Multiple Choice Questions

1. The value of the inputs owned and used by the firm in its own production processes is
   a. Implicit cost  b. Marginal cost
c. Sunk cost  d. Explicit cost

2. MC at any level of output is given by
   a. Slope of TC curve  b. Slope of TVC curve
c. Slope of either TC or TVC  d. Slope of TFC

3. If a firm’s average cost is Rs.32 at 6 units of output and Rs.34 at 7 unit, which one among the following is the marginal cost of producing the 7th unit
   a. 46  b. 2
c. 36  d. 42

4. Cost function expresses the relationship between
   a. Cost and price  b. Output and cost
c. Input and cost  d. Output and input

5. A firm’s average total cost is Rs.110, its average variable cost is Rs.100 and its output is 50 units. What is its total fixed cost?
   a. Less than 300  b. Between 400 to 600
c. More than 600  d. Firm has no fixed cost

6. The cost that cannot be recovered once spent
   a. Accounting cost  b. Fixed cost
c. Implicit cost  d. Sunk cost

7. The saucer-type of modern Short run Average Variable Cost (SAVC) represents
   a. Excess capacity  b. Managerial costs
c. Load factors  d. Reserve capacity

8. The Long run Average Cost curve (LAC) in modern cost theory is roughly
   a. U shape  b. Saucer shaped
c. L shaped  d. Rectangular hyperbola

9. Under increasing returns to scale, which of the following is the nature of the long run average cost curve?
   a. Downward sloping  b. Upward rising
c. Parallel to output axis  d. Identical to short run average cost curve

10. Which of the following has a U shape?
    a. Average fixed cost curve  b. Total cost curve
c. Average variable cost curve  d. Total variable cost curve

11. For a perfectly competitive firm, the optimum level of output is given by the point where
    a. MR equals MC  b. MR equals AC
c. MR exceeds MC by the greatest amount  d. MR equal MC and MC is rising

12. Which of the following most closely approximates the perfectly competitive model?
    a. Cigarette industry  b. Rice farming
c. Newspaper  d. Automobile

13. Short run supply curve of perfectly competitive market is given by
    a. Rising portion of MC curve  b. Rising portion of MC curve over and above its AVC curve
c. Rising portion of MC curve over and above its AC curve  d. Rising portion of MC curve over and above its MR curve

14. When the perfectly competitive firm and industry are both in long run equilibrium?
    a. P = MR = SMC = LMC  b. P = MR = SAC = LAC
c. P = MR = lowest point on the LAC curve  d. All the above
15. Total profits are maximized under perfect competition where
   a. TR exceed TC by the greatest amount  
   b. TR equals TC and TC is rising  
   c. TR equal to TC  
   d. TC exceed TR by the greatest amount

16. Under increasing cost industries, long run supply curve is
   a. Negatively sloped  
   b. Horizontal  
   c. Positively sloped  
   d. any of the above

17. If factor prices and factor quantities move in opposite direction, we have
   a. A constant cost industry  
   b. An increasing cost industry  
   c. A decreasing cost industry  
   d. Any of the above

18. At shutdown point
   a. P = AVC  
   b. TR = TVC  
   c. The total losses of the firm equal TFC  
   d. all the above

19. In short run equilibrium, a perfect competitive firm will
   a. Incur loss  
   b. No loss No profit situation  
   c. Maximizing its profit  
   d. Any of above is possible

20. The following are the characteristics of perfect competition except
   a. Government regulations  
   b. Product homogeneity  
   c. Large number of sellers  
   d. Free and exit

21. Monopsony is a market structure which is characterized by
   a. Single buyer  
   b. Single seller  
   c. Few buyers  
   d. Single buyer and single seller

22. A market with only one seller and only one buyer is called
   a. Duopoly  
   b. Monopsony  
   c. Bilateral monopoly  
   d. Oligopoly

23. In short run, the monopolist
   a. Breaks even  
   b. Incurs a loss  
   c. Makes a profit  
   d. Any of the above

24. The Lerner index is a measure of
   a. A firm’s monopoly power  
   b. Peak- load pricing  
   c. An industry’s monopoly power  
   d. Collusion in the oligopoly market

25. Under monopoly MR is always
   a. Less than AR  
   b. Equals to AR  
   c. Greater than AR  
   d. Any of the above

26. In long run a pure monopolist can make profits because of
   a. High prices  
   b. Blocked entry  
   c. Low cost  
   d. Advertising

27. Maximum exploitation of each buyer in the interest of seller is possible under
   a. First degree price discrimination  
   b. Second degree price discrimination  
   c. Third degree price discrimination  
   d. All the above

28. An international price discrimination is
   a. Bundling  
   b. Dumping  
   c. Discounting  
   d. Off-loading

29. If the monopolist incurs losses in short run, then in long run
   a. He will go out of the business  
   b. He will stay in the business  
   c. He will break even  
   d. Any of above is possible

30. If the demand curve for the product is identical in two separate markets, then by practicing third degree price discrimination, the monopolist
   a. Will increase profits  
   b. Cannot increase profits  
   c. Will charge different price in different market  
   d. Any of the above is possible
31. The cost incurred by the firm in hiring labour
   a. Explicit cost  
   b. Marginal cost
   c. Implicit cost 
   d. Social cost

32. Supply curve is backward bending for
   a. Land 
   b. Labour
   c. Capital 
   d. Organization

33. A discriminating monopolist will charge a lower price in the market in which the price 
   elasticity of demand
   a. Unity 
   b. Lower
   c. Greater 
   d. Any of above

34. A Cartel aims at maximizing
   a. Individual profit 
   b. Industrial profit
   c. Share of output of market 
   d. Good will of members

35. The kinked demand curve is reflected in a discontinuity in
   a. TR curve 
   b. MC curve
   c. MR curve 
   d. AR curve

36. Price discrimination under monopoly possible only when
   a. Price elasticity of demand is same in different market 
   b. Markets should have coordination
   c. Factors of production among markets should be freely mobile 
   d. price elasticity of demand should be different among markets

37. Kinked demand curve of an Oligopolist is
   a. Elastic in upper portion but inelastic in lower portion 
   b. Inelastic in upper portion but elastic in lower portion
   c. Elastic throughout 
   d. Inelastic throughout

38. AFC curve will always be
   a. Rectangular hyperbola 
   b. U shaped
   c. Horizontal 
   d. Downward sloping

39. Implicit cost of a factor of production is determined by its
   a. Sunk cost 
   b. Variable cost
   c. Fixed cost 
   d. Opportunity cost

40. Economic cost include both
   a. Explicit cost and implicit cost 
   b. Fixed cost and variable cost
   c. Explicit cost and prime cost 
   d. Money cost and sunk cost

41. The U shape of MC curve reflects
   a. Economies of scale 
   b. Law of increasing returns
   c. Reserve capacity 
   d. Law of variable proportion

42. Under monopolistic competition
   a. Few firms selling a differentiated product 
   b. Many firms selling a homogeneous product
   c. Few firms selling a homogeneous product 
   d. Many firms selling a differentiated product

43. Supply curve of land for the economy as a whole is
   a. Perfectly elastic 
   b. Perfectly inelastic
   c. Inelastic 
   d. Elastic

44. Envelope curve is
   a. Long run marginal cost curve 
   b. Long run average cost curve
   c. Total cost curve 
   d. None of the above

45. In long run, which factor of production is fixed?
   a. Labour 
   b. Capital
   c. building 
   d. none of the above
46. Under monopolist competition, in long run firm may incur
   a. Profit                b. Loss
   c. Normal profit        d. Any of above

47. The process of distinguishing a product or service from others to make it more attractive
   a. Price competition    b. Selling cost
   c. Non price competition d. Product differentiation

48. The kinked demand curve hypothesis was put forward by
   a. Alfred Marshall      b. Hall and Hitch

49. A monopolist practicing dumping, charges
   a. High price abroad and low price in home market
   b. Low price abroad and high price in home market
   c. Same price in both abroad and home market
   d. Any of above is possible

50. Perfect price discrimination is
   a. First degree price discrimination
   b. Second degree price discrimination
   c. Third degree price discrimination
   d. Dumping

51. By imposing a lump sum tax, firm under perfect composition face
   a. Upward shift in AC curve in long run
   b. Upward shift in AC curve in short run
   c. Upward shift in MC curve in short run
   d. Upward shift in MC curve in long run

52. Under constant cost industry, the long run average supply curve is
   a. Downward sloping
   b. Upward sloping
   c. Horizontal
   d. Vertical

53. In which of the following markets firms are interdependent?
   a. Monopoly
   b. Monopolistic competition
   c. Perfect competition
   d. Oligopoly

54. Under oligopoly, the price rigidity is the result of
   a. Product differentiation
   b. Interdependence among the firms
   c. Kinked demand curve
   d. Cartelization of firms

55. As the number of sellers in an oligopoly grows larger, an oligopoly market look like a
   a. Monopoly
   b. Perfect competition
   c. Duopoly
   d. Monopolistic competition

56. According to Chamberlin, selling cost curve is
   a. U shaped
   b. Rectangular hyperbola
   c. L shaped
   d. Inverse S shape

57. A monopolist always produces
   a. Unitary portion of demand curve
   b. Less elastic portion of demand curve
   c. More elastic portion of demand curve
   d. Any of above

58. Under price contol, the government set a maximum price at the level where
   a. SMC curve cut MR from below
   b. SMC curve cut the demand curve
   c. SMC curve AR curve
   d. SMC = MR

59. A monopolist able to shift burden of which regulation to consumers
   a. lump sum tax
   b. price control
   c. Per unit tax
   d. All the above

60. The Xerox Corporation requires consumers to purchase its papers along with its machine. This is an example of
   a. Tying
   b. Bundling
   c. Two part tariffs
   d. mark up pricing

61. Cost functions are derived from
   a. Demand functions
   b. Production functions
   c. Supply functions
   d. Revenue functions
62. The U shape of the average total cost curve reflects
   a. LDMU
   b. The Law of Variable Proportions
   c. Consumer’s Surplus
   d. Reserve capacity

63. The total fixed cost is a
   a. horizontal straight line
   b. vertical
   c. hyperbola
   d. U shaped

64. When AC minimum in short run
   a. AC < MC
   b. AC > MC
   c. AC = MC
   d. any of above is possible

65. The shape of TVC and TC are
   a. rectangular hyperbola
   b. inverse ‘S’ shape
   c. horizontal straight line
   d. L shaped

66. The cost expressed not in terms of money but in terms of efforts of workers undergone for
    making the commodity
   a. Opportunity cost
   b. Real cost
   c. Sacrifice cost
   d. Implicit cost

67. The MC curve cuts the AC curve at
   a. The maximum point
   b. The initial Point
   c. The minimum Point
   d. any point

68. The minimum point of ATC is at ……………. position of the minimum point of AVC
   a. right
   b. left
   c. same
   d. all of above can be

69. If the long run cost curve shifts down wards it is an indication of
   a. technological progress
   b. lower factor prices
   c. both of these
   d. reserve capacity

70. The U shape of the LAC reflects
    a. Law of Variable proportions
    b. Laws of returns to scale
    c. reserve capacity
    d. none of these

71. Price discrimination is an essential feature of
   a. Perfect competition
   b. Oligopoly
   c. Duopoly
   d. monopoly

72. Under monopoly the slope of AR curve is:
   a. Upward sloping
   b. downward sloping
   c. horizontal
   d. None of these

73. Monopoly market is :
   a. Single seller market
   b. single buyer market
   c. single buyer and seller
   d. None

74. In a monopsony market there is:
   a. Single seller
   b. single buyer
   c. Two sellers
   d. Two buyers

75. Third degree price discrimination occurs when the monopolist charges different prices for
    the same commodity in different
   a. Markets
   b. places
   c. continents
   d. countries

76. Price discrimination is possible:
   a. Under any market form
   b. only under monopoly
   c. Only under monopolistic completion
   d. Only in perfect competition

77. Monopolist maximizes profit at the point where
   a. MC = AC
   b. MC = MR
   c. AC = AR
   d. MR = A
78. At the point of equilibrium of a monopolist MC cuts MR curve  
   a. From below  
   b. from above  
   c. at point of equality of AC and AR  
   d. None  

79. A multiplant monopolist maximizes his profit at the point where:  
   a. MR = MC1  
   b. MR = MC2  
   c. MR1 = MR2  
   d. MR = MC1 = MC2  

80. For a firm with monopoly power  
   a. Price equals MC  
   b. Price is less than MC  
   c. Price exceeds MC  
   d. None  

81. Railways is an example of:  
   a. Simple monopoly  
   b. differentiated monopoly  
   c. Natural monopoly  
   d. Monopsony  

82. The dual pricing system of charging high price during peak time and low price during of peak time is called  
   a. Double pricing  
   b. Dual pricing  
   c. kinked pricing  
   d. peak load pricing  

83. Selling more than one product at a single price  
   a. Dumping  
   b. Bundling  
   c. Discounting  
   d. Off loading  

84. The market structure which have very large number of sellers selling Identical products is called  
   a. Perfect competition  
   b. Monopoly  
   c. Monopolistic competition  
   d. Oligopoly  

85. The marker structure with Perfect mobility of factors and products is called  
   a. Perfect competition  
   b. Monopoly  
   c. Monopolistic competition  
   d. Oligopoly  

86. The marker structure with Perfect knowledge is called  
   a. Perfect competition  
   b. Monopoly  
   c. Monopolistic competition  
   d. Oligopoly  

87. The condition of perfect competition is fulfilled when  
   a. Sellers are large in number  
   b. Buyers are large in number  
   c. Commodity produced is homogenous  
   d. All the above  

88. The following are conditions of perfect competition except  
   a. Sellers are large in number  
   b. Buyers are large in number  
   c. Commodity produced is homogenous  
   d. Commodity produced is differentiated  

89. The following are conditions of perfect competition except  
   a. Strong barriers to entry  
   b. Sellers are large in number  
   c. Commodity produced is homogenous  
   d. Buyers are large in number  

90. The following are conditions of perfect competition except  
   a. Sellers are large in number  
   b. Single buyer  
   c. Commodity produced is homogenous  
   d. Freedom to Entry and exit  

91. The condition of short run equilibrium under perfect competition is  
   a. MC=MR  
   b. AC=MR  
   c. AR=Selling cost  

92. The large number of firms producing the same commodity ensure that the individual firm has no control over  
   a. Price of the commodity  
   b. The quantity of the commodity  
   c. Both of the above  
   d. None of the above  

93. Individual firm has no control on the price of the commodity in the market is a condition of  
   a. Perfect competition  
   b. Monopoly  
   c. Monopolistic competition  
   d. Bilateral monopoly
94. In a Perfect competitive market
   a. Firm is the price giver and the industry is a price taker
   b. Firm is the price taker and the industry is a price giver
   c. Both are price makers
   d. Both are price takers

95. One of the essential conditions of perfect competition is
   a. Product Differentiation
   b. Multiplicity of prices for identical product at any one time
   c. Many sellers and few buyers
   d. Only one price for identical goods at any one time

96. Under perfect market conditions the individual firm in the industry has control over the price of the product.
   a. Some
   b. Full
   c. No
   d. None of the above

97. The condition of short run equilibrium under perfect competition is
   a. MC=MR
   b. MC cuts MR from below
   c. MC is rising when it cuts AR
   d. All the above

98. The marker structure which have large number of sellers selling differentiated product is called
   a. Perfect competition
   b. Monopoly
   c. Monopolistic competition
   d. Oligopoly

99. The marker structure in which number of sellers is small with interdependence is called
   a. Perfect competition
   b. Monopoly
   c. Monopolistic competition
   d. Oligopoly

100. The cost incurred to alter the position or slope of demand curve is known as
    a. Marginal cost
    b. Selling cost
    c. Alternate cost
    d. Additional cost

101. The condition of short run equilibrium under monopolistic competition is
    a. MC=MR
    b. AC=MR
    c. AC=AR
    d. AR=MR

102. Kinked demand curve explain which of the following features of oligopoly
    a. Selling cost
    b. Price rigidity
    c. Non price competition
    d. Product differentiation

103. Demand curve of a firm under monopolistic competition is
    a. Parallel to X axis
    b. Parallel to Y axis
    c. Downward slopping
    d. Upward slopping

104. Which of the following is not a feature of monopolistic competition?
    a. Homogenous product
    b. Large number of firms
    c. Freedom to entry and exit
    d. Differentiated product

105. In the short run, a monopolistically competitive firm can have
    a. Abnormal profit
    b. loss
    c. Normal profit
    d. Any of the above are possible

106. Selling cost is a feature of
    a. Monopolistic competition
    b. Perfect competition
    c. Monopoly
    d. Bilateral monopoly

107. Refrigerator company is an example of
    a. Oligopoly
    b. Perfect competition
    c. Monopoly
    d. Bilateral monopoly

108. Which of the following is a form collusive oligopoly
    a. Bilateral monopoly
    b. Monopoly
    c. cartel
    d. Kinked Oligopoly
109. OPEC is an example of
   a. Bilateral monopoly
   b. Monopoly
   c. cartel
   d. Kinked Oligopoly

110. In the long run, which of the following is applicable to a firm under monopolistic competition
   a. AR = AC
   b. AR > AC
   c. AR < AC
   d. AR = MC

111. A discriminating monopolist will charge a higher price from which group of customers?
   a. Group with more elastic
   b. Group with less elastic
   c. Group with Unitary Elastic
   d. Group with Infinitely Elastic

112. Perfect price discrimination means that every customer ____________
   a. buys the same amount
   b. pays the same price
   c. contributes the same revenue
   d. pays what she thinks the product is worth

113. Supernormal profit refers to
   a. High proportion of net profit
   b. Minimum necessary profit to induce an entrepreneur to remain in business
   c. Unexpectedly high Profit
   d. Residual surplus

Answers

1  A   16  C   31  A   46  C   61  A   76  B   91  A   106  A
2  C   17  C   32  B   47  D   62  B   77  B   92  C   107  A
3  A   18  D   33  C   48  C   63  A   78  A   93  A   108  C
4  B   19  D   34  B   49  B   64  C   79  D   94  D   109  C
5  B   20  A   35  C   50  A   65  B   80  C   95  D   110  A
6  D   21  A   36  D   51  B   66  B   81  C   96  C   111  B
7  D   22  C   37  A   52  C   67  C   82  D   97  D   112  D
8  C   23  D   38  A   53  D   68  A   83  B   98  C   113  A
9  A   24  A   39  D   54  B   69  C   84  A   99  D
10 C   25  A   40  A   55  D   70  B   85  A   100  B
11 D   26  B   41  D   56  A   71  D   86  A   101  A
12 B   27  A   42  D   57  C   72  B   87  D   102  B
13 B   28  B   43  B   58  B   73  A   88  D   103  C
14 D   29  D   44  B   59  C   74  B   89  A   104  A
15 A   30  B   45  D   60  A   75  A   90  B   105  D

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