**Practice Workbook on Microeconomics: ECON- 101**

**Practice Set- 1**

**Objective Type Questions:**

1. Who is known as father of modern economics?
2. Ragnar Frisch b. Adam Smith c. Marshall d. None of these.
3. Who was the first person who got Nobel Prize in economics?
4. Ragnar Frisch b. Adam Smith c. Marshall d. None of these.
5. Who wrote the book *Wealth of Nations*
6. Ragnar Frisch b. Adam Smith c. Marshall d. Robbins.
7. Wealth of Nations was published in---
8. 1976 b. 1876 c. 1776 d. 1676.
9. Microeconomics and Macroeconomics was first coined by ----
10. Ragnar Frisch b. Adam Smith c. Marshall d. Robbins.
11. The study of the behavior of individual decision- making units and working of individual markets in isolation is known as-----
12. General equilibrium analysis b. Partial equilibrium analysis.

**Answer:**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| 1 | 2 | 3 | 4 | 5 | 6 |
|  |  |  |  |  |  |

**Practice Set- 2**

**I. Objective Type/Multiple Choice Questions:**

1. Which is/are the determinants of demand-
2. Price b. Income c. Taste and preference d. All of these.
3. Price of the good is fixed in a market by-
4. Demand, b. Supply, c. Both, d. None of these.
5. The reasons for the downward slope of demand curve are-
6. The law of diminishing marginal utility
7. Substitution effect;
8. Income effect;
9. All of the above.
10. In case of change in demand-
11. No new demand curve is drawn;
12. New demand curve is drawn;
13. Both can be possible;
14. None of these possible.
15. If an increase in the price of one leads to an increase in the quantity demanded of the other then these goods are-
16. Substitute goods; b. Complementary goods;
17. c. Normal goods; d. None.
18. Demand curve slopes upward in case of-
19. Veblen goods; b. Giffen goods
20. Snob appeal; d. all of the above.
21. Which one is **not** the reason for change in demand -
22. Price of the good;
23. Price of other goods;
24. Income of the consumer;
25. Consumers’ taste and preferences
26. Which one is ***not*** correctly matched-
27. Giffen goods……………………a superior or high quality goods.
28. Substitute goods………………..tea and coffee.
29. Complementary goods………….car and petrol.
30. Veblen goods………….a prestigious goods with status symbol.

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Ques:** | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 |
| **Ans:** |  |  |  |  |  |  |  |  |

**II. Write T for True and F False against the following questions:**

1. In case of Giffen goods and Veblen goods, law of demand does not work.
2. In case of change in quantity demanded, new demand curve is drawn.
3. If an increase in the price of one good leads to a fall in the quantity demanded of other then these goods are complementary goods.
4. In case of normal goods, as income increases, demand for these goods also increases.
5. Law of demand states that higher the price, lower the demand and lower the price higher the demand, other things remaining the same.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Ques:** | 1 | 2 | 3 | 4 | 5 |
| **Ans:** |  |  |  |  |  |

**III. Matching Test:**

|  |  |
| --- | --- |
| **Match- I** | **Match- II** |
| A. Change in demand will take place  | a. On the same demand curve |
| B. Change in quantity demanded will take place | b. On new demand curve |
| C. Increase in demand  | c. Rightward shift in demand curve |
| D. Decrease in demand | d. Leftward shift in demand curve |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Match- I** | A | B | C | D |
| **Match- II** |  |  |  |  |

|  |  |
| --- | --- |
| **Match- I** | **Match- II** |
| A. Demand curve slopes | a. Decrease in price of the good only  |
| B. In case of Giffen goods, demand curve slopes | b. Decrease in other than the price of good |
| C. Expansion of demand curve is due to | c. Upward to the right. |
| D. Increase in demand curve is due to | d. Downward to the right. |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Match- I** | A | B | C | D |
| **Match- II** |  |  |  |  |

**Practice Set- 3**

**I. Multiple Choice Questions:**

1. The relationship between quantity supplied and its price is-

|  |  |
| --- | --- |
| a. directly related | b. inversely related |
| c. no relation | d. none is correct. |

2. The supply curve slopes-

|  |  |
| --- | --- |
| a. downward to the right | b. upward to the right |
| c. horizontal straight line | d. vertical straight line |

3. What is/are the following reason/ reasons for upward sloping supply curve?

|  |  |
| --- | --- |
| a. Law of diminishing marginal productivity | b. Goals of profit maximization |
| c. (a+b) both is the reason. | d. none is the reason. |

4. Factors that determine supply of a commodity-

|  |  |
| --- | --- |
| a. Price of the commodity; | b. New technology; |
| c. Price of substitutes; | d. Discoveries; |
| e. Changes in input supply | f. All  |

5. Change in quantity supplied takes place-

|  |  |
| --- | --- |
| a. same supply curve; | b. new supply curve; |
| c. both may be possible; | d. none is possible. |

6. Change in supply takes place-

|  |  |
| --- | --- |
| a. on the same supply curve; | b. on new supply curve; |
| c. both may be possible; | d. none is possible. |

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Ques: | 1 | 2 | 3 | 4 | 5 | 6 |
| Ans: |  |  |  |  |  |  |

**II. True/ False Statement:**

1. In case of change in quantity supplied, new supply curve is drawn.

2. Law of supply states that higher the price lower the quantity supplied and lower the price higher the quantity supplied, other things remaining the same.

|  |  |  |
| --- | --- | --- |
| Ques: | 1 | 2 |
| Ans:  |  |  |

**III. Match the following:**

|  |  |
| --- | --- |
| **Match- I** | **Match- II** |
| A. Change in supply will take place  | a. On the same supply curve |
| B. Change in quantity supplied will take place | b. On new supply curve |
| C. Increase in supply  | c. Rightward shift in supply curve |
| D. Decrease in supply | d. Leftward shift in supply curve |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Match- I** | A | B | C | D |
| **Match- II** |  |  |  |  |

**Practice Set- 4**

***Objective type questions:***

1. The concept of elasticity of demand was developed by-

|  |  |
| --- | --- |
| 1. Alfred Marshall,
 | 1. Adam Smith,
 |
| 1. L. Robbins,
 | 1. None of these.
 |
|  |  |

1. The responsiveness (or percentage change) of quantity demanded of a commodity to one percentage change in its price is known as-

|  |  |
| --- | --- |
| 1. Elasticity of demand,
 | 1. Elasticity of supply,
 |
| 1. Law of demand,
 | 1. Law of supply.
 |

1. The formula for calculation of price elasticity of demand, ed is-

|  |  |
| --- | --- |
| 1. Ed = (-) $\frac{∆Q}{∆P}$.$ \frac{P}{Q}$
 | 1. Ed = (+) $\frac{∆Q}{∆P}$.$ \frac{P}{Q}$
 |
| 1. Ed = (-) $\frac{∆P}{∆Q}$.$ \frac{Q}{P}$
 | 1. Ed = (+) $\frac{∆P}{∆Q}$.$ \frac{Q}{P}$
 |

1. The coefficient of elasticity of demand ranges from-

|  |  |
| --- | --- |
| 1. Zero to one,
 | 1. Zero to infinity,
 |
| 1. One to infinity,
 | 1. None
 |

1. If the price of a good falls, the total outlay or expenditure of consumers on the good rises when

|  |  |
| --- | --- |
| 1. Ed = 1,
 | 1. Ed > 1,
 |
| 1. Ed < 1,
 | 1. Ed = 0.
 |

1. The price elasticity of demand between two points on a demand curve is known as –

|  |  |
| --- | --- |
| 1. Point elasticity of demand,
 | 1. Arc elasticity of demand,
 |
| 1. Cross price elasticity
 | 1. Income elasticity of demand.
 |

1. The formula for arc elasticity is:

|  |  |
| --- | --- |
| 1. $(-)\frac{∆Q}{∆P}$. $\frac{(P1+P2)}{(Q1+Q2)}$
 | 1. $(-)\frac{∆Q}{∆P}$. $\frac{(Q1+Q2)}{(P1+P2)}$
 |
| 1. $(-)\frac{∆Q}{∆P}$. $\frac{(P1-P2)}{(Q1-Q2)}$
 | 1. None of these.
 |

1. Geometric method is used to find out the –

|  |  |
| --- | --- |
| 1. Point elasticity of demand,
 | 1. Arc elasticity of demand,
 |
| 1. Cross price elasticity,
 | 1. Income elasticity of demand.
 |

1. The relationship between price elasticity and revenue is –

|  |  |
| --- | --- |
| 1. e = $\frac{AR}{AR-MR}$
 | 1. e = $\frac{AR}{AR+MR}$
 |
| 1. e = $\frac{AR-MR}{AR}$
 | 1. e = $\frac{MR}{AR-MR}$
 |

1. The percentage change in quantity demanded due to percentage change in income is known as –

|  |  |
| --- | --- |
| 1. Point elasticity of demand,
 | 1. Income elasticity of demand,
 |
| 1. Cross price elasticity,
 | 1. Arc elasticity of demand.
 |

1. A quantitative measure of the effect on the quantity demanded of a good (x) due to change in the price of other good (y) is known as-

|  |  |
| --- | --- |
| 1. Point elasticity of demand,
 | 1. Income elasticity of demand,
 |
| 1. Cross price elasticity,
 | 1. Arc elasticity of demand.
 |

1. Which one is **not** correctly matched:

|  |  |
| --- | --- |
| **Term used** | **Coefficient of elasticity of demand** |
| 1. Perfectly inelastic demand:
 | 1. Ed =0
 |
| 1. Perfectly elastic demand:
 | 1. Ed > 1
 |
| 1. Elastic demand:
 | 1. Ed > 1
 |
| 1. Inelastic demand:
 | 1. Ed < 1
 |

**Practice Set- 5**

***Objective type questions:***

1. The concept of elasticity of supply was developed by-

|  |  |
| --- | --- |
| 1. Alfred Marshall,
 | 1. Adam Smith,
 |
| 1. L. Robbins,
 | 1. None of these.
 |

1. The responsiveness (or percentage change) of quantity supplied of a commodity to one percentage change in its price is known as-

|  |  |
| --- | --- |
| 1. Elasticity of demand,
 | 1. Elasticity of supply,
 |
| 1. Law of demand,
 | 1. Law of supply.
 |

1. The formula for calculation of elasticity of supply is-

|  |  |
| --- | --- |
| 1. es = (-) $\frac{∆Q}{∆P}$.$\frac{P}{Q}$
 | 1. es = (+) $\frac{∆Q}{∆P}$.$\frac{P}{Q}$
 |
| 1. es = (-) $\frac{∆P}{∆Q}$.$\frac{Q}{P}$
 | 1. es = (+) $\frac{∆P}{∆Q}$.$\frac{Q}{P}$
 |

1. The coefficient of elasticity of supply ranges from-

|  |  |
| --- | --- |
| 1. Zero to one,
 | 1. Zero to infinity,
 |
| 1. One to infinity,
 | 1. None
 |

1. Any straight line supply curve passing through the origin has value of elasticity -

|  |  |
| --- | --- |
| 1. Equal to one,
 | 1. Equal to infinity,
 |
| 1. Greater than one,
 | 1. Less than one.
 |

1. The elasticity of supply relates to a situation where the two prices and quantity situations are far from each other is known as-

|  |  |
| --- | --- |
| 1. Point elasticity of supply,
 | 1. Arc elasticity of supply,
 |
| 1. Elasticity of supply,
 | 1. None.
 |

1. Which of the following is ***not*** correctly matched-

|  |
| --- |
| 1. If the value of es = 1 => Supply is unitary elastic.
2. If the value of es< 1 => Supply is inelastic.
3. If the value of es = ∞ => Supply is perfectly elastic.
4. If the value of es> 1 => Supply is perfectly inelastic.
5. If the value of es = 0 => Supply is perfectly inelastic.
 |

1. Match the following-

|  |  |
| --- | --- |
| 1. Any straight line supply curve passing through the origin
 | 1. Inelastic supply
 |
| 1. If straight line supply curve goes through the quantity axis (x- axis)
 | 1. Elastic supply
 |
| 1. If a straight line supply curve goes through the price axis (y- axis)

**Ans:**  | 1. Unitary elastic supply
 |

1. Find arc elasticity of supply if price of sugar rises from SR 2 to SR 4 per kg and supply increases from 10 kg to 15 kg in a month.

|  |  |
| --- | --- |
| 1. 0.6
 | 1. -15
 |
| 1. 0.06
 | 1. 0.17
 |

1. In case of arc elasticity of supply, the formula for calculating es is modified as-

|  |  |
| --- | --- |
| 1. es= $\frac{q1-q2}{q1+q2}$. $\frac{p1+p2}{p1-p2}$
 | 1. es= $\frac{q1+q2}{q1-q2}$. $\frac{p1+p2}{p1-p2}$
 |
| 1. es= $\frac{q1-q2}{q1+q2}$. $\frac{p1-p2}{p1+p2}$
 | 1. es= $\frac{q1+q2}{q1-q2}$. $\frac{p1-p2}{p1+p2}$
 |

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Ques:** | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
| **Ans:** |  |  |  |  |  |  |  |  |  |  |

**Practice Set- 6**

1. **Multiple Choice Questions:**
2. Utility of every additional unit is called-

|  |  |
| --- | --- |
| 1. Marginal utility
 | 1. Total utility
 |
| 1. Average utility
 | 1. None of these.
 |

1. MUn is equal to-

|  |  |
| --- | --- |
| 1. TUn + TUn-1
 | 1. TUn – TUn-1
 |
| 1. TUn – TUn+1
 | 1. TUn + TUn+1
 |

1. When total utility reaches at maximum marginal utility becomes

|  |  |
| --- | --- |
| 1. Positive
 | 1. Negative
 |
| 1. Zero
 | 1. All may be possible.
 |

1. The cardinalist school postulated that utility can

|  |  |
| --- | --- |
| 1. Be measured
 | 1. Not be measured
 |
| 1. Both a and b may possible
 | 1. None.
 |

1. The law of equi- marginal utility is also known as-

|  |  |
| --- | --- |
| 1. Gossen’s first law
 | 1. Gossen’s second law
 |
| 1. Gossen’s third law
 | 1. None of the above.
 |

1. Gossen, Jevons, Walras and Marshall are related to-

|  |  |
| --- | --- |
| 1. Cardinal school
 | 1. Ordinal school
 |
| 1. Both a & b
 | 1. None of the above.
 |

1. The *ordinalist school* postulated that utility is

|  |  |
| --- | --- |
| 1. Measurable
 | 1. Not measurable
 |
| 1. Both a & b may be possible
 | 1. None.
 |

1. Pareto, W. E. Johnson, E. E. Slutsky, J. R. Hicks and R.G.D. Allen are the main economists related to-

|  |  |
| --- | --- |
| 1. Cardinal school
 | 1. Ordinal school
 |
| 1. Both school
 | 1. None of the above.
 |

1. As the consumer consumes more of a commodity, the utility of every additional unit (MU) consumed diminishes. This is-

|  |  |
| --- | --- |
| 1. Law of diminishing marginal utility
 | 1. Equi- marginal utility
 |
| 1. Indifference curve theory
 | 1. Revealed preference theory.
 |

1. The condition for equilibrium of the consumer is-

|  |  |
| --- | --- |
| 1. $\frac{MUx}{Px}$ =$\frac{MUy}{Py}$
 | 1. $\frac{MUx}{MUy}$ =$\frac{ Py}{Px}$
 |
| 1. a&b
 | 1. MUx= MUy
 |

1. The cardinal utility approach is based on-

|  |  |
| --- | --- |
| 1. Rationality
 | 1. Constant marginal utility of money
 |
| 1. Diminishing marginal utility
 | 1. All of the above.
 |

1. What is/ are true for indifference curves-

|  |
| --- |
| 1. Indifference curve slopes downward to the right;
 |
| 1. Indifference curves are convex to the origin;
 |
| 1. A higher indifference curve represents a higher level of satisfaction;
 |
| 1. All of the above are correct.
 |

1. The convexity of indifference curve is due to-

|  |  |
| --- | --- |
| 1. Diminishing MRS
 | 1. Increasing MRS
 |
| 1. Constant MRS
 | 1. None.
 |

1. The slope of indifference curve is known as-

|  |  |
| --- | --- |
| 1. Marginal Rate of Substitution;
 | 1. Marginal Utility;
 |
| 1. Elasticity of Substitution;
 | 1. None.
 |

1. In indifference curve analysis, the consumer will be in equilibrium when-

|  |  |
| --- | --- |
| 1. A given budget line must be tangent to an indifference curve
 | 1. The indifference curve must be convex to the origin at the point of tangency
 |
| 1. Both a & b
 | 1. None of the above.
 |

1. The ease with which one good can be substituted for the other is called-

|  |  |
| --- | --- |
| 1. Elasticity of substitution;
 | 1. Marginal rate of substitution;
 |
| 1. Substitution effect;
 | 1. None of the above.
 |

1. A change in price of good X brings about a change in the quantity demanded of it, ceteris paribus. This change in the quantity demanded is called-

|  |  |
| --- | --- |
| 1. Price effect;
 | 1. Income effect;
 |
| 1. Substitution effect;
 | 1. None.
 |

1. The increase in the quantity bought as the price of the commodity falls, after adjusting income so as to keep the real purchasing power of the consumer the same before is known as-

|  |  |
| --- | --- |
| 1. Price effect;
 | 1. Income effect;
 |
| 1. Substitution effect;
 | 1. None.
 |

1. A change in the price of a good will bring about a change in the real income (purchasing power) of the consumer, which in turn brings about a change in the quantity demanded of the good is called-

|  |  |
| --- | --- |
| 1. Price effect;
 | 1. Income effect;
 |
| 1. Substitution effect;
 | 1. None.
 |

1. Price effect is equal to-

|  |  |
| --- | --- |
| 1. Substitution effect;
 | 1. Income effect;
 |
| 1. a+b
 | 1. a-b.
 |

1. Revealed preference theory was developed by-

|  |  |
| --- | --- |
| 1. Paul A. Samuelson
 | 1. J. R. Hicks
 |
| 1. Marshall
 | 1. Adam Smith
 |

1. Revealed preference theory is based on-

|  |  |
| --- | --- |
| 1. Weak ordering
 | 1. Strong ordering
 |
| 1. Both a & b
 | 1. None.
 |

1. Indifference curve analysis is based on-

|  |  |
| --- | --- |
| 1. Weak ordering
 | 1. Strong ordering
 |
| 1. Both a & b
 | 1. None.
 |

1. **Matching Test:**

|  |  |
| --- | --- |
| **Match- I** | **Match- II** |
| 1. Cardinal Utility Analysis
 | 1. P. A. Samuelson
 |
| 1. Indifference Curve Analysis
 | 1. A. Marshall
 |
| 1. Concept of consumer surplus
 | 1. Hicks & Allen
 |
| 1. Revealed preference theory
 | 1. Marshall & Hicks
 |
|  |  |
| **Match- I** | A | B | C | D |
| **Match- II** |  |  |  |  |

|  |  |
| --- | --- |
| **Match- I** | **Match- II** |
| 1. Slope of indifference curve
 | 1. MRS x,y = $\frac{MUx}{MUy}$
 |
| 1. Slope of budget line
 | 1. $\frac{Px}{Py}$
 |
| 1. Consumer’s equilibrium
 | 1. $\frac{MUx}{MUy}= \frac{Px}{Py}$
 |
| 1. MUn
 | 1. TUn – TUn-1
 |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Match- I** | A | B | C | D |
| **Match- II** |  |  |  |  |

1. **Write *T* for True and *F* for False against each statement:**
2. Utility means want satisfying power of a commodity.
3. A change in total utility resulting from a one unit change in the consumption of a commodity at particular point of time is called marginal utility.
4. Total utility is the sum of marginal utility.
5. MU = TUn + TUn-1
6. When total utility reaches at maximum marginal utility becomes zero.
7. The ***cardinalist school***states that utility cannot be measured.
8. The law of diminishing marginal utility is known as Gossen’s first law.
9. The law of equi- marginal utility is known as Gossen’s second law.
10. The ***ordinalist school***states that utility is measurable.
11. The Law of diminishing marginal utility states that as the consumer consumes more of a commodity, the utility of every additional unit (MU) consumed diminishes.
12. The principle of equi- marginal utility states that the consumer will distribute his money income in such a way that the utility derived from the last *Saudi Riyal* spent on each good is equal. In other words the consumer is in equilibrium position when marginal utility of money spent on each good is same.
13. Bandwagon effectis an example of negative network externality.
14. Snob effect is an example of positive network externality.
15. A higher indifference curve represents a higher level of satisfaction.
16. Indifference curves are convex to the origin.
17. Price effect is split into two components- substitution effect and income effect.
18. *Revealed preference theory* was developed by J. R. Hicks in 1938.

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Q** | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 14 | 15 | 16 | 17 |
| **A** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

**Practice Set- 7**

1. **Write *T* for True and *F* for False against each statement:**
2. Production is a process by which goods and services are made available to the consumer.
3. The production function is a purely technical relationship between inputs and output (products).
4. Short- run is a period in which firms can adjust production by changing all factors of production.
5. TPL curve starts from the origin, increases at an increasing rate, then increases at decreasing rate, reaches a maximum and then starts falling.
6. Marginal product is defined as the change in TP resulting from the employment of an additional unit of a variable factor.
7. APL is U- shaped.
8. Short- run production function is also known as law of returns to scale.
9. Long- run production function is also known as law of variable proportion.
10. A rational producer will always operate in diminishing returns (Stage II).
11. Iso- quants are convex to the origin because of diminishing marginal rate of technical substitution (MRTS).

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Ques** | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
| **Ans** |  |  |  |  |  |  |  |  |  |  |

1. **Matching Test:**

|  |  |
| --- | --- |
|  **Match- I**  | **Match- II** |
| 1. Short- run production function:
 | 1. Returns to Scale
 |
| 1. Long- run production function:
 | 1. Law of variable proportions
 |
| 1. The different combinations of labour and capital with which a firm can produce a specific quantity of output is known as:
 | 1. Iso- quant
 |
| 1. The different combinations of labour and capital that a firm can buy, given total outlay (TO) and the prices of the factors.
 | 1. Iso- cost line
 |
|  |  |
| **I** | **A** | **B** | **C** | **D** |
| **II** |  |  |  |  |

1. **Multiple Choice Questions:**
2. Production function provides measurements of-

|  |
| --- |
| 1. The marginal productivity of the factors of production;
 |
| 1. The marginal rate of substitution and the elasticity of substitution;
 |
| 1. The return to scale;
 |
| 1. Factor intensity;
 |
| 1. All of the above.
 |
|  |

1. Which is/ are true about iso- quants-

|  |
| --- |
| 1. It is convex to the origin;
 |
| 1. The slope of an isoquant is called marginal rate of technical substitution of labour for capital (MRTSLK);
 |
| 1. Iso- quants never cross each other;
 |
| 1. All are true.
 |
|  |

1. The conditions of producer’s equilibrium are-

|  |
| --- |
| 1. Slope of isoquant = slope of iso- cost line;
 |
| 1. Iso- quants must be convex to the origin;
 |
| 1. a+ b
 |
| 1. None of these.
 |
|  |

1. In Cobb- Douglas production function, elasticity of substitution (es or σ) is equal to-

|  |  |
| --- | --- |
| 1. unity
 | 1. zero
 |
| 1. infinity
 | 1. None of these.
 |
|  |  |

1. In Cobb- Douglas production function, the sum of its exponents measures-

|  |  |
| --- | --- |
| 1. Returns to Scale;
 | 1. Factors intensity;
 |
| 1. Marginal productivity of factors;
 | 1. Elasticity of substitution
 |

1. Slope of an iso- quant is-

|  |  |
| --- | --- |
| 1. MRTS;
 | 1. Marginal productivity of factors;
 |
| 1. Elasticity of substitution;
 | 1. Factors intensity.
 |
|  |  |

1. A rational producer will always operate in-

|  |  |
| --- | --- |
| 1. Stage I;
 | 1. Stage II;
 |
| 1. Stage III
 | 1. None of these.
 |
|  |  |

1. Which of the following stage is known as law of diminishing returns-

|  |  |
| --- | --- |
| 1. Stage I;
 | 1. Stage II;
 |
| 1. Stage III
 | 1. None of these.
 |
|  |  |

1. The most fundamental law of production is-

|  |  |
| --- | --- |
| 1. Stage I;
 | 1. Stage II;
 |
| 1. Stage III
 | 1. None of these.
 |
|  |  |

1. MPL for nth unit is equal to-

|  |  |
| --- | --- |
| 1. TPn – TPn-1
 | 1. TPn – TPn+1
 |
| 1. APn – APn-1
 | 1. TPn + TPn-1
 |

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Ques** | **1** | **2** | **3** | **4** | **5** | **6** | **7** | **8** | **9** | **10** |
| **Ans** |  |  |  |  |  |  |  |  |  |  |

**Practice Set- 8**

1. **Write *T* for True and *F* for False against each statement:**
2. The cost of a commodity is determined by production function and the price of inputs.
3. *Cost function* shows relationship between total cost and its determinants.
4. The actual expenditure incurred by a firm to purchase or hire the inputs it needs in the production process is called *implicit cost*.
5. Sunk cost is the expenditure that has been incurred and cannot be recovered.
6. TFC curve is a straight line parallel to x- axis.
7. Total variable cost (TVC) curve is inverse- S shaped starting from the origin.
8. AFC is a rectangular hyperbola showing decreasing fixed cost per unit as output increases.
9. The minimum point of AC occurs to the left of the minimum point of the AVC.
10. MC curve cuts AC curve at its minimum point.
11. LAC and LTC are planning curves.

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Ques** | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
| **Ans** |  |  |  |  |  |  |  |  |  |  |

1. **Matching Test:**

|  |  |
| --- | --- |
| 1. The actual expenditure incurred by a firm to purchase or hire the inputs:
 | 1. Variable cost
 |
| 1. The cost of inputs owned by the firm and used by the firm in its own production process:
 | 1. Fixed cost
 |
| 1. The cost that does not change with change in output:
 | 1. Implicit cost
 |
| 1. The costs which vary/change with the quantity of output:
 | 1. Explicit cost
 |
|  |  |
| **I** | A | B | C | D |
| **II** |  |  |  |  |

1. **Multiple Choice Questions:**
2. Cost functions are derived from-

|  |  |
| --- | --- |
| 1. Production function;
 | 1. Demand function;
 |
| 1. Supply function;
 | 1. None of these.
 |
|  |  |

1. Total cost (TC) is equal to-

|  |  |
| --- | --- |
| 1. TFC + TVC
 | 1. MC + AC
 |
| 1. TFC + MC
 | 1. TFC + AC
 |
|  |  |

1. Which of the following is rectangular hyperbola-

|  |  |
| --- | --- |
| 1. TFC
 | 1. TVC
 |
| 1. AFC
 | 1. AVC
 |
|  |  |

1. An addition made to the TC or TVC as output is increased by one more units is called:

|  |  |
| --- | --- |
| 1. AC
 | 1. MC
 |
| 1. AVC
 | 1. AFC
 |
|  |  |

1. When MC is falling, MC is-

|  |  |
| --- | --- |
| 1. Below AC
 | 1. Above AC
 |
| 1. Equal to AC
 | 1. All may be possible.
 |
|  |  |

1. MC curve cuts AC curve at its-

|  |  |
| --- | --- |
| 1. minimum point;
 | 1. Maximum point.
 |
| 1. Any point;
 | 1. Never cuts.
 |
|  |  |

1. Shift in cost curves is/are due to–

|  |  |
| --- | --- |
| 1. Change in input supply;
 | 1. Change in technology;
 |
| 1. a + b
 | 1. None of these.
 |
|  |  |
| **Ques** | **1** | **2** | **3** | **4** | **5** | **6** | **7** |
| **Ans** |  |  |  |  |  |  |  |

**Note:** *For the correct answers, please read the study materials on microeconomics (ECON- 101).*