b) As consumption increases Marginal utility goes on diminishing
   (c) At saturation point marginal utility is Zero
   (d) Marginal utility increases at a diminishing range

110) Which of the following statement is TRUE with regard to total utility
   (a) Total utility is the utility derived from last unit
   (b) Total utility increases at a diminishing range
   (c) As consumption increases total utility goes on diminishing
   (d) At saturation point total utility is negative

111) According to Marshall consumer surplus is:
   (a) Total utility – marginal utility          (b) Total utility + Marginal utility
   (c) Total utility derived – Price            (d) Price – Marginal utility
112) When the unit price of product X increases from Rs.1 to Rs. 2, its price elasticity of demand is
(a) elastic (b) inelastic (c) perfectly inelastic (d) perfectly elastic

113) When the unit price of product X decreases from Rs. 6 to Rs. 5, its price elasticity of supply is
(a) elastic (b) inelastic (c) perfectly inelastic (d) perfectly elastic.

114) Suppose the supply of a certain product increases. Under which of the following situations, would the price of it increase?
(a) The demand for its complements decreases
(b) The supply of its substitutes decreases
(c) The price of its competitive supply good decreases
(d) The supply of it is perfectly inelastic

115) The slope of a demand curve depends on
(a) The units used to measure quantity but not the units used to measure price
(b) The units used to measure price and the units used to measure quantity
(c) The units used to measure price but not the units used to measure quantity
(d) Neither the units used to measure price nor the units used to measure quantity.

116) The price elasticity of demand depends on
(a) The units used to measure price but not the units used to measure quantity
(b) The units used to measure price and the units used to measure quantity
(c) The units used to measure quantity but not the units used to measure price
(d) Neither the units used to measure price nor the units used to measure quantity.

117) The price elasticity of demand measures
(a) The slope of a budget curve
(b) How often the price of a good changes
(c) The responsiveness of the quantity demanded to changes in price
(d) How sensitive the quantity demanded is to changes in demand.

118) When the quantity of coal supplied is measured in kilograms instead of pounds, the demand for coal becomes
(a) More elastic (b) neither more nor less elastic
(c) less elastic (d) undefined

119) The price elasticity of demand equals
(a) The percentage change in the quantity demanded divided by the percentage change in the price
(b) The change in the quantity demanded divided by the change in price
(c) The percentage change in the price divided by the percentage change in the quantity demanded

(d) The change in the price divided by the change in quantity demanded

120) If a rightward shift of the supply curve leads to a 6 percent decrease in the price and a 5 percent increase in the quantity demanded, the price elasticity of demand is

(a) 0.83  
(b) 0.30  
(c) 0.60  
(d) 1.20

121) A 10 percent increase in the quantity of spinach demanded results from a 20 percent decline in its price. The price elasticity of demand for spinach is

(a) 0.5  
(b) 20.0  
(c) 2.0  
(d) 10.0

122) A 20 percent increase in the quantity of pizza demanded results from a 10 percent decline in its price. The price elasticity of demand for pizza is

(a) 2.0  
(b) 10.0  
(c) 0.5  
(d) 20.0

123) Suppose a rise in the price of peaches from Rs. 5.50 to Rs. 6.50 per bushel decreases the quantity demanded from 12,500 to 11,500 bushels. The price elasticity of demand is

(a) 0.5  
(b) 1000.0  
(c) 2.0  
(d) 1.0

124) A fall in the price of lemons from Rs. 10.50 to Rs. 9.50 per bushel increases the quantity demanded from 19,200 to 20,800 bushels. The price elasticity of demand is

(a) 1.25  
(b) 1.20  
(c) 8.00  
(d) 0.80

125) Suppose that the quantity of root beer demanded declines from 103,000 gallons per week to 97,000 gallons per week as a consequence of a 10 percent increase in the price of root beer. The price elasticity of demand is

(a) 1.66  
(b) 6.00  
(c) 0.60  
(d) 1.40

126) If demand is price elastic

(a) A 1 percent decrease in the price leads to an increase in the quantity demanded that exceeds 1 percent

(b) A 1 percent increase in the price leads to an increase in the quantity demanded that exceeds 1 percent

(c) The price is very sensitive to any shift of the supply curve

(d) A 1 percent decrease in the price leads to a decrease in the quantity demanded that is less than 1 percent
127) The price elasticity of demand can range between
   (a) Negative one and one                    (b) zero and infinity
   (c) zero and one                                  (d) negative infinity and infinity

128) Demand is perfectly inelastic when
   (a) The good in question has perfect substitutes.
   (b) Shifts in the supply curve results in no change in price
   (c) Shifts of the supply curve results in no change in quantity demanded
   (d) Shifts of the supply curve results in no change in the total revenue from sales

129) If the price elasticity is between 0 and 1, demand is
   (a) [Inelastic] (b) elastic                (c) perfectly elastic           (d) unit elastic

130) Demand is inelastic if
   (a) A large change in quantity demanded results in a small change in price
   (b) The price elasticity of demand is greater than 1
   (c) The quantity demanded is very responsive to changes in price
   (d) The price elasticity of demand is less than 1

131) A good with a vertical demand curve has a demand with
   (a) Infinite elasticity                    (b) unit elasticity
   (c) Zero elasticity                       (d) varying elasticity

132) The demand curve in the figure above illustrates the demand for a product
     with
   (a) Unit price elasticity of demand at all prices
   (b) A price elasticity of demand that is different at all prices
   (c) Infinite price elasticity of demand
   (d) Zero price elasticity of demand at all prices