

1. Suppose that you are willing to pay \$20 to see a movie on Saturday night. A ticket costs \$10, and the next-best alternative use of your time would be to go to dinner with a friend. The cost of the dinner is \$20, and you value the experience of having dinner with your friend at \$60. The opportunity cost of seeing the movie is equal to:

- a) \$50.
- b) \$30.
- c) \$20.
- d) \$10.

Correct Answer - a)

Explanation -

	Movie	Dinner
Willingness to Pay	\$20	\$60
External cost	\$10 (Explicit cost)	\$20
Total happiness	\$10 (\$20 - \$10)	\$40 (\$60 - \$20) (Implicit Cost)

The opportunity cost of seeing the movie is **OC = Explicit cost + Implicit Cost**

$$OC = \$10 + \$40 = \$50$$

2) Which of the following statements about sunk costs is FALSE?

- I. Sunk costs are those that cannot be recovered, no matter what future action is taken.
 - II. Because sunk costs cannot be recovered, they are irrelevant for future decision-making.
 - III. The presence of sunk costs can affect future decision-making, if they are large enough.
- a) II and III only.
 - b) II only.
 - c) III only.
 - d) I and III only.

Correct Answer - c)

3) When individuals hesitate to switch from a paid educational program to a free alternative with a better success rate, solely because they have already invested money in the original program, which psychological bias is at play?

- A) Confirmation bias
- B) Opportunity cost bias
- C) Sunk cost fallacy
- D) Endowment bias

Correct Answer - c)

4) I am considering loaning my brother \$10,000 for one year. He has agreed to pay 10% interest on the loan. If I don't loan my brother the \$10,000, it will stay in my bank account for the year, where it will earn 2% interest. What is the opportunity cost to me of the loan to my brother?

- a) \$200.
- b) \$800.
- c) \$1,000.
- d) \$1,200

Correct Answer – a)

Explanation - Opportunity Cost is defined as the next best alternative foregone. Here the next best alternative to giving a loan of \$10,000 to my brother is the 2% rate of interest earned on depositing in the bank account i.e. \$200.

5) Which of the following concepts can be used to explain why production possibility frontiers slope downwards.

- a) Scarcity
- b) Sunk costs.
- c) Trade
- d) Increasing marginal costs.

Correct Answer - a)

QUIZ 2

1) A point inside the production possibilities frontier is

- a. efficient, but not feasible.
- b. feasible, but not efficient.
- c. both efficient and feasible.
- d. neither efficient nor feasible.

Correct Answer - b)

2) Consider the production possibilities table. The table shows the maximum combinations of bread and guns that can be produced when all resources are fully employed. We can conclude that:

Guns	Bread
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0	1000
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100	900
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200	750
-----	-----

300	550
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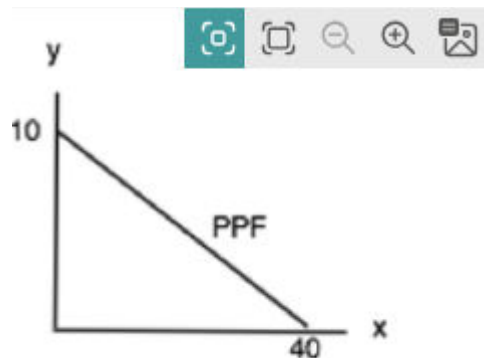
400	300
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500	0
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- A) the opportunity cost of producing 200 guns instead of 100 guns is 750 units of bread.
- B) the opportunity cost of producing 500 guns instead of 300 guns is zero since we don't have to give up any bread.
- C) the opportunity cost of producing 400 guns instead of 100 guns is 600 units of bread.
- D) the opportunity cost of producing 750 units of bread instead of 300 units of bread is 400 guns.

Correct Answer – C)

3) What is the cost of producing four units of good y?



- a) 16 units of x.
- b) 4 units of x
- c) 1/4 of a unit of x.
- d) 40 units of x.

Correct Answer – a)

The opportunity cost of producing 10 units of y is 40 units of x. So, cost of producing 1 unit of y is 4 units of x. Therefore, cost of producing 4 units of y is 16 units of x.

4) Suppose that an increase in the price of X results in less of good Y sold. This would mean that X and Y are

- a) complementary goods
- b) substitute goods
- c) normal goods
- d) inferior goods

Correct Answer – a)

Hint- Take X to be demand for petrol and Y to be demand for car

5) Suppose that John receives a pay increase. We would expect:

- a) John's demand for normal goods to remain unchanged
- b) John's demand for inferior goods to decrease
- c) John's demand for luxury goods to decrease
- d) John's demand for normal goods to decrease

Correct Answer – b)

Quiz 3

1. The venue for the Cricket World Cup Final 2023 was announced a month before the start of the tournament as Narendra Modi Stadium in Ahmedabad. Several cricket fans who wanted to watch the match started booking tickets and hotels for the event. What will be true about the demand for hotels in Ahmedabad in response to the announcement?
- a) The demand curve stays at its position
 - b) The demand curve shifts leftward
 - c) The demand curve shifts rightward
 - d) None of the above

Ans: c

2. Heavy unseasonal rainfall in Assam leads to an increase in the price of tea. The demand curve for Kerala's Robusta coffee will:
- a) Shift leftwards
 - b) Shift rightwards
 - c) Not change
 - d) None of the above

Ans: b

Tea and Coffee are substitutes. Hence, an increase in the price of one will induce the consumers to shift to the other.

3. In what situation can we expect an elastic demand curve for immunizations?
- a) When immunization has many complements.
 - b) In the case of immunization being a luxury good.
 - c) When a close substitute of immunizations is available.
 - d) When there is a limited supply of immunization.

Ans: c

When a substitute is available, consumers will shift to that substitute, making the demand curve for immunization more elastic.

4. We observe that the price of butter increases, the quantity of butter increases, and the quantity of bread increases in the market equilibrium. What could be the reason behind this?
- a) The market price of milk has gone up
 - b) The market price of flour has gone down
 - c) The market price of flour has gone up
 - d) None of the above

Ans: b

(Refer to lecture slides)

Quiz 4

1. Policymakers want to raise taxes on cigarettes to increase tax revenue. The tax would only be effective in increasing the revenue if the price elasticity of demand is:

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

Ans: a

2. The magnitude of price elasticity of demand for an India vs Netherlands cricket match is 2. If the price of tickets to this event increases by 10 per cent, the quantity of tickets demanded will:

- a) decrease by 10 per cent
- b) increase by 10 per cent
- c) increase by 20 per cent
- d) decrease by 20 per cent

Ans: d

3. We measure the price of wheat in rupees per kg on the vertical axis and the quantity (kg) of wheat on the horizontal axis. We get an upward sloping supply curve. If we change the unit of measurement of wheat from kg to quintal, then what will happen to the slope and the price elasticity of supply:

- a) the slope of the supply curve will remain the same.
- b) the slope of the supply curve will change, but the price elasticity of the supply will not change.
- c) both the slope of the supply curve and the price elasticity of the supply will change.
- d) None of the above.

Ans: b

4. Local taxi drivers in Kolkata protested that the price they get is very low. In response to that, the local authority set a minimum price that a consumer must pay for any ride. Which of the following is likely to happen after the introduction of the policy?

- a) there will be shortages of taxi riders ready for the ride in the market.
- b) the demand for taxi rides will increase.
- c) there will be excess supply drivers ready to give rides to the customers
- d) no change as the price floor will not be binding.

Ans: c

Q1. Suppose there are three identical vases available to be purchased. Buyer 1 is willing to pay \$30 for one, buyer 2 is willing to pay \$25 for one, and buyer 3 is willing to pay \$20 for one. If the price is \$25, how many vases will be sold and what is the value of consumer surplus in this market?

- A) Three vases will be sold, and consumer surplus is \$80.
- B) One vase will be sold, and consumer surplus is \$5.
- C) One vase will be sold, and consumer surplus is \$30.
- D) Two vases will be sold, and consumer surplus is \$5.

D

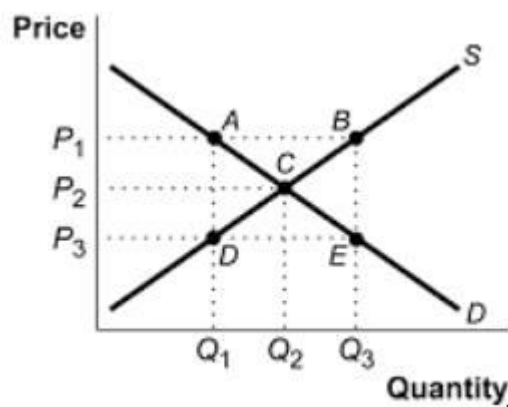
Buyer 1 and Buyer 2 will buy and total CS = $(\$30 - \$25) + (\$25 - \$25) = \$5$

Q2. A 3 percent increase in the price of tea causes a 6 percent increase in the demand for coffee. The cross elasticity of demand for coffee with respect to the price of tea is:

- A) -0.5.
- B) +0.5.
- C) -2.0.
- D) +2.0.

D

Q4. In the diagram below, a price ceiling of P_3 causes:



- a) No deadweight loss as price ceiling is not binding here.
- b) A deadweight loss triangle whose corners are ACD.
- c) A deadweight loss triangle whose corners are BEC.
- d) A deadweight loss triangle whose corners are CDE.

B

Q5. Sony is considering a 10 percent price reduction on its colour television sets. If the demand for sets in this price range is inelastic:

- A) revenues from colour sets will remain constant.
- B) revenues derived from colour sets will decrease.
- C) revenues derived from colour sets will increase.
- D) the number of television sets sold will decrease.

B

Q1. Why is it challenging to construct a real-world demand curve?

- A) Limited availability of data for a vast population.
- B) Inability to conduct experiments and establish demand for counterfactual prices.
- C) External factors such as weather (seasonal changes, storms) and the availability of competing providers (new market entrants, changes in technology) that may be changing at the same time as prices.
- D) None of the above.

A, B, C

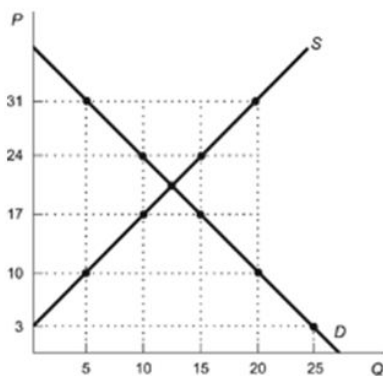
Q2. By doubling its prices, as indicated in the article, what impact would this have on Uber's total revenue?

- A) Total Revenue will decrease by 40%.
- B) Total Revenue will increase by 40%.
- C) Total Revenue will decrease by 60%.
- D) Total Revenue will increase by 60%.

Total Revenue will increase by 20%

Q3.

Figure: Government Price Controls



Refer to the figure. The government enacts a price control causing a shortage of 15 units of the good. Therefore, the _____ is set at _____.

- A) Price floor; \$31
- B) Price floor; \$17
- C) Price ceiling; \$10
- D) Price ceiling; \$17

C)

Q4. How does an elastic long-run labour demand affect the Deadweight Loss when a government set binding minimum wage?

- A) It reduces the Deadweight Loss.

- B) It increases the Deadweight Loss.
- C) It has no impact on the Deadweight Loss.
- D) Can't say

B)

Q5. Buyers of a product will pay the majority of a tax placed on a product when

- A) The tax is placed on the seller of the product.
- B) The demand is more elastic than supply.
- C) Supply is more elastic than demand.
- D) The tax is placed on the buyer of the product.

C)

1) Which of the following scenarios does **NOT** best illustrate the effect of a rightward shift in the supply curve on price and quantity?

- a. Following the discovery of a new oil field, several oil companies have increased their production capacity, resulting in a substantial increase in the supply of oil.
- b. Due to advancements in agricultural techniques and favorable weather conditions, farmers can produce larger yields of wheat.
- c. Surge in demand for smartphones prompts manufacturers to expand the quantity of smartphones supplied.
- d. Following a series of successful clinical trials, pharmaceutical companies introduce new generic versions of a widely prescribed medication.

Answer c)

2) If a city government sets a price ceiling on public transportation fares to ensure affordability, but the prevailing fares set by transportation companies are already below the ceiling due to competition or efficient operational management, then:

- a. transportation companies will be forced to increase fares to meet the price ceiling.
- b. commuters will face difficulty accessing affordable transportation due to the price ceiling.
- c. there will be no legal enforcement mechanism for the price ceiling.
- d. More than one of the above is correct.

Answer c.

3) If the income of consumers in developing countries increases due to economic growth and the price of mobile data plans (a complement) also increases, then _.

- a. The demand curve for smartphones shifts rightward
- b. The demand curve for smartphones shifts leftward
- c. The demand curve for smartphones remains unchanged
- d. The demand curve for smartphones may shift or remain unchanged depending upon the size of the two effects.

Answer: d

4) Sham (demand-side) pays Ram (supply-side) \$50 to mow her lawn every week. When the government levies a mowing tax of \$10 on Ram, he raises his price to \$60. Sham continues to hire him at the higher price. What is the change in producer surplus and consumer surplus?

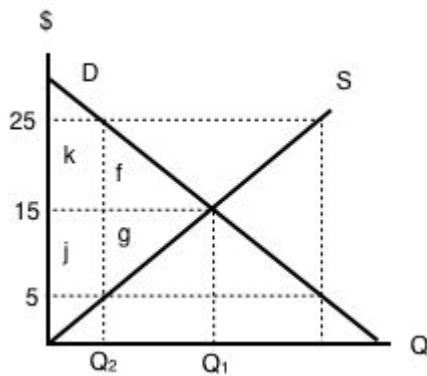
- a. \$0, \$0
- b. \$0, -\$10
- c. +\$10, -\$10
- d. +\$10, -\$10

Answer b.

5) If a policymaker wants to raise revenue by taxing goods while minimizing the deadweight losses, he should look for goods with _____ elasticities of demand and _____ elasticities of supply.

- a. small, small
- b. small, large
- c. large, small
- d. large, large

Answer a.



6) Which areas represent the loss to consumer AND producer surplus as a result of this tax?

- a) $k + f$.
- b) $j + g$.
- c) $k + j$.
- d) $k + f + j + g$.

Answer d.

7) Assume that the supply curve for contact lenses is given by:

$$Q = 4 + 2p, \text{ and the demand curve is } Q = 10 - p.$$

Calculate the price elasticity of demand in the market equilibrium.

- a. -4
- b. -1
- c. -0.5
- d. -0.25

Answer d.

8) In the question 8, suppose the government imposes a tax of \$3 per unit to raise government revenues. What will the new equilibrium quantity be? What price will buyers pay? What price will sellers receive?

- a. 7, \$3, \$1
- b. 5, \$4, \$2
- c. 6, \$4, \$1
- d. 8, \$10, \$5

Answer c.

Quiz 9

1. Reynold's total cost of producing 4 pens is ₹ 44, and its total cost of producing 5 pens is ₹ 60. What is the average cost of producing 5 pens? What is the marginal cost of the fifth pen?
- a) ₹ 12, ₹16
 - b) ₹ 11, ₹ 18
 - c) ₹ 12, ₹ 18
 - d) ₹ 11, ₹ 16

Ans: a

2. The revenue a *Bhindi* (LadyFinger) seller receives in a *sabzi* (vegetable) market with many buyers and sellers stays constant for each additional kg sold, regardless of the total quantity sold. What can be the reason behind it?
- a) The *Bhindi* seller has market power to keep the price constant
 - b) Both sellers and buyers are price-takers
 - c) Buyers keep the price low, and sellers accept that price.
 - d) None of the above

Ans: b

3. For Perfect Competition, we necessarily need:
- a) Homogenous product
 - b) Identical firms
 - c) Lots of buyers and sellers with free entry and exit
 - d) Perfect information
 - e) Only a, b, and c
 - f) Only a, c, and d
 - g) None of the above

Ans: f

4. Which of the following short-run cost curves declines continuously?
- a) Average total cost
 - b) Marginal cost
 - c) Average fixed cost
 - d) Average variable cost

Ans: c

1. Under perfect competition, a business has to make different types of decisions, both for the short run and the long run. Which of the following is a short run decision?

- A) Whether to enter or exit an industry
- B) The price to charge buyers for a product
- C) Spending on advertising and sales promotion
- D) The levels of output that can maximise profits

Answer – D)

2. In perfect competition, what happens to the price and the quantity for a representative firm in the short run if the marginal cost increases for all firms?

- A) price increases whereas quantity decreases
- B) price decreases whereas quantity increases
- C) both price and quantity decrease
- D) both price and quantity increase

Answer - A)

3. Suppose there is a perfectly competitive market for strawberries where numerous small-scale strawberry farmers operate. If, due to a new study showing the positive health benefits of strawberries, the demand for strawberries increases, what would likely happen to the strawberry farmers in long run?

- A) They would experience a permanent surge in profits
- B) They would make zero profits due to entry of other strawberry farmers
- C) They would experience a decline in marginal cost
- D) They may need to exit the market due to losses

Answer B.

4. In a perfectly competitive market, what happens in the short run to the remaining firms if the government reduces the number of sellers for a product in the market?

- A) Firm incurs losses and exit the market
- B) Firm earns economic profits
- C) Firms earns zero economic profits
- D) Firms collude to maintain high prices

Answer: B)