CHAPTER 2: THEORY OF DEMAND AND SUPPLY and Consumer behavior

1. A business currently selling 10,000 units of its product per month plans to reduce the retail price from Re. 1 to Re. 0.90. It knows from previous experience that the price elasticity of demand for the product is (-) 1.5. Assuming no other changes, the sales the business can now expect will be:

(a) 8500 (c) 11,000

(b) 10,500 (d) 11,500

2. Which of the following, elasticities measure a movement along a curve rather than a shift curve:

(a) The price elasticity of demand

(b) The income elasticity of demand

(c) The cross elasticity of demand

(d) All of above

3. When total supply of foodgrains increases, the total income of farmers falls. This shows that the demand curve for foodgrains is:

(a) Elastic (b) Inelastic

(c) Elastic (d) Perfectly elastic

4. In most cases of demand with fall in prices of a commodity:

(a) Positive income effect and negative substitution effect cancel out each other

(b) Positive substitution effect is reinforced by positive income effect

(c) Negative income effect and positive substitution effect cancel out each other

(d) Negative income effect and positive substitution effect cancel out each other.

5. The point elasticity at the mid-point on the demand curve is:

(a) One (b) Zero

(c) Less than one (d) Less then zero

6. Demand curve in most cases slopes

(a) Downward towards right

(b) Vertical and parallel to Y-axis

(c) Upward towards left

(d) Horizontal and parallel to X-axis

7. Market demand curve for a commodity is

(a) The demand curve of an individual as expressed in the market

(b) Obtained by adding together the demand curves of all the individuals in the market

(c) Non-existent

(d) None of the above

8. Situation where an increase in price of commodity may increase the quantity demanded may be due to

(a) Normal law of demand

(b) Expectations of further rise in prices

(c) Better quality of the product

(d) Both (b) and (c)

9. The concept of Elasticity of Demand was developed by

(a) Alfred Marshall (b) Edwin Camon

(c) Paul Samuelson (d) Fredric Banham

10. When as a result of an increase in the price of a good, the total expenditure made on it falls, we say that price elasticity of demand is:

(a) Less than unity (b) One

(c) Zero (d) Greater than unity

11. A business firm recently decreased price by 50%, assuming no other change and if elasticity of demand is unitary, total revenue will

(a) Double (b) Increase by 50%

(c) Remain unchanged (d) Decrease by 50%

12. 1 per cent change in income causes 10 per cent increase in quantity demanded. Elasticity of demand is

(a) 1 (b) 10

(c) 5 (d) 2

13. 5 rupee increase in price of commodity X causes quantity to decrease by 20 units. Elasticity of demand is

(a) 5 (b) 20

(c) 4 (d) Nothing can be concluded

14. State which of the following statement is correct?

(a) Inferior goods have negative income elasticity

(b) Shorter the time period, greater is possibility of increasing the supply the of a product in response to demand

(c) In a free economy, the state decides what, how and for whom to produce

(d) Cerise Peribus, if there is a fall in the supply of a product, the price will remain constant.

15. In case of straight line demand curve the elasticity of demand is_______ at all the points on demand curve

(a) Equal (b) Different

(c) Unitary (d) Elastic

16. 'Ceteris paribus clauses in the Law of demand does not mean

(a) The price of the commodity does not change

(b) The price of its substitutes does not change

(c) The income of the consumer does not change

(d) The price of complementary goods does not change

17. Which of the following could provide an example of exceptional demand curves?

i. Demand for "Giffen goods"

ii. Demand based on fears of a future rise in prices

iii. Demand for second-hand clothes

iv. Demand for daily newspapers

(a) i only (b) i and ii

(c) ii and iii (d) i, ii, iii and iv

18. An income-demand curve for a "Luxury Commodity" slopes:

(a) Upwards to the right from the origin

(b) Vertically

(c) Upwards from left to right only beyond a certain level of consumer's income

(d) Horizontally

19. Those goods which are used together are known as:

(a) Complementary goods

(b) Substitute goods

(c) Giffen goods

(d) Inferior goods

20. Cross demand is the change in the quantity demanded to a given commodity in response to the

(a) Change in the utility of another commodity

(b) Change in the price of another commodity

(c) Change in the nature of another commodity

(d) Change in the size of another commodity

21. When the demand curve is a rectangular hyperbola, it represents

(a) Unitary elastic demand

(b) Perfectly elastic demand

(c) Perfectly inelastic demand

(d) Relatively elastic demand

22. When with a change in price the total outlay on a commodity remains constant, it is a case of

(a) Perfect elasticity (b) Perfect inelasticity

(c) Unit elasticity (d) Zero elasticity

23. Elasticity of demand is equal to unity while marginal revenue is

(a) Positive (b) Zero

(c) Negative (d) Indeterminate

24. Elastic demand is also known as:

(a) Greater than one (b) Less than one

(c) Equal to zero (d) None of above

25. Which of the following does NOT have a uniform elasticity of demand at all points.

(a) A downward sloping demand curve

(b) A vertical demand curve

(c) A rectangular hyperbola demand curve

(d) A horizontal demand curve

26. A monopolist charging high price operates on

(a) The elastic part of a demand curve

(b) The inelastic part of a demand curve

(c) The constant elastic part of a demand curve

(d) Ignores elasticity of demand altogether

27. Marginal utility of each commodity is measurable in terms of

(a) Price of the commodity

(b) Quantity of the commodity purchase

(c) Price paid for the last unit of the commodity purchase

(d) None of the above

28. Maximum consumer surplus arises on ... of the commodity consumed.

(a) First unit (b) Second unit

(c) All units (d) All except last unit

29. Total utility is.....when the marginal utility starts declining but remains positive.

(a) Increasing (b) Decreasing

(c) Constant (d) None of these

30. The indifference curves approach does not assume

(a) Ordinal measure of satisfaction

(b) Diminishing marginal utility of money

(c) Substitution among commodities

(d) Cardinal measure of utility

31. No other shape of normal indifference curve except that of convex to the origin is possible because

(a) Money income of the consumer is constant

(b) Total level of satisfaction remains the same

(c) It is not possible to have infinite number of combinations of two commodities

(d) None of the above

32. Indifference curve concave to the origin means

(a) Increasing marginal rate of substitution

(b) Constant marginal rate of substitution

(c) Decreasing marginal rate of substitution

(d) None of the above

33. For perfect substitutability between X and Y

(a) MRSxy should be increasing

(b) MRSxy should be decreasing

(c) MRSxy should be constant

(d) None of the above

34. There is negative cross elastic demand in case of .... goods.

(a) Substitute goods (b) Complimentary goods

(c) Unrelated goods (d) Inferior goods

35. Which one is not an assumption of law of diminishing marginal utility?

(a) Rational consumer (b) Short period

(c) Cardinal utility (d) Substitution of goods

36. Consumer surplus is best described as:

(a) Extra utility

(b) Price paid

(c) Sacrifice of a commodities

(d) All the above

37. Equally spaced indifference curves in an Indifferences map indicate that

(a) All indifference curves have same level of satisfaction

(b) Higher indifference curve yields satisfaction which is double from that immediately below it

(c) Lower indifference curve yields less satisfaction than that from the higher one

(d) Level of satisfaction is not associated with the position of the individual indifference curve

38. The falling part be a TU curve shows

(a) Increasing marginal utility

(b) Decreasing marginal utility

(c) Zero marginal utility

(d) Negative marginal utility

39. The total utility, which a consumer derives from nth units of a commodity minus the total utility, he derives from (n-l) units is

(a) The marginal utility of the nth unit

(b) Consumer's surplus n units

(c) Elasticity of the consumer's demand

(d) Consumer's equilibrium's demand

40. In case of straight line demand curve the elasticity of demand is_______ at all the points on demand curve

(a) Equal (b) Different

(c) Unitary (d) Elastic

41. Price changes from Rs 6 to Rs 4 and the quantity demanded changes from 3 to 8, Elasticity of demand is

(a) 5 (b) l

(c) 0.2 (d) Zero

42. Position of the price line would ——with change in money income of the consumer.

(a) Not change

(b) Change

(c) Depend on other factors

(d) None of the above

43. Given the consumer's indifference map, the consumer will try to reach

(a) Lowest indifference curve

(b) Middle indifference curve

(c) Highest indifference curve

(d) None of the above

44. The marginal rate of substitution as we move along the indifference curve from to left

(a) Remains constant (b) Increases

(c) Decreases (d) Has no relevance

45. Extension and contraction of demand mean

(a) Movement to a higher demand curve

(b) Movement to a lower demand curve

(c) Movement along the same demand curve

(d) Both (a) and (b)

46. If the price of coffee suddenly shoots up ceteris paribus, the demand for Tea is expected to-

(a) Move rightward along the original demand curve

(b) Increase

(c) Remain unaffected

(d) Decrease

47. Income-Elasticity of demand will be zero when given change in income brings-

(a) A less than proportionate change in quantity demanded

(b) A more, than proportionate change in quantity demanded

(c) The same proportionate change in demand

(d) No change in demand

48. Elasticity of demand is equal to unity while marginal revenue is

(a) Positive (b) Zero

(c) Negative (d) Indeterminate

49. If total consumer expenditure on a good falls as its price falls this indicates that

(a) ep<l (b) ep>l

(c) ep= 1 (d) ep= 00

50. At a local theater, the general public pays of Rs. 50 for a movie ticket while college students receive Rs. 10 discount when they show a college ID card. What does this practice say about the theater's perception of price of demand ?

(a) College student's price elasticity of demand is 80% of that of the general public.

(b) College student's price elasticity of demand is 20% of that of the general public.

(c) College student's demand for movie tickets is less price elastic than that of the general public.

(d) College student's demand for movie tickets is more price elastic than that of the general public.