CHAPTER-2: THEORY OF DEMAND

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 would not, of itself, causes a shift of the demand curve for a product?

(a) A change in consumers preference

(b) A change in consumers income

(c) A change in the price of the product

(d) A change in the price of related products

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

(a) One (b) Zero

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

4. 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

5. 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.

6. The elasticity of substitution between two perfect Substitutes is:

(a) Zero (b) greater than zero

(c) Less than infinity (d) infinity

7. Demand curve illustrates

(a) Inverse relationship between quantity demanded and its cost of production

(b) The inverse relation between the rate of change of demand and price

(c) Direct relationship between the demand and the price of a commodity at a given price

(d) The inverse relationship between the rate of change in demand and cost of production at a given time

8. A change in climatic conditions resulting in hot weather, prices remaining the same, would cause a consumer of cold drinks

(a) To move to lower demand curve

(b) To move to a higher demand curve

(c) To move up the same demand curve

(d) To move lower down the demand curve

9. 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

10. 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)

11. 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

12. Market demand curve for "Giffen" type of commodities may also be of normal type because

(a) It may not be Giffen good for all the consumers

(b) New buyers may enter the market with fall in prices

(c) It could be Giffen good for a small section of society

(d) All of the above

13. 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)

14. Demand for a good is elastic if

(a) A price fall produces a decrease in total expenditure on that good

(b) Demand for that good increases when price falls

(c) A price fall produces a less than proportionate rise in the quantity demanded

(d) As a result of rise in price total Expenditure of the goods decreases

15. The concept of Elasticity of Demand was developed by

(a) Alfred Marshall (b) Edwin Camon

(c) Paul Samuelson (d) Fredric Banham

16. 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

17. If the two goods are substitutes, the cross elasticity between them is

(a) Negative (b) Positive

(c) One (d) None of the above

18. A market demand curve for shoes indicates how many pairs of shoes

(a) are likely to be sold at each possible price for shoes

(b) must be bought in order to achieve parity

(c) government will demand at each possible price

(d) are lying as closing stock in various shows factors

19. 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%

20. 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

21. Which of the following pairs of goods is an example of substitutes?

(a) Shirts and trousers (b) Pen and ink

(c) Petrol and diesel (d) Coffee and sugar

22. 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

23. 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

24. Expansion and contraction in demand are caused by?

(a) Change in price of a commodity

(b) Change in income

(c) Change in prices of related goods

(d) Change in population.

25. 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.

26. As the price of oranges rises

(a) The quantity demanded for oranges increases.

(a) The demand curve for oranges shifts to the right.

(b) The quantity demanded for oranges decreases.

(c) The demand curve for oranges shifts to the left.

(d) None of the above

27. The value of elasticity co-efficient varies between

(a) Zero and Infinity (b) Zero and One

(c) One and Infinity (d) None of the above

28. Which of the following has more elastic demand?

(a) A commodity without substitutes

(b) A commoditv with substitutes

(c) A commodity on which a small fraction of income is spent

(d) A commodity the use of which cannot be postponed

29. Market demand curve, normally, would

(a) Be a horizontal straight line

(b) Slope downwards

(c) Be a vertical straight line

(d) Slope upwards

30. When percentage change in quantity demanded is equal to the percentage change in price, the elasticity of demand is

(a) Elastic (b) Unitary elastic

(c) Inelastic (d) Perfectly elastic

31. 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

32. '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

33. 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

34. Which one of the following is true in case of normal goods?

(a) When Price increases, demand decreases

(b) When Price increases, demand also increases

(c) When Price remains constant, demand falls down

(d) When Price falls down, demand remains constant

35. An exceptional demand curve is one that slopes:

(a) Upwards to the right

(b) Downwards to the right

(c) Upwards to the left

(d) Horizontally

36. When there is decrease in demand the demand curve

(a) Moves downwards towards the axis

(b) Moves upwards away from the axis

(c) Remains unchanged

(d) None of the above.

37. Two goods have to be consumed simultaneously are

(a) Identical (b) Complementary

(c) Substitute (d) None of these

38. Which of the following pairs of commodities is an example of substitutes?

(a) Coffee and milk

(b) Diamond and Cow

(c) Pen and ink

(d) Mustard oil and coconut oil

39. When an individual's income falls (while everything else remains the same), his demand for an inferior goods:

(a) Increases

(b) Decreases

(c) Remains unchanged

(d) We cannot say without additional information

40. An income demand curve for inferior commodity always slopes

(a) Upwards to the right

(b) Backwards to the left

(c) Downwards to the right

(d) Horizontally

41. When the price of a substitute of commodity X falls, the demand for other substitute

(a) A Rises

(b) Falls

(c) Remains unchanged

(d) Any of the above

42. 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

43. 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

after that it become zero.

44. 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

45. 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

46. 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

47. A straight line, downward-sloping demand curve implies that, as price falls, the elasticity of demand.

(a) Increases (b) Decreases

(c) Remains the same (d) Is zero

48. In the longer period permitting adjustment demand is likely to be

(a) Inelastic (b) Elastic

(c) Unit elastic (d) Cannot be known

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

(a) Positive (b) Zero

(c) Negative (d) Indeterminate

50. A demand curve which takes the form of a horizontal line parallel to the quantity axis illustrates elasticity, which is

(a) Zero (b) Infinite

(c) >1 (d) <1