

Theory of Supply and Consumer Behaviour

1. In economics, what a consumer is ready to pay minus what he actually pays, is termed as:

- (a) Consumer' equilibrium
- (b) Consumer's surplus
- (c) Consumer's expenditure
- (d) None of the above

2. The things remaining same, when a consumer's income increases his equilibrium point moves to

- (a) A higher indifference curve
- (b) A lower indifference curve
- (c) Remains unchanged on the same indifference curve
- (d) Moves to die left-hand side on the same indifference curve

3. 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

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

- (a) Elastic (b) Inelastic
- (c) Elastic (d) Perfectly elastic

5. A consumer is in equilibrium at the point of tangency of his indifference curve and the price line because.

- (a) He does not want to go beyond it
- (b) He cannot go beyond it
- (c) He cannot go below it
- (d) He is confused

6. Given the consumer's indifference map and the money income, the equilibrium position of the consumer will be on the indifference curve, which is

- (a) Highest in the indifference map
- (b) Lowest in the indifference map
- (c) Highest but cut the price line
- (d) Highest but tangent to the price line

7. 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

8. 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

9. The slope of price line is given by the

- (a) Taste and preferences of the consumer
- (b) Prices of both the commodities
- (c) Price of commodity X alone
- (d) Price of commodity Y alone

10. Given the income of the consumer, the slope of the price line is determined by the

- (a) Price of X
- (b) Price of Y
- (c) Ratio of prices of X and Y
- (d) None of the above

11. The income of a household rises by 10%, the demand for washing machine rises by 20%. This means washing machine (in Economics) is a/an:

- (a) Inferior good (b) Luxury good
- (c) Superior good (d) None of the above

12. 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.

13. Market demand curve for a commodity shows the relationship between the price and the commodity purchased in the market by

- (a) Individual consumer
- (b) All the consumers
- (c) Consumer of one particular community
- (d) None of the above

14. 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

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

- (a) $ep < 1$ (b) $ep > 1$

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

16. External economies are witnessed in

- (a) A rising supply curve
- (b) A rising demand curve
- (c) A falling supply curve
- (d) A falling demand curve

17. Market price of a commodity under marginal theory of consumer's demand is determined by

- (a) Total utility of the commodity
- (b) Marginal utility of the commodity
- (c) First unit of the commodity
- (d) Second unit of the commodity

18. 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

19. Ceteris paribus, a change in the price of a commodity causes the quantity purchased of its complements to move:

- (a) In the same direction.

(b) Moves in opposite direction

(c) Remains constant

(d) None of the above

20. The total utility, which a consumer derives from n th units of a commodity minus the total utility, he derives from $(n-1)$ units is

- (a) The marginal utility of the n th unit
- (b) Consumer's surplus n units
- (c) Elasticity of the consumer's demand
- (d) Consumer's equilibrium's demand

21. When marginal utility is decreasing it means that the total utility is

- (a) Increasing
- (b) Decreasing
- (c) Increasing if the marginal utility still remains positive
- (d) None of the above

22. The falling part of a TU curve shows

- (a) Increasing marginal utility
- (b) Decreasing marginal utility
- (c) Zero marginal utility
- (d) Negative marginal utility

23. Marginal utility of a commodity is

- (a) Total minus average utility
- (b) Addition to total utility by the consumption of last unit of the commodity
- (c) Total utility divided by total units of the commodity
- (d) Total utility of all units of the commodity

24. 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

25. The doctrine of consumer surplus is based on

- (a) Indifference curve analysis
- (b) Revealed preference theory
- (c) Law of substitution
- (d) The law of diminishing marginal utility

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

- (a) First unit (b) Second unit
- (c) All units (d) All except last unit

27. Consumer has no consumer surplus on.....of the commodity consumed.

- (a) First unit (b) Second unit
- (c) All units (d) Last unit

28. Consumer surplus arises because

- (a) Consumer has lot of money
- (b) Quality of different units of the same commodity differs
- (c) Consumer receives more than what he pays for
- (d) None of the above

29. Consumer's surplus is the difference between

- (a) Price demanded and price paid
- (b) Price quoted and price actually paid
- (c) Price that a consumer is willing to pay and the price actually paid -
- (d) None of the above

30. Consumer stops purchasing the additional units * of the commodity when

- (a) Marginal utility starts declining
- (b) Marginal utility becomes zero
- (c) Marginal utility is equal to marginal utility of money ($MU_x = MU_m$)
- (d) Total utility is increasing

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

- (a) Increasing
- (b) Decreasing
- (c) Constant
- (d) None of these

32. Under indifference curve approach, the consumer is able to

- (a) Express the exact amount of satisfaction, derived out of given combination of commodities
- (b) Rank the satisfaction derived from the given combination of commodities
- (c) Neither (a) nor (b)
- (d) Recognize a single combination yielding maximum satisfaction

33. 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

34. Indifference map is drawn only when

- (a) Prices of the commodities are given
- (b) Income of the consumer is given
- (c) Taste and preferences of the consumer are given

(d) None of the above

35. 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

36. 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

37. Indifference curve always slopes

- (a) Downwards to the right
- (b) Upwards to the right
- (c) Horizontal to X-axis
- (d) Vertical and parallel to Y-axis

38. An indifference' curve cannot be horizontal as this implies that consumer is indifferent between

- (a) Less of one commodity and same amount of another
- (b) More of one commodity and same amount of another
- (c) Greater amount of both the commodities
- (d) Both (a) and (b)

39. An indifference curve slopes upward to the right as this implies that consumer is indifferent between:

- (a) Less of one commodity and same amount of another.
- (b) More of one commodity and same amount of another
- (c) Greater amount of both the commodities
- (d) None of the above

40. It is the property of indifference curves that they are always

- (a) Convex to the origin
- (b) Concave to the origin
- (c) Straight line
- (d) None of the above

41. The indifference curves-

- (a) Can always cut each other

(b) Cut each other initially

(c) Never cut each other

(d) Cut each other at distant ends

42. The property that indifference curves are convex to origin implies that to increase stock of one commodity X by one unit the consumer will

- (a) Give up some units of commodity Y
- (b) Give up whole of commodity Y
- (c) Give up an equal amount of commodity Y
- (d) Not give up any amount of commodity Y

43. Which of the following is not a property of indifference curves?

- (a) Convex to the origin
- (b) Slope downwards to the right
- (c) Parallel to each other
- (d) Cannot intersect each other

Ans. 43(c) Parallel to each other is not a property of ICs,

others are property of ICs.

44. 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

45. For perfect substitutability between X and Y

- (a) MRS_{xy} should be increasing
- (b) MRS_{xy} should be decreasing
- (c) MRS_{xy} should be constant
- (d) None of the above

46. Indifference curves are convex towards the origin because of

- (a) Diminishing marginal rate of substitution
- (b) Increasing marginal rate of substitution
- (c) Constant marginal rate of substitution
- (d) None of the above

47. Prices of a commodity falls and demand of that commodity rises, if following things remain same:

- (a) Income of the consumer
- (b) Price of related goods
- (c) Fashion
- (d) All the above

48. 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

49. Consumer surplus is best described as:

- (a) Extra utility
- (b) Price paid
- (c) Sacrifice of a commodities
- (d) All the above

50. Which one is not an assumption of IC?

- (a) Relation consumer (b) Short period
- (c) Substitution of goods (d) None of above