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87. _____ is a curve showing how many units of a commodity consumer is ready to purchase at different prices
 (A) Marginal curve
 (B) Equi marginal curve
 (C) Indifference curve
 (D) Consumer demand
 ➤ Ans: (D) Consumer demand
88. Evolution of cardinal approach of utility is related to _____
 (A) MU (B) EMU
 (C) Total utility (D) Indifference curve
 ➤ Ans: (A) MU
89. IC were introduced by _____
 (A) Pareto (B) J.R Hicks
 (C) Allen (D) Francis Edge worth
 ➤ Ans: (B) J.R Hicks
90. IC is _____ commodity model
 (A) Goods (B) Two
 (C) One (D) Same
 ➤ Ans: (B) Two
91. IC shows different combination of two commodities which gives consumer _____
 (A) Equal level of profit
 (B) Equal level of satisfaction
 (C) Equal level of flavour
 (D) Equal prices
 ➤ Ans: (B) Equal level of satisfaction
92. _____ shows different combination of two goods a consumer can purchase while prices are given
 (A) Budget line (B) IC
 (C) MU curve (D) Demand curve
 ➤ Ans: (A) Budget line
93. IC has a slope _____
 (A) Falling (B) Constant
 (C) Higher (D) Negative
 ➤ Ans: (D) Negative
94. The higher the IC the _____ utility
 (A) Lesser (B) Same
95. Two IC's do not _____
 (A) Change (B) Intersect
 (C) Fall (D) Increases
 ➤ Ans: (B) Intersect
96. A consumer's demand curve represent how much of a commodity purchased at different _____
 (A) Points (B) Levels
 (C) Budgets (D) Prices
 ➤ Ans: (D) Prices
97. Those goods whose demand fall with the falling price are _____
 (A) Cheap goods (B) D Grade Goods
 (C) Giffen Goods (D) Ordinary Goods
 ➤ Ans: (C) Giffen Goods
98. By income effect we mean the effect on consumer equilibrium if _____ of consumer changes while prices are constant
 (A) Profit (B) Taste
 (C) Income (D) Saving
 ➤ Ans: (C) Income
99. As the income of consumer increases he decreases the consumption of _____ goods
 (A) Giffen goods (B) Inferior goods
 (C) Low quality goods
 (D) Local goods
 ➤ Ans: (B) Inferior goods
100. Quantity demand is also a function of _____
 (A) Taste of consumer
 (B) Taste of producer
 (C) Demand of market
 (D) Demand of producer
 ➤ Ans: (A) Taste of consumer
101. Consumer loves to buy what his relatives or friend buy is _____ effect
 (A) Snob (B) Voblen
 (C) Bandwagon (D) Income
 ➤ Ans: (A) Snob



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34. In capitalistic system, prices of goods are determined by:
- (A) Sellers
 - (B) Buyers
 - (C) Government
 - (D) Forces of demand and supply
- Ans: (D) Forces of demand and supply
35. In socialistic system, prices of goods are determined by:
- (A) Sellers
 - (B) Buyers
 - (C) Government
 - (D) Forces of demand and supply
- Ans: (C) Government
36. In working of markets, the Islamic system is nearer to:
37. In a country like Pakistan:
- (A) All economic decisions are made through markets
 - (B) There is no planning
 - (C) Government owns most of the means of production
 - (D) There is reliance on market
- Ans: (D) There is reliance on market

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- (A) An increasing marginal rate of substitution.
(B) A decreasing marginal rate of substitution.
(C) A constant marginal rate of substitution.
(D) A marginal rate of substitution that first decreases, then increases.
➤ Ans: (A) An increasing marginal rate of substitution.
74. If Kamal demand price for one unit of a good is Rs. 100 and the market price is Rs. 75, Kamal's surplus will be:
(A) Rs.25. (B) Rs.50.
(C) Rs.75. (D) Rs.100.
➤ Ans: (A) Rs.25.
75. The numerical measurement of a consumer's preference is called:
(A) Satisfaction (B) Use
(C) Pleasure (D) Utility
➤ Ans: (D) Utility
76. We know that the demand for a product is elastic if and:
(A) When price rises, revenue rises
(B) When price rises, revenue falls
(C) When price rises, quantity demanded rises
(D) When price falls, quantity demanded rises
➤ Ans: (B) When price rises, revenue falls
77. Consumer is rational means _____
(A) Intelligent (B) rich
(C) well aware (D) Normal
➤ Ans: (D) Normal
78. Satisfaction of a consumer can be accurately measured is _____ approach
(A) Analytical (B) cardinal
(C) hypothetical (D) ordinal
➤ Ans: (B) cardinal
79. Satisfaction can only be seen to be rowing in the comparison with another measurement is _____ approach
(A) Cardinal (B) ordinal
(C) hypothetical (D) analytical
➤ Ans: (B) ordinal
80. DMU states the more we have of any commodity the desire to get any more of it _____
(A) Remains constant
(B) Increases
(C) Decreases (D) Slightly fluctuate
➤ Ans: (C) Decreases
81. When total utility resources maximum MU becomes zero. This situation is called point of _____
(A) Saturation (B) Benefit
(C) Observation (D) Return
➤ Ans: (A) Saturation
82. When total utility _____ MU becomes negative
(A) Raises (B) Constant
(C) Affects (D) Falls
➤ Ans: (D) Falls
83. The DMU assumes that all the units of commodity in use must be _____
(A) Equal (B) Similar
(C) Different (D) Counted
➤ Ans: (B) Similar
84. Law of equity marginal utility states that a consumer is in equilibrium when he spends his income on different goods in a way that MU of last unit of money spent on each good is _____
(A) Rare (B) Balanced
(C) Equal (D) High
➤ Ans: (C) Equal
85. Law of EMU also called _____
(A) Law of priority
(B) Law of satisfaction
(C) Law of spending
(D) None of above
➤ Ans: (B) Law of satisfaction
86. Law of utility is not applicable to the purchase on basis of customs, traditions is _____
(A) Assumption (B) Limitation
(C) Definition (D) Rules
➤ Ans: (A) Assumption

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27. Assume the money supply will be restricted. Which of the following is the most likely result if the AS curve is upward sloping?
- the interest rate will increase but output, prices and real money balances will fall
 - the levels of the interest rate, output and prices will all decline
 - the price and output levels will fall but real money balances will increase
 - real money balances will remain unchanged, since money supply and prices will decrease proportionally
- Ans: (A) the interest rate will increase but output, prices and real money balances will fall
28. The upward-sloping aggregate supply curve indicates that:
- As firms increase their level of output, the cost of producing an extra unit increases
 - An increase in aggregate demand causes little, if any increase in real output
 - The economy is operating in the long run
 - Any increase in aggregate demand causes the output of producers to fall because the general price level rises
- Ans: (A) As firms increase their level of output, the cost of producing an extra unit increases
29. According to the model of aggregate supply and aggregate demand, in the long run, an increase in the money supply should cause:
- both prices and output to rise.
 - prices to fall and output to remain unchanged
 - both prices and output to fall.
 - prices to rise and output to remain unchanged
- Ans: (D) prices to rise and output to remain unchanged
30. The aggregate demand curve is:
- vertical if full employment exists.
 - horizontal when there is considerable unemployment in the economy.

- (C) down sloping because of the interest-rate, wealth or real balances, and foreign purchases effects.
- (D) down sloping because production costs decrease as real output increases.
- Ans: (C) down sloping because of the interest-rate, wealth or real balances, and foreign purchases effects.
31. The interest-rate and real balances effects are important because they help explain:
- rightward and leftward shifts of the aggregate demand curve.
 - why demand-management policy cannot be used effectively to curb stagflation.
 - the shape of the aggregate demand curve.
 - the shape of the aggregate supply curve.
- Ans: (C) the shape of the aggregate demand curve.
32. The determinants of aggregate demand to:
- explain why the aggregate demand curve is down sloping.
 - explain shifts in the aggregate demand curve.
 - demonstrate why real output and the price level are inversely related
 - include input prices and resource productivity.
- Ans: (B) explain shifts in the aggregate demand curve.
33. Which one of the following would not shift the aggregate demand curve?
- a change in the price level
 - depreciation of the international value of the dollar
 - a decline in the interest rate at each possible price level
 - an increase in personal income tax rates
- Ans: (A) a change in the price level
34. All else equal, an increase in imports will shift the aggregate expenditures curve:
- upward and the aggregate demand curve rightward



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➤ Ans: (B) AS: horizontal only till the full capacity level; AD: downward sloping

11. AD represent the market:

- (A) Goods
- (B) Money
- (C) Both A and B
- (D) None

➤ Ans: (C) Both A and B

12. In macroeconomics, equilibrium is defined as that point at which

- (A) planned aggregate expenditure equals aggregate output.
- (B) planned aggregate expenditure equals consumption.
- (C) aggregate output equals consumption minus investment.
- (D) saving equals consumption.

➤ Ans: (A) planned aggregate expenditure equals aggregate output

13. The ratio of the change in the equilibrium level of output to a change in some autonomous component of aggregate demand is the

- (A) elasticity coefficient.
- (B) multiplier.
- (C) marginal propensity of the autonomous variable.
- (D) automatic stabiliser.

➤ Ans: (B) multiplier

14. Assume there is no government or foreign sector. If the MPC is .75, a Rs. 20 billion decrease in planned investment will cause aggregate output to decrease by

- (A) Rs. 80 billion.

$$\frac{\Delta Y}{\Delta I} = \frac{1}{1 - MPC}$$

- (B) Rs. 20 billion.

$$\frac{\Delta Y}{\Delta I} = \frac{1}{1 - .75} = 4$$

- (C) Rs. 26.67 billion.

- (D) Rs. 15 billion.

➤ Ans: (A) Rs. 80 billion.

15. According to Keynes macroeconomic equilibrium is attained when:

- (A) Prime Minister is PhD in Macroeconomics
- (B) Aggregate Demand Equals Aggregate Supply

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(C) Inflation Exists in Economy.

(D) None

➤ Ans: (B) Aggregate Demand Equals Aggregate Supply

16. Aggregate demand curve is downward sloping due to the:

- (A) Interest rate effect
- (B) Wealth effect
- (C) International purchasing power effect
- (D) All of the given option

➤ Ans: (D) All of the given option

17. Aggregate supply is the total amount

- (A) of goods and services produced in an economy.
- (B) produced by the government.
- (C) of products produced by a given industry.
- (D) of labour supplied by all households.

➤ Ans: (A) of goods and services produced in an economy.

18. The total demand for goods and services in an economy is known as

- (A) Aggregate demand
- (B) National demand
- (C) Gross national product.
- (D) Economy-wide demand

➤ Ans: (A) Aggregate demand

19. The theory of aggregate supply is one of the most controversial in macroeconomics because

- (A) modern models, while similar in their starting points, reach widely different results in explaining the AS curve
- (B) economists cannot agree whether the Keynesian or the classical AS curve is a better reflection of reality
- (C) economists cannot agree whether wages are completely flexible or rigid in the long run
- (D) economists do not completely understand why wages and prices are slow to adjust after demand-side disturbances

➤ Ans: (D) economists do not completely understand why wages and prices are



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8. If purchasing power parity prevails absolutely in a two country world, the real exchange rate between the two countries should be:
- (A) 1
 - (B) constantly changing
 - (C) relatively stable, but not constant
 - (D) none of the above
- Ans: (A) 1
9. The interest parity equation implies that there is a general tendency for:
- (A) exchange rates to be insensitive to the differential rates of interest between countries.
 - (B) the currencies of relatively low-interest countries to appreciate.
 - (C) the currencies of relatively high-interest countries to appreciate.
 - (D) the currencies of relatively low-interest countries to depreciate.
- Ans: (B) the currencies of relatively low-interest countries to appreciate.
10. Which of the following is/are correct statement (s) about the current account deficit?
- (A) A current account deficit is bad, if it is being caused by excessive consumer spending
 - (B) A current account deficit is bad, if it is fuelled by high fiscal deficits
 - (C) A current account deficit is good, if it is caused by the excess of productive domestic investment over domestic savings
 - (D) All of the above
- Ans: (D) All of the above
11. The J-curve effect refers to the observation that
- (A) GDP usually decreases before it increases after a currency depreciation.
 - (B) GDP usually decreases before it increases after a currency appreciation.
 - (C) the trade balance usually gets worse before it improves after a currency appreciation.
- (D) the trade balance usually gets worse before it improves after a currency depreciation.
- Ans: (D) the trade balance usually gets worse before it improves after a currency depreciation.
12. If Pakistan exports more direct investment capital abroad than expected, then the Rupees will tend to
- (A) appreciate.
 - (B) fluctuate more than if exports were lower.
 - (C) depreciate.
 - (D) not be affected.
- Ans: (C) depreciate.
13. Today is Tuesday morning. If currency dealers expect the value of the dollar to fall by 10% on Wednesday, then, ceteris paribus, what will happen by the end of today to the rupee/dollar exchange rate? It will:
- (A) rise by more than 10%.
 - (B) rise by exactly 10%.
 - (C) fall by less than 10%.
 - (D) remain constant.
- Ans: (B) rise by exactly 10%.
- Hint: Use your common sense. Think of "yourself" as a currency trader and then answer the question, based on your future expectation and the incentive it creates.
14. Which of the following is not included in a country's balance of payments accounts?
- (A) customs duties
 - (B) exports earnings of naturalized industries
 - (C) interest received from property owned abroad
 - (D) services purchased by foreign tourists
- Ans: (A) customs duties
15. Which of the following would be classified in the UK balance of payments accounts as a change in UK net external assets?
- (A) imports of machinery by UK firms
 - (B) expenditure by foreign tourists in the UK
 - (C) a purchase of a bond by a US resident from a UK resident

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23. Why might a reduction in domestic interest rates have an adverse effect on a country's balance of payment on current account

 - It will cause a rise in the exchange rate
 - It will make the country's industry less competitive
 - The resulting higher level of economic activity is likely to increase imports
 - There will be an outflow of capital from the country

➤ Ans: (C) The resulting higher level of economic activity is likely to increase imports

24. A single country within a monetary union experiences a current account balance of payments deficit. Which policy could the country use to reduce the deficit?

 - exchange rate policy
 - fiscal policy
 - monetary policy
 - tariff policy

➤ Ans: (B) fiscal policy

25. Final balance of payments of a country is:

 - Always balanced
 - Always deficit
 - Always surplus
 - Fluctuates

➤ Ans: (A) Always balanced

26. If GNP of Pakistan rises, it will encourage:

 - Exports
 - Imports
 - Both
 - None of these

➤ Ans: (C) Both

27. It helps countries to meet deficit in balance of payments

 - IMF
 - WTO
 - World Bank
 - UNO

➤ Ans: (A) IMF

28. If CDA (Capital Development Authority) Islamabad gets a loan from World Bank for roads, it will be recorded in the balance of payments in section:

 - Capital account
 - Visible balance
 - Invisible balance
 - Official financing

➤ Ans: (A) Capital account

29. Which of the following compares the average price of exports to average price of imports?

 - The balance of payments
 - The balance of trade
 - The exchange rate
 - The terms of trade

➤ Ans: (D) The terms of trade

30. Flexible exchange rate system has the advantage of _____.

 - automatic adjustment of balance of payments
 - easy to borrow from World Bank
 - encourages exports
 - none of the above

➤ Ans: (A) automatic adjustment of balance of payments

31. Fixed exchange rate system has the advantage:

 - Automatic adjustment of balance of payments
 - Increases govt. control over foreign trade
 - Discourages unnecessary speculation about future trade deals
 - Both (B) and (C)

➤ Ans: (D) Both (B) and (C)

32. Foreign exchange reserves increase if:

 - Government increases taxes
 - Exports increase imports remain the same
 - Imports increase and exports remain the same
 - Both (A) and (B)

➤ Ans: (B) Exports increase imports remain the same

33. IMF gives loans:

 - To fill gap in balance of payments
 - To fill gap in government budget
 - To decrease inflation
 - To increase employment opportunities

➤ Ans: (A) To fill gap in balance of payments



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- (D) a payment of dollars by a British bank from another British bank in the foreign exchange market
➤ Ans: (C) a purchase of a bond by a US resident from a UK resident
16. The principal items in the UK balance of payments are
X current balance
Y net transactions in UK external assets and liabilities
Z balancing item
What is the relationship between these items?
(A) $X + Y + Z = \text{zero}$
(B) $X + Y = Z$
(C) $X + Z = Y$
(D) $X - Y = Z$
➤ Ans: (A) $X + Y + Z = \text{zero}$
17. Which of the following items would not appear in the current account of a country's balance of payments?
(A) the export of cars
(B) the import of machinery
(C) the setting up of a subsidiary by a foreign company
(D) the use of banking services by a foreign company
➤ Ans: (C) the setting up of a subsidiary by a foreign company
18. Which of the following is an invisible export of the UK?
(A) expenditure by Arab visitors in a London restaurant
(B) expenditure by UK soldiers on duty in Germany
(C) payment of profits by a Japanese electronics plant in South Wales to its parent company in Tokyo
(D) repayment of an IMF loan by the UK Treasury
➤ Ans: (A) expenditure by Arab visitors in a London restaurant

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19. A Japanese company builds a factory in the UK with the intention of increasing its sales in European market. What is likely to be the long-run impact on the UK's visible trade balance and on its invisibles balance?

Visible trade balance	Invisible balance
(A) worsen	worsen
(B) worsen	improve
(C) improve	worsen
(D) improve	improve

➤ Ans: (C) improve worsen

20. Which of the following items is not included in the current account of a country's balance of payments?

- (A) interest on foreign loans
(B) invisible exports
(C) profits from foreign investments
(D) the purchase of foreign assets
➤ Ans: (D) the purchase of foreign assets

21. What is most likely the consequence of an increase in a country's balance of payments deficit?

- (A) an increase in the foreign value of the currency of the country
(B) an increase in the international reserves of the country
(C) a reduction in the quantity of money within the country
(D) a reduction in unemployment within the country
➤ Ans: (C) a reduction in the quantity of money within the country

22. All else remaining unchanged, which of the following would result in an outflow of capital funds from the UK?

- (A) a fall in the UK rate of inflation
(B) an expected appreciation of the \$ exchange rate
(C) an increase in foreign interest rates
(D) an increase in foreign prices
➤ Ans: (C) an increase in foreign interest rates



46. A consumer will buy more units of a good if the value of the good's
 (A) total utility is greater than price.
 (B) marginal utility is less than price.
 (C) marginal utility is greater than price.
 (D) total utility is less than price.
 ➤ Ans: (C) marginal utility is greater than price.
47. The diamond-water paradox can be explained by suggesting that the price of a product is determined by
 (A) consumer incomes
 (B) its marginal utility
 (C) consumer surplus
 (D) diminishing marginal utility
 ➤ Ans: (B) its marginal utility
48. A utility-maximising consumer changes her spending on goods X and Y until
 (A) $MU_x = MU_y$
 (B) $P_x (MU_x) = P_y (MU_y)$
 (C) $TU_x/P_x = TU_y/P_y$
 (D) $MU_x (P_y) = MU_y (P_x)$
 ➤ Ans: (D) $MU_x (P_y) = MU_y (P_x)$
49. The MU_x/MU_y ratio is 10 and the P_x/P_y ratio is 8, so the consumer should buy
 (A) less X and more Y. (B) more X and more Y.
 (C) more X and less Y. (D) less X and less Y.
 ➤ Ans: (C) more X and less Y.
50. Economists define an indifference curve as the set of points
 (A) at which the consumer is in equilibrium as the consumer's income changes.
 (B) which yield the same marginal utility.
 (C) which yield the same total utility.
 (D) at which the consumer is in equilibrium as prices change.
 ➤ Ans: (C) which yield the same total utility.
51. Which of the following is a property of an indifference curve?
 (A) the marginal rate of substitution is constant
 (B) marginal utility is constant
52. The limits imposed on household choices by income, wealth, and product prices are captured by the
 (A) budget constraint
 (B) choice set
 (C) assumption of perfect knowledge
 (D) preference set
 ➤ Ans: (A) budget constraint
53. Zukhruf has Rs 5000 a week to spend on units of food and clothing. The unit price of food is Rs 100 and the unit price of clothing is Rs 250. Which of the following pairs of food and clothing are in the Zukhruf's choice set?
 (A) 50 units of clothing and 50 units of food
 (B) 20 units of clothing and 50 units of food
 (C) 10 units of clothing and 25 units of food
 (D) 0 units of clothing and 50 units of food
 ➤ Ans: (C) 10 units of clothing and 25 units of food
54. If Tashfeen's money income is doubled,
 (A) the budget constraint will shift in and parallel to the old one.
 (B) the budget constraint is not affected.
 (C) the budget constraint will swivel outward at the Y-intercept.
 (D) the budget constraint will shift out parallel to the old one.
 ➤ Ans: (D) the budget constraint will shift out parallel to the old one
55. The curve that is traced out when we keep indifference curves constant and move the budget line parallel to its original position is
 (A) the income-consumption curve
 (B) the Engel curve
 (C) the demand curve
 (D) the income-demand curve
 ➤ Ans: (A) the income-consumption curve

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- (B) Three supply curves, with different slopes, but all originating from the origin will have different price elasticities of supply.
(C) We only need to know the magnitude of the elasticity, not its sign, to determine whether it falls in the elastic or inelastic range
(D) A straight line demand curve with a slope of -1 delivers unit elasticity.
- Ans: (C) We only need to know the magnitude of the elasticity, not its sign, to determine whether it falls in the elastic or inelastic range
40. When firms advertise their product, they are trying to:
(A) Shift the demand curve to the right
(B) Make the demand curve steeper
(C) Make demand for the product more inelastic
(D) All of the above
➤ Ans: (D) All of the above
41. Economists use the term utility to mean
(A) the value of a product before it has been advertised.
(B) the satisfaction a consumer obtains from a good or service.
(C) any characteristic of a good or service which cannot be measured.
(D) the contribution a good or service makes to social welfare.
➤ Ans: (B) the satisfaction a consumer obtains from a good or service.
42. By total consumer surplus economists mean (in P-Q space)
(A) the area of the triangle formed by the demand curve, the price axis and the equilibrium price line.
(B) the area between the average revenue and marginal revenue curves.
(C) the difference between the maximum price the consumer is willing to pay for a good (vertical-intercept of demand curve) and the minimum price the producer is willing to sell at (vertical intercept of supply curve).
(D) A and C
➤ Ans: (A) the area of the triangle formed by the demand curve, the price axis and the equilibrium price line.
43. The equation for Zukhruf's demand curve for bouquets of flowers is $P = 40 - 2Q$. If the price of a bouquet is Rs 18, her consumer surplus will be
(A) Rs198
(B) Rs121
(C) Rs11
(D) Rs242
➤ Ans: (C) Rs11
44. The price of an ice cream cone is Rs. 1.50 and you buy three ice cream cones per week. If the price of an ice cream cone falls to Rs. 1.25 and you still buy three ice cream cones per week, which of the following is are. correct?
(A) The marginal utility of the fourth ice cream cone per week must be worth less than Rs.1.25 to you.
(B) The total utility of the four ice cream cones per week must be worth less than Rs. 5.75 ($= 3 \times \text{Rs.}1.50 + \text{Rs.}1.25$) to you.
(C) The total utility of the four ice cream cones per week must be less than Rs.5.00 ($3 \times \text{Rs.}1.25 + \text{Rs.}1.25$) to you.
(D) None of the above.
➤ Ans: (A) The marginal utility of the fourth ice cream cone per week must be worth less than Rs.1.25 to you.
45. Economists have used the idea of diminishing marginal utility to explain why
(A) demand curves slope downwards.
(B) demand curves become flatter at lower prices.
(C) demand curves are inelastic
(D) Both the first and second option.
➤ Ans: (D) Both the first and second option.

LECTURER SERIES

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BALANCE OF PAYMENTS

1. The record of a country's transactions in goods, services, and assets with the rest of the world is its _____; while the difference between a country's merchandise exports and its merchandise imports is the _____.
 (A) current account; trade balance.
 (B) capital account; balance of payments.
 (C) balance of trade; capital account.
 (D) balance of payments; balance of trade.
 ➤ Ans: (D) balance of payments; balance of trade.
 2. Assuming there is no government intervention in the foreign exchange market, which of the following statements must clearly be FALSE, given that?
 (A) If the capital account is in surplus, then the current account is likely to be in deficit.
 (B) If the current account is in deficit, then the capital account is likely to be in surplus.
 (C) If the current account is in balance, the capital account is also likely to be in balance.
 (D) None of the above.
 ➤ Ans: (D) None of the above.
 3. Which of the following statements is necessarily TRUE?
 (A) A country runs a current account deficit if it imports more goods and services than it exports.
 (B) The sum of the current and capital accounts must be zero.
 (C) If both the current and capital accounts are in surplus, the exchange rate must appreciate.
 (D) None of the above.
 ➤ Ans: (D) None of the above.
 4. All currencies other than the domestic currency of a given country are referred to as
 (A) reserve currencies.
 (B) near monies.
 (C) foreign exchange.
- (D) hard currency.
 ➤ Ans: (C) foreign exchange.
5. Exchange rates that are determined by the unregulated forces of supply and demand are
 (A) floating exchange rates.
 (B) pegged exchange rates.
 (C) fixed exchange rates.
 (D) managed exchange rates.
 ➤ Ans: (A) floating exchange rates.
 6. If the State Bank of Pakistan reduces the money supply, a floating exchange rate will help in reducing inflation because
 (A) as the money supply is decreased, the interest rate will increase, and the price of both Pakistani exports and Pakistani imports will rise.
 (B) as the money supply is decreased, the interest rate will increase, and the price of Pakistani exports will rise and the price of Pakistani imports will fall.
 (C) as the money supply is decreased, the interest rate will increase, and the price of Pakistani exports will fall and the price of Pakistani imports will rise.
 (D) as the money supply is decreased, the interest rate will increase, and the price of Pakistani exports and Pakistani imports will fall.
 ➤ Ans: (C) as the money supply is decreased, the interest rate will increase, and the price of Pakistani exports will fall and the price of Pakistani imports will rise.
 7. The fall and (rise) in value of one currency relative to another is
 (A) a floating (fixing of the currency)
 (B) an appreciation (depreciation of a currency)
 (C) a depreciation (appreciation of a currency)
 (D) a strengthening (weakening of a currency)
 ➤ Ans: (B) an appreciation (depreciation of a currency)

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INTEREST

- If the nominal interest rate is 5% and the inflation rate is 2%, the real interest rate is:
(A) 2% (B) 3%
(C) 5% (D) 7%
➤ Ans: (B) 3%
 - Nominal interest rate is:
(A) Inflation minus Tax
(B) Tax plus Indirect Tax
(C) Real interest rate minus Inflation
(D) None of these
➤ Ans: (D) None of these
 - Nominal interest rate means
(A) the interest rate before taking inflation into account.
(B) the rate quoted in loan and deposit agreements.
(C) both a and b
(D) none of above
➤ Ans: (C) both a and b
 - Nominal interest rate is
(A) nominal rate = real interest rate + inflation rate.
(B) nominal rate = real interest rate × inflation rate.
(C) nominal rate = real interest rate + inflation rate.
(D) nominal rate = real interest rate - inflation rate.
➤ Ans: (C) nominal rate = real interest rate + inflation rate.
 - According to Keynes interest is determined at that point where
(A) $M_d = M_s$
(B) $A_D = A_S$
(C) $D = S$
(D) none
➤ Ans: (A) $M_d = M_s$

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56. The curve that is traced out when we keep indifference curves constant and swivel the budget line at the Y-intercept to reflect a change in the price of good X, is
(A) the Engel curve
(B) the demand curve for X
(C) the substitution curve
(D) the price-consumption curve for X
➤ Ans: (D) the price-consumption curve for X
57. The curve that is traced out when we keep indifference curves and the total effective budget constant and only change the relative price of good X (i.e. slope of budget line) is:
(A) the Engel curve
(B) the demand curve for X
(C) the substitution curve
(D) the price-consumption curve for X
➤ Ans: (C) the substitution curve
58. If the income and substitution effects of a price increase work in the same direction the good whose price has changed is a
(A) inferior good
(B) Giffen good
(C) normal good
(D) superior good
➤ Ans: (C) normal good
59. If the price (or budget) line has a slope of -2 and it cuts indifference curve IC_a at points P and R (given that the slope of IC_a at point P is -4 and at point R is -1), the consumer can maximize utility by:
(A) choosing consumption bundle P
(B) choosing consumption bundle R
(C) moving to a higher indifference curve
(D) we don't have enough information to answer the question
➤ Ans: (C) moving to a higher indifference curve
60. Indifference curves cannot
(A) be L shaped (B) be straight lines
(C) intersect (D) all of the above
➤ Ans: (C) intersect

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61. The main problem with marginal utility analysis is:
(A) that it cannot solve problems involving more than two goods
(B) its cardinal measurement of utility
(C) its inability to explain the diamond-water paradox
(D) all of the above
➤ Ans: (B) its cardinal measurement of utility
62. This question is about the demand for washing machines under uncertainty about whether the machine will turn out to be a good buy or a bad one. The odds ratio (OR) is defined as the ratio of the probability of the machine being good to the probability of the machine being bad. Let's say the OR is < 1, and the consumer does not buy the machine. What can you conclude about the consumer's attitude towards risk?
(A) She is risk averse
(B) She is risk neutral
(C) She is risk loving
(D) We do not have enough information to answer the question
➤ Ans: (D) We do not have enough information to answer the question
63. The concept of diminishing marginal utility of income (DMUY) helps explain:
(A) why a marginal dollar might have higher utility for a pauper than a millionaire
(B) why the total utility curve (in Utility-Income space) is convex
(C) why the average consumer is risk-averse
(D) all of the above
➤ Ans: (D) all of the above
64. Which of the following is true regarding income along a price consumption curve?
(A) Income is increasing
(B) Income is decreasing
(C) Income is constant
(D) The level of income depends on the level of utility
➤ Ans: (C) Income is constant

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- (25) In monopoly who determine wage of labor?
 (26) Supply curve of labor in S.R of classical or Keynes?

ECONOMICS

- (B) upward and the aggregate demand curve leftward
(C) downward and the aggregate demand curve rightward
(D) downward and the aggregate demand curve leftward

➤ Ans: (D) downward and the aggregate demand curve leftward

35. The aggregate supply curve:
L15
(A) shows the various amounts of real output which businesses will produce at each price level.
(B) is downsloping because real purchasing power increases as the price level falls.
(C) contains a vertical range where real output is variable and the price level is constant.
(D) is explained by the interest rate, wealth, and foreign purchases effects.

➤ Ans: (A) shows the various amounts of real output which businesses will produce at each price level.

36. Other things equal, an improvement in productivity will:
(A) shift the aggregate demand curve to the left.

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- (B) shift the aggregate supply curve to the left.
(C) shift the aggregate supply curve to the right.
(D) increase the price level.

➤ Ans: (C) shift the aggregate supply curve to the right.

- ### 37. Productivity measures:

- (A) real output per unit of input.
 - (B) per unit production costs.
 - (C) the changes in real wealth caused by price level changes.
 - (D) the amount of capital goods used per worker.

38. The equilibrium price level and level of real output occur where:

- (A) real output is at its highest possible level.
 - (B) exports equal imports.
 - (C) the price level is at its lowest level.
 - (D) the aggregate demand and supply curves intersect.

- Ans: (D) the aggregate demand and supply curves intersect.

PPSC eco paper 2015

- ① samuelson get nobel prize
 - ② I-E of inferior good
 - ③ is curve belong to
 - ④ life cycle income hyp presented by
 - ⑤ which of the following is not direct tax
 - ⑥ income inequalities rise due to
 - ⑦ Surplus occur when eqm price below set price
 - ⑧ oldest organization? IMF, WHO, ILO
 - ⑨ when did OPEC founded
 - ⑩ statistic is belong to? sample
 - ⑪ most widely use confidence interval is?
 - ⑫ who say "money is not that -- what"
 - ⑬ eco dev mean?
 - ⑭ social cost ??
 - ⑮ C op ratio stand for
 - ⑯ quantity of Money and money supply are?
 - ⑰ Modern trade theory
 - ⑱ straight line direction showed by slope
 - ⑲ micro eco another name? price theory
 - ⑳ variable whose value is determine within the economic model
 - ㉑ who say good money is derived from bad money
 - ㉒ in which mkt branded goods term used
 - ㉓ writer of book "Capital, yesterday and today"



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17. The Phillips curve shows a relationship between:

- (A) the level of output and prices
- (B) the level of wages and unemployment
- (C) the level of prices and unemployment
- (D) the rate of change in prices (or wages)

And the rate of unemployment

➤ Ans: (D) the rate of change in prices or wages and the rate of unemployment

18. For many macroeconomic policy makers, the Phillips curve initially:

- (A) implied a trade-off between lowering unemployment at the cost of higher inflation or lowering inflation at the cost of higher unemployment
- (B) gave hope that economic stabilisation policy will always work if applied correctly
- (C) relieved concern about an increase in unemployment, since the economy could always be expected to adjust at the natural rate
- (D) was a way to gain more support for unpopular actions needed to decrease inflation

➤ Ans: (A) implied a trade-off between lowering unemployment at the cost of higher inflation or lowering inflation at the cost of higher unemployment

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19. The coordination approach to the Phillips curve focuses on the fact that:

- (A) the administration has problems coordinating its fiscal policy with the monetary policy of the RBA
- (B) long-term labour contracts tend to expire at different times and thus firms cannot coordinate their hiring
- (C) unemployed workers are not organised enough to influence wage negotiations
- (D) firms are unsure about their competitors' behaviour and are therefore reluctant to change wages and prices following a change in aggregate demand

➤ Ans: (D) firms are unsure about their competitors' behaviour and are therefore reluctant to change wages and prices following a change in aggregate demand

20. Cost-push inflation:

- (A) is caused by excessive total spending.
- (B) shifts the nation's production possibilities curve leftward
- (C) moves the economy inward from its production possibilities curve.
- (D) is a mixed blessing because it has positive effects on real output and employment

➤ Ans: (C) moves the economy inward from its production possibilities curve.

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- (D) Inflation decreases savings in financial form
➤ Ans: (D) Inflation decreases savings in financial form
9. Deflation is
(A) an increase in the overall level of economic activity.
(B) an increase in the overall price level.
(C) a decrease in the overall level of economic activity.
(D) a decrease in the overall price level.
➤ Ans: (D) a decrease in the overall price level.
10. Rapid increases in the price level during periods of recession or high unemployment are known as
(A) slump. (B) stagnation.
(C) stagflation. (D) inflation.
➤ Ans: (B) stagnation
11. The hypothesis that people know the 'true model' of the economy and that they use this model and all available information to form their expectations of the future is the
(A) rational-expectations hypothesis.
(B) active-expectations hypothesis.
(C) static-expectations hypothesis.
(D) adaptive-expectations hypothesis.
➤ Ans: (A) rational-expectations hypothesis.
12. If injections are less than withdrawals at the full-employment level of national income, there is
(A) An inflationary gap.
(B) Equilibrium.
(C) A deflationary gap.
(D) Hyperinflation.
➤ Ans: (C) A deflationary gap.
13. According to the monetarists, the measured unemployment rate can
(A) Be reduced below the natural rate only in the short run, and not without inflation.
- (B) Be reduced below the natural rate only in the long run, and only if the price level is constant.
(C) be reduced below the natural rate only in the short run, and only if the price level is constant.
(D) be reduced below the natural rate only in the long run, and not without inflation.
➤ Ans: (A) Be reduced below the natural rate only in the short run, and not without inflation.
14. The quantity theory of money implies that, provided velocity of money is constant, a given percentage change in the money supply will cause
(A) an equal percentage change in nominal GDP.
(B) a larger percentage change in nominal GDP.
(C) an equal percentage change in real GDP.
(D) a smaller percentage change in nominal GDP.
➤ Ans: (A) an equal percentage change in nominal GDP.
15. The war in Iraq sent oil prices spiraling upwards, resulting in an increase in the overall price level. This is an example of which type of inflation?
(A) Cost-pull (B) Cost-push
(C) Demand-pull (D) Demand-push
➤ Ans: (B) Cost-push
16. Inflation:
(A) Reduces both the purchasing power of the dollar and one's real income
(B) reduces the purchasing power of the dollar and increases one's real income
(C) Reduces the purchasing power of the dollar but may have no impact on one's real income
(D) Increases the purchasing power of the dollar and reduces one's real income
➤ Ans: (C) Reduces the purchasing power of the dollar but may have no impact on one's real income

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INFLATION

1. The index used most often to measure inflation is the
 (A) consumer price index.
 (B) wholesale price index.
 (C) student price index.
 (D) producer price index.
 ➤ Ans: (A) consumer price index.
2. If input prices adjusted very slowly to output prices, the Phillips curve would be
 (A) downward sloping.
 (B) vertical or nearly vertical.
 (C) upward sloping.
 (D) horizontal or nearly horizontal.
 ➤ Ans: (D) horizontal or nearly horizontal.
3. If inflationary expectations increase, the short-run Phillips curve will
 (A) become vertical.
 (B) become upward sloping.
 (C) shift to the right.
 (D) shift to the left.
 ➤ Ans: (C) shift to the right.
4. If you were the owner of a cycle manufacturing firm, would you be particularly worried if wage inflation were higher than price inflation?
 (A) No. Because you would still be able to sell your goods at the higher price.
 (B) Yes. Because the cost of your input is growing faster than the revenue obtained from your output.
 (C) Yes. Because both price and wage inflation are bad.
 (D) No. Because any loss to the firm will be offset by the gain to the workers.
 ➤ Ans: (B) Yes. Because the cost of your input is growing faster than the revenue obtained from your output
5. In the long run, the Phillips curve will be vertical at the natural rate of unemployment if
- (A) The LRSC is horizontal at the natural rate of inflation.
 (B) The LRAD is vertical at potential GDP.
 (C) The LRAD curve is horizontal at the natural rate of inflation.
 (D) The LRAS curve is vertical at potential GDP.
 ➤ Ans: (D) The LRAS curve is vertical at potential GDP.
6. If the prices of all inputs seem to be rising, can you be absolutely sure that it is cost-push inflation?
 (A) No, because cost-push inflation is caused by an increase in the cost of only one input.
 (B) Yes, because that is exactly the definition of cost-push inflation.
 (C) No, because such a situation can also be caused by particular demand pressures in the economy.
 (D) Yes, because this is exactly what happens in stagflation.
 ➤ Ans: (C) No, because such a situation can also be caused by particular demand pressures in the economy.
7. Which of the following groups is most hurt by unexpected inflation?
 (A) workers with cost of living adjustments in their labour contracts
 (B) homeowners
 (C) people with large debts to pay for their homes and cars
 (D) people with large retirement savings held in savings accounts
 ➤ Ans: (D) people with large retirement savings held in savings accounts
8. For which of the following reasons might inflation cause real GDP to grow slower than it otherwise would?
 (A) Inflation makes everyone poorer
 (B) Inflation reduces the value of consumer debt
 (C) Inflation increases business investment spending



GROWTH

1. According to traditional thinking on the subject, which of the following would not generate economic growth in an economy?
 - (A) an increase in the size of the labour force.
 - (B) an increase in the productivity of capital.
 - (C) a move to more capital intensive production methods
 - (D) discovery of a major mineral resource in the country

➤ Ans: (C) a move to more capital intensive production methods
 2. When referring to economic growth, we normally refer to:
 - (A) growth in actual real per capita output
 - (B) growth in potential real per capita output
 - (C) growth in actual nominal per capita output
 - (D) growth in potential real per capita output

➤ Ans: (A) growth in actual real per capita output
 3. A variable whose value is determined by the model of which it is a part is termed ____.
 - (A) endogenous (B) exogenous
 - (C) independent (D) constant

➤ Ans: (A) endogenous
 4. An example of capital deepening, given an increasing L , would be:
 - (A) K increases so as to maintain a constant K/L
 - (B) Increases so much that K/L increases
 - (C) K remains constant so that L/K increases
 - (D) K falls, so as to reduce K/L

➤ Ans: (B) Increases so much that K/L increases
 5. The neo-classical growth model says that:
 - (A) poor countries should catch-up (or converge) to richer countries
 - (B) higher savings (or rates of capital accumulation) cannot raise a country's steady state growth rate
 - (C) The steady state growth rate of real output depends on the sum of the
- (exogenous growth rates in population and technical progress.)
- (D) All of the above.
➤ Ans: (D) All of the above.
6. Which of the following will happen if there is an increase in the long term economic growth?
 - (A) The production possibilities curve will shift outward
 - (B) The production possibilities curve will shift inward
 - (C) There will be a movement from inside the production possibilities curve to a point on the production possibilities curve
 - (D) There will be a movement from the production possibilities curve to a point inside the production possibilities curve.

➤ Ans: (A) The production possibilities curve will shift outward
 7. Which of the following is generally regarded as the true index of economic growth?
 - (A) An increase in national income at constant prices during a year
 - (B) A sustained increase in real per capita income
 - (C) An increase in national income at current prices over time
 - (D) An increase in national income along with a corresponding increase in population

➤ Ans: (B) A sustained increase in real per capita income
 8. The concept of economic growth is:
 - (A) Identical with the concept of economic development
 - (B) Narrower than the concept of economic development
 - (C) Wider as compared to that of economic development
 - (D) Unrelated to the concept of economic development

➤ Ans: (B) Narrower than the concept of economic development



ECONOMICS

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17. If investors expectations concerning the future are "positive" and thus increase investment at every interest rate, the
- (A) IS curve would shift up
 - (B) IS curve would shift down
 - (C) LM curve would shift down
 - (D) LM curve would shift up

➤ Ans: (A) IS curve would shift up

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18. The MPS=0.4 and government spending increases by 20 billion. The Liquidity money (LM) curve
- (A) shifts to the right by 20 billion
 - (B) shifts to the right by 50 billion
 - (C) does not shift
 - (D) shifts to the left by 30 billion

➤ Ans: (C) does not shift



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- > Ans: (C) Income will go up, but the effect on the interest rate cannot be predicted
10. If the government increases its spending, but this causes prices to rise, what will "eventually" happen to the equilibrium income and interest rate?
(A) Both income and the interest rate will remain unchanged
(B) income will come down, but the interest rate will go up
(C) income will go up, but the effect on the interest rate cannot be predicted
(D) interest rates will go down, but the effect on income cannot be predicted
- > Ans: (B) income will come down, but the interest rate will go up
11. Consider an outside shock on the value of the dollar that causes it to depreciate. The FED could defend the dollar by:
(A) increasing the money supply thereby lowering the LM curve and driving the interest rate up.
(B) increasing government spending thereby raising the IS curve and driving the interest rate up.
(C) reducing the money supply thereby raising the LM curve and driving the interest rate up.
(D) increasing taxes thereby lowering the IS curve and driving the interest rate down.
- > Ans: (C) reducing the money supply thereby raising the LM curve and driving the interest rate up.
12. Suppose that net exports were to become less sensitive to changes in the interest rate. You would then draw.
(A) A flatter IS and aggregate demand curves.
(B) flatter LM and aggregate demand curves.
(C) steeper IS and aggregate demand curves.
(D) a steeper IS curve and a correspondingly flatter aggregate demand curve.
- > Ans: (C) steeper IS and aggregate demand curves.

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13. Let the LM curve be subject to random shocks. As government spending becomes more (positively) responsive to the gap between actual and potential GNP, the desirability of setting monetary policy to achieve
(A) an interest rate target necessarily increases.
(B) a GNP target necessarily increases.
(C) an exchange rate target necessarily increases.
(D) an employment target necessarily increases
- > Ans: (A) an interest rate target necessarily increases.
14. Suppose that net exports were to become more sensitive to changes in the interest rate. You would reflect this change by drawing:
(A) steeper LM curve
(B) steeper IS curves
(C) flatter IS curves
(D) IS and LM curves exactly as before
- > Ans: (C) flatter IS curves
15. The effectiveness of monetary policy as a countercyclical device during times of recession is dependent upon:
(A) the business community's willingness to borrow at lower interest rates
(B) the willingness of Congress to vote for lower interest rates
(C) the need for central bankers to refrain from lending with excess reserves
(D) A and B
- > Ans: (D) A and B
16. Crowding out refers to
(A) imports replacing domestic goods
(B) government spending reducing private spending
(C) federal government expenditures replacing state and local government expenditures
(D) fiscal policy negative effects on monetary factors
- > Ans: (B) government spending reducing private spending

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29. A function that indicates the maximum output per unit of time that a firm can produce, for every combination of inputs with a given technology, is called:
- (A) An isoquant
 - (B) A production possibility curve
 - (C) A production function
 - (D) An isocost function
- Ans: (C) A production function.
30. When the decrease in the price of one good causes the demand for another good to decrease, the goods are
- (A) complements (B) normal
 - (C) inferior (D) substitutes
- Ans: (D) substitutes
31. The price elasticity of demand is the
- (A) ratio of the percentage change in quantity demanded to the percentage change in price.
 - (B) ratio of the change in price to the change in quantity demanded
 - (C) ratio of the change in quantity demanded to the change in price.
 - (D) ratio of the percentage change in price to the percentage change in quantity demanded
- Ans: (A) ratio of the percentage change in quantity demanded to the percentage change in price.
32. The price of apples falls by 5% and quantity demanded increases by 6%. Demand for apples is:
- (A) inelastic (B) perfectly inelastic
 - (C) elastic (D) perfectly elastic
- Ans: (C) elastic
33. The price of bread increases by 22% and the quantity of bread demanded falls by 25%. This indicates that demand for bread is
- (A) elastic (B) inelastic
 - (C) unitarily elastic
 - (D) perfectly elastic
- Ans: (A) elastic

ECONOMICS

34. If the cross-price elasticity of demand between two goods is negative, then the two goods are
- (A) unrelated goods
 - (B) substitutes
 - (C) complements (D) normal goods
- Ans: (C) complements.
35. If the quantity of beef demanded increases by 5% when the price of chicken increases by 20%, the cross-price elasticity of demand between beef and chicken is
- (A) -4 (B) 4
 - (C) -0.25 (D) 0.25
- Ans: (D) 0.25
36. Income elasticity of demand is the % change in quantity demanded divided by the % change in income. Which type of goods have negative income elasticity of demand?
- (A) Inferior goods
 - (B) Normal goods
 - (C) Substitute goods
 - (D) Complementary goods
- Ans: (A) Inferior goods
37. If total revenue rises by 10% when price increases by 5%, this means:
- (A) demand is price inelastic
 - (B) demand is price elastic
 - (C) demand is unit elastic
 - (D) demand is perfectly inelastic
- Ans: (A) demand is price inelastic
38. If a 5% increase in price causes no change in total revenue, this means:
- (A) demand is price inelastic
 - (B) demand is price elastic
 - (C) demand is unit elastic
 - (D) demand is perfectly inelastic
- Ans: (C) demand is unit elastic
39. Which of the following statements is true:
- (A) Because a straight line demand curve has constant slope, price elasticity of demand will remain constant as we move along various points on the curve.

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AGGREGATE DEMAND AND AGGREGATE SUPPLY

1. Aggregate supply is the total amount
 - (A) of goods and services produced in an economy.
 - (B) produced by the government.
 - (C) of products produced by a given industry.
 - (D) of labour supplied by all households.

➤ Ans: (A) of goods and services produced in an economy.
 2. The total demand for goods and services in an economy is known as
 - (A) Aggregate demand
 - (B) National demand
 - (C) Gross national product
 - (D) Economy-wide demand

➤ Ans: (A) Aggregate demand
 3. Which is the most volatile component of aggregate demand?
 - (A) Net exports
 - (B) Consumption
 - (C) Investment
 - (D) Government spending

➤ Ans: (C) Investment
 4. Demand-management policies are designed to shift the:
 - (A) Aggregate Demand curve
 - (B) Aggregate Supply curve
 - (C) Philips curve
 - (D) Production possibilities curve

➤ Ans: (A) Aggregate Demand curve
 5. Aggregate supply is the relation between real production and:
 - (A) Scarcity
 - (B) The price level
 - (C) Aggregate expenditures
 - (D) Foreign trade

➤ Ans: (B) The price level
 6. The long-run aggregate supply curve is:
 - (A) Downward sloping
 - (B) Upward sloping
 - (C) Vertical at the full-employment level
-
- (D) Horizontal at the full-employment level
➤ Ans: (C) Vertical at the full-employment level
 7. A leftward shift of the SRAS curve is an:
 - (A) Increase in long-run aggregate supply
 - (B) Decrease in long-run aggregate supply
 - (C) Increase in short-run aggregate supply
 - (D) Decrease in short-run aggregate supply

➤ Ans: (D) Decrease in short-run aggregate supply
 8. A primary implication of Keynesian economics is:
 - (A) The best government is the least government
 - (B) Flexible wages and prices ensure full employment
 - (C) Self-correction is the best way to eliminate unemployment
 - (D) Economic instability through government inter

➤ Ans: (D) Economic instability is best corrected through the interference of government
 9. Aggregate demand refers to the total demand for all domestically produced goods and services in an economy generated from
 - (A) the household and government sectors
 - (B) the household sector
 - (C) all sectors except the rest of the world
 - (D) all sectors including the rest of the world

➤ Ans: (D) all sectors including the rest of the world
 10. The aggregate supply (AS) curve and aggregate demand (AD) curve in a realistic Keynesian world are:
 - (A) AS: fully horizontal; AD: downward sloping
 - (B) AS: horizontal only till the full capacity level; AD: downward sloping
 - (C) AS: vertical; AD: upward sloping
 - (D) AS: horizontal; AD: vertical



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GENERAL EQUILIBRIUM

1. "Crowding out" means that
 - (A) a government budget deficit lowers interest rates and causes investment spending to rise
 - (B) an increase in marginal tax rates lowers production
 - (C) a government budget deficit raises interest rates and causes investment spending to fall
 - (D) a government budget deficit raises American exports and lowers American imports

➤ Ans: (C) a government budget deficit raises interest rates and causes investment spending to fall
 2. During the Liquidity Trap, LM curve is:
 - (A) Less elastic (B) Positive
 - (C) Perfectly elastic
 - (D) None of these

➤ Ans: (C) Perfectly elastic
 3. An un-anticipated increase in money supply is neutral during:
 - (A) Short run period
 - (B) Medium run period
 - (C) Both (A) and (B)
 - (D) None of these

➤ Ans: (A) Short run period
 4. A rise in general price level shifts the Liquidity money (LM) curve:
 - (A) Down and to the right
 - (B) Up and to the left
 - (C) Positively sloped (D) None of these

➤ Ans: (B) Up and to the left
 5. Decrease in tax shifts the Investment saving (IS) curve:
 - (A) Down and to the left
 - (B) Negatively sloped
 - (C) Up and to the right
 - (D) None of these

➤ Ans: (C) Up and to the right
 6. A government's attempt to reduce its defence expenditure is an example of (i., while a
- government effort to raise interest rates is an example of (ii)
- (A) Monetary policy, Fiscal policy.
 - (B) Fiscal policy, Monetary policy
 - (C) Incomes policy, Incomes policy.
 - (D) Supply-side policy, Supply-side policy.
- Ans: (B) Fiscal policy, Monetary policy
7. Which of the following is neither a determinant of the slope of the IS curve nor a determinant of the slope of the LM curve?
 - (A) the sensitivity of interest rates to investment
 - (B) the sensitivity of money demand to income
 - (C) the sensitivity of money demand to interest rates
 - (D) the sensitivity of income to investment

➤ Ans: (A) the sensitivity of interest rates to investment
 8. The intersection of the IS and LM curves captures:
 - (A) the equilibrium of the demand and supply sides of the economy
 - (B) the equivalence of monetary and fiscal policy
 - (C) joint equilibrium in the goods and money markets
 - (D) all of the above

➤ Ans: (C) joint equilibrium in the goods and money markets
 9. Given a Keynesian world, a cut in taxes coupled with a lower reserve ratio for banks would have what effect on equilibrium income and interest rate?
 - (A) Both income and the interest rate will remain unchanged
 - (B) income will come down, but the interest rate will go up
 - (C) income will go up, but the effect on the interest rate cannot be predicted
 - (D) interest rates will go down, but the effect on income cannot be predicted

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77. Professor Knight is famous for his theory of:

- (A) Rent (B) Profit
(C) Population (D) Wages
➤ Ans: (B) Profit

78. Risks in the business arise because of:

- (A) Introduction of the new products
(B) Uncertain policy of rival firms
(C) Changes in tastes
(D) All the above
➤ Ans: (D) All the above

79. According to Professor Knight risks are of

_____ kinds:

- (A) 2 (B) 3
(C) 4 (D) Many
➤ Ans: (A) 2

80. This is not a function of the entrepreneur:

- (A) Supervise (B) Innovate
(C) Lend money (D) Prepare plan
➤ Ans: (C) Lend money



ECONOMICS

66. All else remaining unchanged, which of the following would cause a decrease in the quantity of money demanded?

- (A) a fall in economic activity
- (B) a fall in interest rates
- (C) an increase in the price level
- (D) an increase in the proportion of workers paid monthly rather than weekly

➤ Ans: (A) a fall in economic activity

67. According to Kenesian theory, what will cause the rate of interest to rise?

- (A) a decrease in the rate of investment
- (B) an increase in liquidity preference
- (C) an increase in the level of savings
- (D) an increase in the supply of money

➤ Ans: (B) an increase in liquidity preference

68. Why will an inflationary process be brought to a halt if the money supply is held constant?

- (A) Consumption will decrease as money incomes decline
- (B) Government expenditure will have to be reduced as government revenues decline
- (C) Government expenditure will have to be reduced as government revenues decline
- (D) Government expenditure will have to be reduced as government revenues decline
- (E) the stimulus to invest will decline as the real burden of company debt rises

69. What will result in an increase in the transactions demand for money?

- (A) an increase in interest rates
- (B) an increase in the proportion of workers paid monthly, rather than weekly
- (C) a reduction in the level of real income
- (D) A reduction in the price level

➤ Ans: (B) an increase in the proportion of workers paid monthly, rather than weekly

70. Why is liquidity preference likely to be high when the rate of interest is low?

- (A) People expect to make a capital gain by buying bonds

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(B) People want to hold money for precautionary reasons

(C) The opportunity cost of holding money is low

(D) Private investment is more profitable.

➤ Ans: (C) The opportunity cost of holding money is low

71. A firm earns economic profit when total profit exceeds:

- (A) Normal profit
- (B) Implicit costs
- (C) Explicit costs
- (D) Variable costs

➤ Ans: (A) Normal profit

72. Union leaders are in a better position to bargain for higher wages if demand for labour is:

- (A) Elastic
- (B) Inelastic
- (C) Very large
- (D) Permanent

➤ Ans: (B) Inelastic

73. Sometimes the supply curve of labour ends:

- (A) Downward
- (B) Upward
- (C) Backward
- (D) Firstly upward and then downward

➤ Ans: (C) Backward

74. In which form the largest percentage of national income is earned:

- (A) Interest income
- (B) Proprietor's income
- (C) Employees' wages
- (D) Rental income

➤ Ans: (C) Employees' wages

75. He presented a theory of rent:

- (A) Malthus
- (B) Allama Iqbal
- (C) Ricardo
- (D) Marshall

➤ Ans: (C) Ricardo

76. With decrease in price of bonds, rate of interest:

- (A) Decreases
- (B) Increases
- (C) Does not change
- (D) None of the above

➤ Ans: (B) Increases

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LIQUIDITY PREFERENCE THEORY

58. Which of the following is not a determinant of the demand for money?
- the expected rate of inflation
 - the general level of prices
 - the level of bank deposits
 - the rate of interest
- Ans: (C) the level of bank deposits
59. Which of the following propositions is part of monetarist doctrine in the context of a closed economy?
- Fiscal policy is a more powerful policy instrument than monetary policy.
 - Unemployment can be reduced permanently by demand management.
 - The supply of money is determined independently of the demand for money
 - The rate of growth of the money supply responds to the rate of inflation.
- Ans: (C) The supply of money is determined independently of the demand for money
60. Which of the following other things being equal, will cause interest rates to rise?
- the expectation of slowing down in the rate of inflation
 - the expectation of an increase in the prices of government securities
 - a reduction in the demand for overdrafts by private companies
 - an increase in business optimism
- Ans: (D) an increase in business optimism
61. If the workers were paid monthly by cheque, instead of weekly in cash, it could be expected that there would be an increase in the.
- share of cash in the money supply
 - transactions demand for money
 - commercial banks minimum required cash reserve ratio
 - velocity of circulation of money
- Ans: (B) transactions demand for money
62. According to Keynesian monetary theory, what would be the result of an increase in a government's budget deficit which is financed by borrowing from the public?
- an increase in interest rates
 - an increase in the money supply
 - an increase in the price of government bonds
 - an increase in the quantity of money demanded for speculative purposes
- Ans: (A) an increase in interest rates
63. Which of the following is most likely to cause an expansion of the money supply?
- a budget deficit financed by borrowing from the central bank
 - an increase in the public demand for notes and coins
 - intervention by the government to supply the external value of the currency
 - open market sales of government securities by the central bank.
- Ans: (A) a budget deficit financed by borrowing from the central bank
64. Which of the following would lead to a rise in the market price of fixed interest securities?
- a fall in interest rates
 - a fall in the supply of money
 - an increase in liquidity preference
 - an increase in the issue of fixed interest securities
- Ans: (A) a fall in interest rates
65. What results from an increase in interest rates?
- an increase in the desire to hold money
 - an increase in the price of equities
 - a decrease in the price of government bonds
 - a reduction in the velocity of circulation of money
- Ans: (C) a decrease in the price of government bonds

ECONOMICS

50. What will be the immediate consequence if average earnings increase by less than the increase in labour productivity?

- (A) a reduction in profits
- (B) a reduction in real wages
- (C) a reduction in unemployment
- (D) a reduction in unit labour cost

➤ Ans: (D) a reduction in unit labour cost

51. A trade union seeks to increase the wages that a firm pays to its workers while at the same time preserving jobs. What will strengthen the union's negotiating position?

- (A) Capital and labour are close substitutes
- (B) The firm operates in a competitive labour market
- (C) Demand for the good produced by the firm is price inelastic
- (D) Labor costs are higher proportion of total costs

➤ Ans: (C) Demand for the good produced by the firm is price inelastic

52. What could cause an immediate increase in the supply of teachers?

- (A) an increase in teacher's wages
- (B) an increase in the qualifications required to teach
- (C) an increase in the number of teaching jobs available
- (D) an increase in unemployment in alternative occupations

➤ Ans: (D) an increase in unemployment in alternative occupations

53. What would result in a reduction in labour costs per unit of output?

- (A) an increase in output which a greater than the increase in labour earnings.
- (B) an increase in labour productivity which is less than the increase in average earnings.
- (C) an increase in wage rate which is greater than the increase in output per worker.
- (D) an increase in average earnings which is less than the increase in employment.

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➤ Ans: (A) an increase in output which a greater than the increase in labour earnings.

54. A country experiences an increase in productivity as measured by output per labour hours. At the same time output per worker decreases. What could explain this?

- (A) an increase in unemployment
- (B) an increase in part-time employment
- (C) an increase in hourly wage rates
- (D) an increase in capital investment

➤ Ans: (B) an increase in part-time employment

55. What is defined as the payment made to a factor of production over and above that necessary to keep the factor in its present use?

- (A) consumers surplus
- (B) economic rent
- (C) normal profit (D) transfer earnings

➤ Ans: (B) economic rent

56. Under which conditions will the economic rent received for a given type of labour decrease?

- (A) The demand curve for that labour shifts to the right
- (B) The opportunities for training and mobility increase
- (C) The skills possessed by such labourers become more specialised
- (D) The supply curve for that labour becomes more inelastic

➤ Ans: (B) The opportunities for training and mobility increase

57. Income for which no good or service has been provided in exchange.

- (A) consumer surplus
- (B) quasi-rent
- (C) transfer earnings
- (D) transfer payments

➤ Ans: (D) transfer payments

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43. The introduction of equal pay legislation in a country increases the wages of female workers. What would be the most likely effect of this increase?
- (A) a reduction in female participation in the labour force
 - (B) a reduction in the rate of female unemployment
 - (C) a reduction in the wages of male workers
 - (D) an expansion in the supply of female workers
- Ans: (D) an expansion in the supply of female workers
44. In a country, the introduction of a minimum wage raised the wages of three million workers without having any noticeable effect on the level of employment. Which of the following is a possible explanation for this?
- (A) The elasticity of demand for low-wage workers is equal to unity.
 - (B) The elasticity of demand for the goods produced by low-wage workers is very high
 - (C) the goods produced by low-wage workers do not have any close substitutes
 - (D) the proportion of labour costs to total costs in those good produced by low-wage workers is very high.
- Ans: (C) the goods produced by low-wage workers do not have any close substitutes
45. Other things being equal, which of the following will cause the demand curve for labour to shift to the right?
- (A) a fall in the money wage rate
 - (B) a rise in real wage
 - (C) an increase in immigration
 - (D) an increase in labour productivity
- Ans: (D) an increase in labour productivity
46. In industry X, the industry's demand for female labour is less at all wage rates than its demand for male labour of equal qualifications. The female labour which cannot obtain employment in X enters industry Y, in which there is no discrimination. What is the effect

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on wages of X's policy of discrimination against women compared to a situation of no discrimination?

- (A) Men's wages are higher in both X and Y
- (B) Men's wages are lower in X and higher in Y
- (C) Men's wages are higher in X and lower in Y
- (D) Women's wages are lower in X and higher in Y

➤ Ans: (C) Men's wages are higher in X and lower in Y

47. The demand for a factor of production will be more price-elastic

- (A) the larger the proportion of the cost of this factor in total costs.
- (B) the more inelastic is the price elasticity of demand for the final product
- (C) the more inelastic is the supply of jointly used factors
- (D) the smaller the technical possibilities of substituting another factor for this factor

➤ Ans: (A) the larger the proportion of the cost of this factor in total costs.

48. Real wages are defined as

- (A) wages net of tax
- (B) the marginal physical product of labour
- (C) the opportunity cost of labour
- (D) the purchasing power of money wages

➤ Ans: (D) the purchasing power of money wages

49. Over given period, average earnings in manufacturing increased by 8% while hourly wage rates increased by only 6%. What could account for this?

- (A) an increase in overtime
- (B) an increase in the level of employment
- (C) a reduction in income tax
- (D) a reduction in the rate of inflation

➤ Ans: (A) an increase in overtime

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50. What average increase

- (A)
- (B)
- (C)
- (D)

51. At a time

- (A)
- (B)

52.

ECONOMICS

35. A firm in a perfectly competitive industry is in long-run equilibrium. The marginal physical product of labor is 8 units per hour and the wage rate is \$4.00 an hour. What is the firm's average cost?

- (A) \$0.50 (B) \$2.00
 (C) \$4.00 (D) \$32.00
 ➤ Ans: (A) \$0.50

36. To increase the labour force from 20 to 21 workers, an entrepreneur is forced to increase the daily wage rate from \$30 to \$31. What is the marginal cost of labour per day?

- (A) \$1 (B) \$21
 (C) \$31 (D) \$51
 ➤ Ans: (A) \$1

37. The table shows the current position of a firm in a perfectly competitive industry.

	Factor X	Factor Y
Marginal physical product factor price	2	8
	\$1.50	\$6.00

If the firm sells its position for \$1 and aims to maximize profits, what should it employ?

- (A) more of both X and Y (B) more of X and less of Y
 (C) more of Y and less of X (D) less of both X and Y
 ➤ Ans: (A) more of both X and Y

38. In which of the following situations is it likely that the demand for labour would be inelastic?

- (A) Labour and capital are close substitutes
 (B) Labour costs are only a small proportion of total costs
 (C) Demand for the final product which the labour produces is elastic
 (D) A large quantity of unemployed labour is available in the economy.
 ➤ Ans: (B) Labour costs are only a small proportion of total costs

39. What could cause a perfectly competitive firm's marginal revenue product of labour curve to shift to the right?

- (A) an increase in wages

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- (B) a higher rate of sales tax
 (C) an increase in labour supply
 (D) a rise in the price of the final product
 ➤ Ans: (D) a rise in the price of the final product

40. The introduction of equal pay legislation increase the wages of female workers. What would be the most likely effect of this increase?

- (A) an increase in the supply of female workers
 (B) substitution of female workers for male workers
 (C) a reduction in the rate of female unemployment
 (D) a reduction in the wages of male workers
 ➤ Ans: (A) an increase in the supply of female workers

41. Which of the following could raise the level of employment in an industry producing a good X?

- (A) the removal of a sales tax on good X
 (B) the removal of a quota on an imported good which is a substitute for good X
 (C) the introduction of an employer's contribution to a state welfare scheme for each employee
 (D) a decline in the marginal physical productivity of workers in industry X.
 ➤ Ans: (A) the removal of a sales tax on good X

42. Wages in industry 1 are significantly higher than in industry 2. Which of the following could explain this difference

- (A) Workers in industry 2 are higher mobile
 (B) There are no barriers to the entry of workers into industry 1
 (C) Trade union organization in industry 2 is relatively strong.
 (D) There are non-pecuniary advantages to working in industry 2.
 ➤ Ans: (D) There are non-pecuniary advantages to working in industry 2.

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slow to adjust after demand-side disturbances

20. If the aggregate supply curve can be seen as an adequate description of the mechanism by which prices rise or fall over time then:
- (A) fixed prices in the short run mean the aggregate supply curve is horizontal
 - (B) variable prices in the long run mean the aggregate supply curve is positively sloped
 - (C) the vertical long-run aggregate supply curve is a result of the classical quantity theory of money
 - (D) all of the above
- Ans: (A) fixed prices in the short run mean the aggregate supply curve is horizontal
21. In the medium run the aggregate supply curve is upward sloping since:
- (A) workers immediately realise that nominal wage increases are only the result of price increases
 - (B) firms encounter costs in resetting prices and are willing to pay workers above market-clearing prices
 - (C) wages and prices always immediately change in proportion to the money stock
 - (D) none of the above
- Ans: (B) firms encounter costs in resetting prices and are willing to pay workers above market-clearing prices
22. Which of the following is NOT used in deriving the AS curve?
- (A) the price-cost relation
 - (B) the Phillips curve
 - (C) the quantity theory of money
 - (D) all of the above are used
- Ans: (C) the quantity theory of money
23. The upward-sloping AS curve will shift to the left if:
- (A) labour force productivity increases
 - (B) actual output is lower than the full-employment level
 - (C) the mark-up over labour cost falls
 - (D) actual output is higher than the full-employment level
- Ans: (D) actual output is higher than the full-employment level

24. Wages are considered to be sticky rather than flexible because:
- (A) firms are never willing to pay above market-clearing wages solely to keep workers motivated
 - (B) labour contracts contain cost-of-living adjustments
 - (C) firms are unsure about their competitors' behaviour and only reluctantly change prices and wages following a change in aggregate demand
 - (D) all of the above
- Ans: (C) firms are unsure about their competitors' behaviour and only reluctantly change prices and wages following a change in aggregate demand
25. The efficiency wage theory of aggregate supply implies that:
- (A) the AS curve is vertical
 - (B) paying employees higher wages will not induce them to work harder
 - (C) even unanticipated changes in monetary or fiscal policy have no effect on the level of output
 - (D) none of the above
- Ans: (D) none of the above

26. Restrictive monetary policy will eventually affect the upward-sloping AS curve since:
- (A) higher interest rates will increase the cost of production
 - (B) higher interest rates will reduce the capital stock, thus reducing potential GDP
 - (C) the resulting unemployment will cause downward pressure on nominal wages and decrease the cost of production
 - (D) real wages will decline in proportion to the change in money supply and this will cause a change in unemployment
- Ans: (C) the resulting unemployment will cause downward pressure on nominal wages and decrease the cost of production



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- (D) the price of the last unit hired is equal to the revenue derived from the sale of its product
➤ Ans: (A) the last unit hired adds as much to revenue as it does to cost

29. The addition to revenue which results from increasing the quantity of a factor of production by one unit, the quantities of all other factors of production remaining constant. What does this define?

(A) marginal factor cost
(B) marginal revenue
(C) marginal revenue product
(D) the law of diminishing returns
➤ Ans: (C)

30. While most steel plants in a country operate for 24 hours a day, most of its clothing firms operate for only 8 hours a day. What partly explains this difference?

(A) Capital costs represents a higher proportion of total costs in steel than in clothing.
(B) Premium rates of pay for night shift working are higher in the clothing industry than a steel
(C) There is a shortage of machine operators in the clothing industry
(D) There is greater excess capacity in the clothing industry than in steel.
➤ Ans: (A) Capital costs represents a higher proportion of total costs in steel than in clothing.

31. Labour is the only variable factor of a profit-maximising firm which is a price taker in the labour market. From what is the firm's demand curve for the labour derived?

(A) its marginal factor cost curve
(B) Its marginal revenue curve
(C) Its marginal revenue product of labour curve
(D) Its short-run marginal cost curve
➤ Ans: (C) Its marginal revenue product of labour curve

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32. Which ratio measures labour costs per unit of output?

- (A) number employed
total labour costs
(B) total labour costs
number employed
(C) total output
number employed

Ans: (D)

Ans: (D)
$$\frac{\text{total labour costs}}{\text{number employed} \times \text{output per worker}}$$

33. A profit-maximising firm producing under conditions of perfect competition has the following marginal revenue product schedule.

Number of workers	1	2	3	4	5	6	7
Marginal revenue product (\$)	135	140	145	150	145	140	135

If the wage is \$140, what is the maximum number of workers the firm will employ?

4. A firm is an initial profit maximizing position employs two factors, X and Y, to produce a good which is sold for \$3. Factor prices and productivities change. The new values are given in the table.

Factor	Marginal physical product	Price (\$)
X	2	4
Y	5	20

What should the firm employ to achieve equilibrium?

- (A) less of both X and Y
 - (B) more of X and less of Y
 - (C) more of Y and less of X
 - (D) more of both X and Y

➤ Ans: (B) more of X and less of Y

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- > Ans: (C) firms want to supply more output when prices increase since the real wage rate is lower

21. Efficiency wage theory implies that:

 - labour productivity depends positively on the level of wages paid
 - paying higher wages less frequently is efficient because it reduces transaction costs
 - even unanticipated changes in monetary or fiscal policy have no effect on the level of output
 - none of the above
 - > Ans: (A) labour productivity depends positively on the level of wages paid

22. If nominal wage rates were completely flexible then:

 - fiscal policy would still affect real money balances and output
 - the AS curve would be horizontal
 - periods of unemployment would probably be much less frequent
 - frictional unemployment would not exist
 - > Ans: (C) periods of unemployment would probably be much less frequent

23. After a decrease in the wage, the substitution effect implies that:

 - Only the amount demanded of capital decreases.
 - Only the amount demanded of labour decreases.
 - Only the amount demanded of capital increases.
 - The amount demanded of all inputs increases.
 - > Ans: Only the amount demanded of capital increases.

24. Those who hold the classical view of the labour market are likely to believe that:

 - Monetary, but not fiscal policy will have an effect on output and employment
 - Fiscal but not monetary policy will have an effect on output and employment.

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- (B) A perfectly competitive firm, but not for a monopoly
(C) Both a monopoly and a perfectly competitive firm
(D) Neither a monopoly nor a perfectly competitive firm
➤ Ans: (A) A monopoly, but not for a perfectly competitive firm
13. If the VMP for labour > the MRP for labour, and there is no government intervention, you can conclude that the underlying market structure is:
(A) a monopoly. (B) perfect competition.
(C) not perfect competition.
(D) none of the above.
➤ Ans: (C) not perfect competition.
14. There are many differences between labour and land as factors of production, for e.g.:
(A) Labour cannot be purchased like land, it can only be rented
(B) There is no obvious reason why landowners will reduce the supply of land when the rental price of land goes up.
(C) The decision to hire labour does not directly depend on the interest rate.
(D) All of the above.
➤ Ans: (D) All of the above.
15. Periods of less than full employment correspond to:
(A) Points outside the ppf.(production possibility frontier).
(B) Points inside the ppf.
(C) Points on the ppf.
(D) Either points inside or outside the ppf.
➤ Ans: (B) Points inside the ppf.
16. In a free-market economy the allocation of resources is determined by:
(A) votes taken by consumers
(B) a central planning authority
(C) Consumer preferences
(D) the level of profits of firms
➤ Ans: (C) Consumer preferences

ECONOMICS

17. Which of the following is not a resource as the term is used by economists?
(A) Money (B) Land
(C) Buildings (D) Labour.
➤ Ans: (A) Money
18. Capital, as economists use the term,
(A) is the money the firm spends to hire resources.
(B) is money the firm raises from selling stock.
(C) refers to the process by which resources are transformed into useful forms.
(D) refers to things that have already been produced that are in turn used to produce other goods and services.
➤ Ans: (D) refers to things that have already been produced that are in turn used to produce other goods and services.
19. If a government were to fix a minimum wage for workers that was higher than the market-clearing equilibrium wage, economists would predict that
(A) more workers would become employed
(B) there would be more unemployment.
(C) the costs and prices of firms employing cheap labour would increase.
(D) wages in general would fall as employers tried to hold down costs.
➤ Ans: (A) more workers would become employed
20. The fact that nominal wages are fixed by a contract at the beginning of a period while prices of goods may change within that period implies that:
(A) unanticipated changes in the money supply do not affect the level of output
(B) the AS curve is vertical
(C) firms want to supply more output when prices increase since the real wage rate is lower
(D) real money balances decrease following expansionary monetary policy

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FACTORS OF PRODUCTION

1. Which of the following concepts represents the extra revenue a firm receives from the services of an additional unit of a factor of production?
 - (A) total revenue
 - (B) marginal physical product
 - (C) marginal revenues product
 - (D) marginal revenue

➤ Ans: (C) marginal revenues product
2. The demand for labour is the same as the
 - (A) marginal revenue product
 - (B) marginal physical product
 - (C) marginal cost (D) wage

➤ Ans: (A) marginal revenue product
3. The demand for labour slopes down and to the right because of
 - (A) the law of demand
 - (B) the iron law of wages
 - (C) the law of diminishing marginal returns
 - (D) economies of scale

➤ Ans: the law of diminishing marginal returns
4. The demand for labour will be more elastic if:
 - (A) there are few substitutes for labour
 - (B) there is a short time under consideration
 - (C) labour is a large percent of the total cost of production
 - (D) the demand for the product is relatively inelastic
 - (E) all of the above

➤ Ans: (C) labour is a large percent of the total cost of production
5. Skills that can be transferred to other employers are called:
 - (A) general skills (B) specific skills
 - (C) non-pecuniary skills
 - (D) all of the above

➤ Ans: general skills
6. Which skills are most likely to be paid for by the employer?
 - (A) General skills
 - (B) Specific skills
 - (C) Educational skills
 - (D) None of these

➤ Ans: (B) Specific skills
7. If worker A earns more in wages than worker B, it could be because:
 - (A) The product made by worker A sells for a higher price than that made by worker B
 - (B) Worker A uses more capital per worker than worker B
 - (C) Worker A has more natural ability than worker B
 - (D) All of the above

➤ Ans: (D) All of the above
8. Skills that is embodied in a person are called
 - (A) Human capital
 - (B) Embodied skills
 - (C) Physical capital
 - (D) Experience skills

➤ Ans: (A) Human capital
9. The dominant factor of production is:
 - (A) Energy (B) Labour
 - (C) Technology (D) None of these

➤ Ans: (B) Labour
10. The Marginal Revenue Product of labour MRPL is:
 - (A) $MR \times MP$ (B) MR / MP
 - (C) $MR - MP$ (D) Both (B) and (C)

➤ Ans: (A) $MR \times MP$
11. In case of imperfect competition the MRPL is the:
 - (A) Supply of labour curve
 - (B) Demand for labour curve
 - (C) Both of these (D) None of these

➤ Ans: (B) Demand for labour curve
12. A downward-sloping demand curve exists for:
 - (A) A monopoly, but not for a perfectly competitive firm

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- (D) all of above
 ➤ Ans: (D) all of above
12. Conditions for Trapping by Nelson are
 (A) a high correlation between the level of per capita income and rate of population growth;
 (B) a low propensity to direct additional per capita income to increase per capita investment;
 (C) scarcity of uncultivated arable land;
 (D) all of above
 ➤ Ans: (D) all of above
13. Factors Escaping Low Level Equilibrium Trap are
 (A) there should be favourable socio political environment in the country.
 (B) The requisite methods should be adopted to change distribution of income.
 (C) Improved techniques should be used to utilize existing resources.
 (D) all of above
 ➤ Ans: (D) all of above
14. According to Malthus, population increases by _____ progression of kind:
 (A) Systematic (B) Arithmetic
 (C) Geometric (D) Automatic
 ➤ Ans: (C) Geometric
15. All labour is:
 (A) Raising minimum wages
 (B) Raising average wages
 (C) Increasing skills of workers
 (D) Punishing absentee workers
 ➤ Ans: (C) Increasing skills of workers
16. Unemployment due to mechanization of agriculture is:
 (A) Seasonal (B) Structural
 (C) Industrial (D) Personal
 ➤ Ans: (B) Structural
17. The factor that is LEAST likely to be result of specialization is:
 (A) Increased production
 (B) Greater refinement of skills
 (C) Increase in self-sufficiency
 (D) introduction of new technology
 ➤ Ans: (B) Greater refinement of skills
18. Underemployment of labour means that:
 (A) A worker does not get full time job
 (B) A worker is not happy with his present job
 (C) A person does not get job according to his qualification
 (D) (A) and (C)
 ➤ Ans: (D) (A) and (C)
19. Optimum population is defined by the economists as the level of population of which:
 (A) Death rate equals birth rate
 (B) Labour productivity is maximized
 (C) Country achieves food self sufficiency
 (D) National income per head is maximized
 ➤ Ans: (B) Labour productivity is maximized
20. The human effort applied to the production of goods is called in economics:
 (A) Labour (B) Skill
 (C) Experience (D) Service
 ➤ Ans: (A) Labour
21. To the economist, investment refers to:
 (A) Sale of real estate
 (B) Creation of a new capital
 (C) Purchase of a prize bond
 (D) Decrease in inventories
 ➤ Ans: (B) Creation of a new capital
22. An example of money capital is:
 (A) Cash
 (B) Money in a savings account
 (C) Prize bond
 (D) Golden ring
 ➤ Ans: (B) Money in a savings account
23. It is acting as obstacle to economic development of Pakistan:
 (A) Lack of capital
 (B) Urbanization
 (C) Specialization (D) Shortage of labour
 ➤ Ans: (A) Lack of capital



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101. 200 units of Giffen good are sold at a price of \$30. The price elasticity of demand for the good is 0.9. What will be the new quantity demanded if price is increased to \$33?

- (A) 180 (B) 182
(C) 218 (D) 220
➤ Ans: (C) 218

102. Which of the following groups would be expected to have the highest price elasticity of demand for rail travel?

- (A) air travellers using a rail link from a city centre to an international airport
(B) business executives
(C) commuters working in central business districts of major cities
(D) students returning home for the weekend
➤ Ans: (D) students returning home for the weekend

103. In which of the following situations is the demand for a product said to be price elastic?

- (A) The quantity demanded responds to a change in price
(B) An increase in price brings about a decrease in the quantity demanded
(C) An increase in price induces consumers to spend more on the product
(D) A decrease in price brings about an increase in revenue
➤ Ans: (D) A decrease in price brings about an increase in revenue

104. Under which conditions will an indirect tax fall entirely on the consumer?

- (A) Demand is of unity elasticity
(B) Demand is perfect inelastic
(C) Supply is of unitary elasticity
(D) Supply is perfectly inelastic
➤ Ans: (B) Demand is perfect inelastic

105. When is the price elasticity of demand for a good likely to be high?

- (A) When expenditure on the good is a small part of total expenditure
(B) when the good has few uses
(C) when the good is habit-forming

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(D) when there are many substitutes for the good
➤ Ans: (D) when there are many substitutes for the good

106. A manufacturer progressively reduces the price of his product in an attempt to increase total revenue. The table shows the outcome of this policy

Price (\$)	Total revenue 000's (\$)
10	750
9	750
8	750

What is the price elasticity of demand for the product?

- (A) perfectly inelastic (B) relatively inelastic
(C) perfectly elastic (D) unitary elastic
➤ Ans: (D) unitary elastic

107. A silversmith sells 100 sets of earrings per week at a price of \$5. As a direct result of a price increase to \$6, the total revenue from sales rises by 8%. Within which range does price elasticity of demand lie?

- (A) under 0.4
(B) greater than 0.4 and less than 0.8
(C) greater than 0.8 and less than 1.2
(D) over 1.2
➤ Ans: (B) greater than 0.4 and less than 0.8

108. A theatre increases the price of his tickets from \$5 to \$10. As a result, its total receipts increase from \$2500 to \$4000. Within what range does the price elasticity of demand for theatre tickets lie?

- (A) 0.2 to 0.5 (B) 0.6 to 0.75
(C) 0.8 to 1.0 (D) 1.2 to 2.5
➤ Ans: (A) 0.2 to 0.5

109. If the cross elasticity of demand for coffee resulting from changes in the price of tea is %, what will be percentage change in demand for coffee if the price of tea rises from 20 cent to 22 cent per kilo?

- (A) 6.6% (B) 7.5%

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DEVELOPMENT

1. The best measure of economic development among following is:
 - (A) NNP
 - (B) HDI
 - (C) GDP
 - (D) All of these

➤ Ans: GDP
2. Development economics is concerned with:
 - (A) Efficient allocation of scarce resources
 - (B) Economic, social and political institutions.
 - (C) Imperfect resource and commodity markets.
 - (D) (A)and (B) only

➤ Ans: (D) (A)and (B) only
3. In a steady-state economy:
 - (A) Net investment equals depreciation rate.
 - (B) Per capita capital stock grows at the rate of labour growth.
 - (C) Per capita capital stock remains constant.
 - (D) Net investment equals the consumption.

➤ Ans: (C) Per capita capital stock remains constant.
4. The J-curve effect refers to the observation that:
 - (A) GDP usually decreases before it increases after a currency depreciation.
 - (B) GDP usually decreases before it increases after a currency appreciation.
 - (C) the trade balance usually gets worse before it improves after a currency appreciation.
 - (D) the trade balance usually gets worse before it improves after a currency depreciation.

➤ Ans: (D) the trade balance usually gets worse before it improves after a currency depreciation.
5. Development means
 - (A) rise in employment opportunities
 - (B) decrease in inflation
 - (C) political stability
 - (D) increase in per capita income

➤ Ans: (D) Increase in per capita income
6. Growth rate of population is greater than growth rate of National income (NI) is the state of
 - (A) Liquidity trap
 - (B) steady state
 - (C) low level of income trap
 - (D) none of above

➤ Ans: (C) low level of income trap
7. According to critical minimum effort
 - (A) increase public confidence
 - (B) maximum investment
 - (C) minimum investment
 - (D) none of above

➤ Ans: (C) minimum investment
8. According to Leibenstein, every economy is under the influence of two forces—
 - (A) shocks and stimulants.
 - (B) investment and saving
 - (C) demand and supply
 - (D) all of above

➤ Ans: (A) shocks and stimulants.
9. Zero sum incentives means
 - (A) increase in NI (B) decrease in NI
 - (C) no change in NI
 - (D) increase in poverty

➤ Ans: (C) no change in NI
10. Positive sum incentives means
 - (A) increase in NI
 - (B) decrease in NI
 - (C) no change in NI
 - (D) increase in poverty

➤ Ans: (A) increase in NI
11. A critical minimum effort, in turn, would lead to:
 - (A) an expansion of the growth agents;
 - (B) an increase in their contribution to per unit of capital, as the capital-output ratio declines;
 - (C) a fall in the effectiveness of factors restricting growth;

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(C) $\frac{2}{3}$ to $\frac{3}{4}$

(D) $\frac{7}{8}$ to 1

> Ans: (C) $\frac{2}{3}$ to $\frac{3}{4}$ **117.** The supply of a particular product will be more inelastic

- (A) the longer it takes to produce the good
- (B) the longer the good can be stored
- (C) the greater the number of firms in the industry
- (D) the greater the amount of spare capacity in the industry

> Ans: (A) the longer it takes to produce the good

118. A firm's elasticity of supply is 0.5. At the original market price of \$10 the quantity supplied by the firm is 500 units. The market price then rises to \$11. What will be the firm's revenue after the rise in price?

- (A) \$5000
- (B) \$2520
- (C) \$5500
- (D) \$5775

> Ans: (C) \$5500

119. In which circumstance will an indirect tax fall entirely upon the producers of a commodity?

- (A) when the demand curve is perfectly inelastic
- (B) when the elasticity of demand is unity at all points on the demand curve
- (C) when the elasticity of supply is unity at all points on the supply curve
- (D) when the supply curve is perfectly inelastic

> Ans: (D) when the supply curve is perfectly inelastic

120. The demand for illegal addictive drugs remains constant for some time in a country. Which of the following would an economist regard as the best indicator of the success of a campaign to restrict the supply of addictive drugs?**LECTURER SERIES**

- (A) an increase in the quantity of drugs seized by the customs and excise service
- (B) an increase in medical expenditure on rehabilitating addicts
- (C) an increase in expenditure on the enforcement campaign
- (D) a sharp rise in the street price of addictive drugs

> Ans: (D) a sharp rise in the street price of addictive drugs

121. New technology makes it possible to produce more of a good at every given price. What effect will this have on equilibrium price and output in a competitive industry?

Price	Output
(A) decrease	decrease
(B) decrease	increase
(C) no change	increase
(D) increase	decrease

> Ans: (B) decrease increase

122. An eighteenth century Swiss clock maker make a total of 15 identical carriage clocks. There are currently just three collectors of these clocks, X, Y and Z. The table shows their demand schedules.

Price (\$000)	X	Y	Z
5	0	0	3
4	1	0	4
3	2	3	5
2	3	6	6
1	4	9	7

X, Y and Z initially possess 5 clocks each. They them come together to trade between themselves. At the market clearing price (for equilibrium price) which of the following is correct?

- (A) X is a buyer, Y and Z are sellers
- (B) X and Y are buyers; Z is a seller
- (C) X and Z are buyers; Y is a seller
- (D) Y and Z are buyers; X is a seller

> Ans: (D) Y and Z are buyers; X is a seller

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28. The concept of "interdependence of markets" can refer to the interdependence between:
- (A) two or more factor markets
 - (B) goods and factor markets
 - (C) goods markets
 - (D) all of the above
- Ans: (D) all of the above
29. What effect is working when the price of a good falls and consumers tend to buy it instead of other goods?
- (A) the substitution effect.
 - (B) the ceteris paribus effect.
 - (C) the total price effect.
 - (D) the income effect.
- Ans: (A) the substitution effect.
30. The quantity demanded (Q_D) of a soft drink brand A has decreased. This could be because:
- (A) A's consumers have had an increase in income.
 - (B) the price of A has increased
 - (C) A's advertising is not as effective as in the past.
 - (D) the price of rival brand B has increased
- Ans: (B) the price of A has increased
31. Demand curves in P-Q space are derived while holding constant
- (A) consumer tastes and the prices of other goods.
 - (B) incomes, tastes, and the prices of the good
 - (C) incomes and tastes.
 - (D) incomes, tastes, and the prices of other goods.
- Ans: (D) incomes, tastes, and the prices of other goods.
32. Suppose the demand for good Z goes up when the price of good Y goes down. We can say that goods Z and Y are
- (A) perfect substitutes.
 - (B) unrelated goods.
 - (C) complements.
 - (D) substitutes.
- Ans: (C) complements.
33. If the demand for coffee decreases as income decreases, coffee is
- (A) A normal good
(B) A complementary good
(C) An inferior good
(D) A substitute good
- Ans: (A) A normal good
34. Which of the following will NOT cause a shift in the demand curve for compact discs?
- (A) a change in the price of pre-recorded cassette tapes.
 - (B) a change in wealth.
 - (C) a change in income.
 - (D) a change in the price of compact discs.
- Ans: (D) a change in the price of compact discs.
35. Which of the following is consistent with the law of supply?
- (A) As the price of calculators rises, the supply of calculators increases, ceteris paribus.
 - (B) As the price of calculators falls, the supply of calculators increases, ceteris paribus.
 - (C) As the price of calculators rises, the quantity supplied of calculators increases, ceteris paribus.
 - (D) As the price of calculators rises, the quantity supplied of calculators decreases, ceteris paribus.
- Ans: (C) As the price of calculators rises, the quantity supplied of calculators increases, ceteris paribus.
36. The price of computer chips used in the manufacture of personal computers has fallen. This will lead to _____ personal computers.
- (A) a decrease in the supply of
 - (B) a decrease in the quantity supplied of
 - (C) an increase in the supply of
 - (D) an increase in the quantity supplied of
- Ans: (C) an increase in the supply of
37. When there is excess demand in an unregulated market, there is a tendency for
- (A) quantity demanded to increase
 - (B) quantity supplied to decrease.
 - (C) price to fall

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20. Which of the following would shift the demand curve for new textbooks to the right?
(A) A fall in the price of paper used in publishing texts.
(B) A fall in the price of equivalent used text books.
(C) An increase in the number of students attending college.
(D) A fall in the price of new text books.
➤ Ans: (C) An increase in the number of students attending college.
- 10 21. Which of these measures the responsiveness of the quantity of one good demanded to an increase in the price of another good?
(A) Price elasticity.
(B) Income elasticity.
(C) Cross-price elasticity.
(D) Cross-substitution elasticity.
➤ Ans: (C) Cross-price elasticity.
- 10 22. Assume that the current market price is below the market clearing level. We would expect:
(A) A surplus to accumulate.
(B) Downward pressure on the current market price.
(C) Upward pressure on the current market price.
(D) Lower production during the next time period
➤ Ans: (C) Upward pressure on the current market price.
- 10 23. The income elasticity of demand is the:
(A) Absolute change in quantity demanded resulting from a one-unit increase in income.
(B) Percent change in quantity demanded resulting from the absolute increase in income.
(C) Percent change in quantity demanded resulting from a one percent increase in income.
(D) Percent change in income resulting from a one percent increase in quantity demanded

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- Ans: (C) Percent change in quantity demanded resulting from a one percent increase in income.
24. In the long run, new firms can enter an industry and so the supply elasticity tends to be:
(A) More elastic than in the short-run.
(B) Less elastic than in the short-run.
(C) Perfectly elastic
(D) Perfectly inelastic
➤ Ans: (A) More elastic than in the short-run.
- 25 25. All of the following are determinants of supply except
(A) Price (B) Income levels
(C) Objectives of the firm
(D) Level of technology
➤ Ans: (B) Income levels
26. Which of the following is characteristic of a product whose demand is elastic?
(A) The price elasticity coefficient is less than 1.
(B) Total revenue decreases if price decreases.
(C) Buyers are relatively insensitive to price changes.
(D) The percentage change in quantity is greater than the percentage change in price.
➤ Ans: (D) The percentage change in quantity is greater than the percentage change in price.
27. Elasticity of supply is defined as the ratio of:
(A) Price over quantity supplied
(B) Change in price over change in quantity supplied
(C) Percentage change in quantity supplied over percentage change in price.
(D) Percentage change in price over percentage change in quantity supplied
➤ Ans: (C) Percentage change in quantity supplied over percentage change in price.

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- (B) relative availabilities of factors of production
(C) military capabilities
(D) size
➤ Ans: (B) relative availabilities of factors of production

47. In the 2-factor, 2 good Heckscher-Ohlin model, a change from autarky (no trade) to trade will benefit the owners of:
(A) capital.
(B) the relatively abundant factor of production.
(C) the relatively scarce factor of production.
(D) the relatively inelastic factor of production
➤ Ans: (B) the relatively abundant factor of production.

48. One way in which the Heckscher-Ohlin model differs from the Ricardo model of comparative advantage is by assuming that _____ is identical in all countries.
(A) factor of production endowments
(B) technology
(C) scale economies
(D) factor of production intensities
➤ Ans: (B) technology

49. According to the Heckscher-Ohlin model,
(A) everyone automatically gains from trade
(B) the scarce factor necessarily gains from trade
(C) the gainers could compensate the losers and still retain gains.
(D) a country gains if its exports have a high value added
➤ Ans: (C) the gainers could compensate the losers and still retain gains.

50. Starting from an autarky (no-trade situation) with Heckscher-Ohlin model, if Country H is relatively labor abundant, then once trade begins:
(A) wages and rents should rise in H.
(B) wages and rents should fall in H.

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- (C) wages should rise and rents should fall in H.
(D) wages should fall and rents should rise in H.
➤ Ans: (C) wages should rise and rents should fall in H.

51. Suppose that there are two factors, capital and land, and that the United States is relatively land endowed while the European Union is relatively capital-endowed. According to the Heckscher-Ohlin model,

- (A) European landowners should support US-European free trade.
(B) European capitalists should support US-European free trade.
(C) all capitalists in both countries should support free trade.
(D) all landowners should support free trade.
➤ Ans: (B) European capitalists should support US-European free trade.

52. Assume that only two countries, A and B, exist.

	Countries	
Factor Endowments	A	B
Labor Force	45	20
Capital Stock	15	10

If good S is capital intensive, then following the Heckscher-Ohlin Theory,

- (A) country A will export good S.
(B) country B will export good S.
(C) both countries will export good S.
(D) trade will not occur between these two countries.

- Ans: (B) country B will export good S.

53. In the 2-factor, 2 good Heckscher-Ohlin model, an influx of workers from across the border would

- (A) move the point of production along the production possibility curve.
(B) shift the production possibility curve outward, and increase the production of both goods
(C) shift the production possibility curve outward and decrease the production of the labor-intensive product.

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22. If you were running a firm in a perfectly competitive industry you would be spending your time making decisions on
(A) how much of each input to use.
(B) how much to spend on advertising.
(C) what price to charge.
(D) the design of the product.
➤ Ans: (A) how much of each input to use
23. Market power is
(A) a firm's ability to charge any price it likes.
(B) a firm's ability to raise price without losing all demand for its product.
(C) a firm's ability to sell any amount of output it desires at the market-determined price.
(D) a firm's ability to monopolise a market completely.
➤ Ans: (B) a firm's ability to raise price without losing all demand for its product.
24. When _____ substitutes exist, a monopolist has _____ power to raise price.
(A) more; more (B) fewer; less
(C) no; infinite (D) more; less
➤ Ans: (D) more; less
25. If a firm has some degree of market power, then output price
(A) becomes a decision variable for the firm.
(B) is determined by the actions of other firms in the industry.
(C) no longer influences the amount demanded of the firm's product.
(D) is guaranteed to be above a firm's average cost.
➤ Ans: (A) becomes a decision variable for the firm.
26. Relative to a competitively organised industry, a monopoly
(A) produces less output, charges lower prices and earns economic profits.
(B) produces more output, charges higher prices and earns economic profits.
(C) produces less output, charges higher prices and earns economic profits.

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- (D) produces less output, charges lower prices and earns only a normal profit.
➤ Ans: (C) produces less output, charges higher prices and earns economic profits.
27. The cosmetics industry is not considered by economists to be a good example of perfect competition because
(A) firms spend a large amount of money on advertising.
(B) profit margins are very high for both producers and retailers.
(C) there are a very large number of firms in the industry.
(D) there are many government health controls on cosmetic products.
➤ Ans: (A) firms spend a large amount of money on advertising.
28. If firms can neither enter nor leave an industry, the relevant time period is the
(A) long run.
(B) immediate run.
(C) intermediate run.
(D) short run.
➤ Ans: (D) short run.
29. In the long run
(A) there are no fixed factors of production.
(B) all firms must make economic profits.
(C) a firm can vary all inputs, but it cannot change the mix of inputs it uses.
(D) a firm can shut down, but it cannot exit the industry.
➤ Ans: (A) there are no fixed factors of production.
30. A normal rate of profit
(A) is the rate of return on investments over the interest rate on risk-free government bonds.
(B) is the rate that is just sufficient to keep owners or investors satisfied
(C) Means zero return for owners or investors.
(D) is the difference between total revenue and total costs.



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11. During perfect competition, the firm would earn a normal profit when:
 - (A) $AC > AR$
 - (B) $AC < AR$
 - (C) $AC = AR$
 - (D) none

➤ Ans: (C) $AC = AR$
12. A strategy that is optimal, no matter what an opponent does:
 - (A) Dominant firm
 - (B) Duopoly
 - (C) Dominant strategy
 - (D) None of these

➤ Ans: (C) Dominant strategy
13. Normal profit, excess profit and loss of the firm depends on level of:
 - (A) Average costs in short run
 - (B) Total costs in short run
 - (C) Marginal costs in short run
 - (D) All of these

➤ Ans: (A) Average costs in short run
14. In case of perfect competition, the sellers are:
 - (A) Two
 - (B) A few
 - (C) Very large
 - (D) None of these

➤ Ans: (C) Very large
15. The firm is in equilibrium when:
 - (A) Slope of $TC =$ Slope of TR
 - (B) Slope of TC is less than slope of TR
 - (C) Slope of TC is more than slope of TR
 - (D) None of these

➤ Ans: (A) Slope of $TC =$ Slope of TR
16. Which of following is a key assumption of a perfectly competitive market?
 - (A) Firms can influence market price.
 - (B) Commodities have few sellers.
 - (C) It is difficult for new sellers to enter the market.
 - (D) Each seller has a very small share of the market.

➤ Ans: (D) Each seller has a very small share of the market.
17. The demand curve facing a perfectly competitive firm is:
 - (A) Downward-sloping and less flat than the market demand curve.

- (B) Downward-sloping and more flat than the market demand curve.
- (C) Perfectly horizontal.
- (D) Perfectly vertical.

➤ Ans: (C) Perfectly horizontal.

18. The monopolist has no supply curve because:
 - (A) The quantity supplied at any particular price depends on the monopolist's demand curve.
 - (B) The monopolist's marginal cost curve changes considerably over time.
 - (C) The relationship between price and quantity depends on both marginal cost and average cost.
 - (D) There is a single seller in the market.

➤ Ans: (A) The quantity supplied at any particular price depends on the monopolist's demand curve.
19. A doctor sizes up patients' income and charges wealthy patients more than poorer ones. This pricing scheme represents a form of:
 - (A) First-degree price discrimination.
 - (B) Second-degree price discrimination.
 - (C) Third-degree price discrimination.
 - (D) Pricing at each consumer's reservation price.

➤ Ans: (A) First-degree price discrimination.
20. For which of the following market structures is it assumed that there are barriers to entry?
 - (A) Perfect competition
 - (B) Monopolistic competition
 - (C) Monopoly
 - (D) All of the above

➤ Ans: (C) Monopoly
21. A market with few entry barriers and with many firms that sell differentiated products is:
 - (A) Purely competitive.
 - (B) A monopoly.
 - (C) Monopolistically competitive.
 - (D) Oligopolistic

➤ Ans: (C) Monopolistically competitive.

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126. Oligopolistic industries:

- (A) are characterized by a relatively large number of small sellers.
 - (B) may produce either standardized or differentiated products.
 - (C) always produce differentiated products.
 - (D) always produce standardized products.
- Ans: (B) may produce either standardized or differentiated products.

127. Prices are likely to be least flexible:

- (A) in oligopoly
 - (B) in monopolistic competition."
 - (C) where product demand is inelastic
 - (D) in pure competition.
- Ans: (A) in oligopoly.

128. Concentration ratios:

- (A) may overstate the degree of competition because they ignore imported products.
 - (B) may overstate the degree of competition because interindustry competition is ignored
 - (C) may underestimate the degree of competition because they ignore imported products.
 - (D) provide detailed insights as to the price and output behavior of firms which comprise the various industries.
- Ans: (C) may underestimate the degree of competition because they ignore imported products.

129. Game theory can be used to demonstrate:

- (A) that oligopolistic firms are mutually interdependent.
 - (B) that independent pricing will lead to low-price policies.
 - (C) that oligopolists can increase their profits through collusion.
 - (D) all of the above.
- Ans: (D) all of the above.

130. The kinked-demand curve of an oligopolist is based on the assumption that:

- (A) competitors will follow a price cut but ignore a price increase.
- (B) competitors will match both price cuts and price increases.

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- (C) competitors will ignore a price cut but follow a price increase.
 - (D) there is no product differentiation.
- Ans: (A) competitors will follow a price cut but ignore a price increase.

131. The kinked-demand curve model of oligopoly is useful in explaining:

- (A) the way that collusion works.
 - (B) why oligopolistic prices and outputs are extremely sensitive to changes in marginal cost.
 - (C) why oligopolistic prices might change only infrequently.
 - (D) the process by which oligopolists merge with one another.
- Ans: (C) why oligopolistic prices might change only infrequently.

132. If competing oligopolists completely ignore oligopolist X's price changes, then X's:

- (A) demand curve will be less elastic than if the other oligopolists matched X's price changes.
 - (B) demand curve will be more elastic than if the other oligopolists matched X's price changes.
 - (C) marginal revenue curve will have a vertical gap.
 - (D) demand and marginal revenue curves will coincide.
- Ans: (B) demand curve will be more elastic than if the other oligopolists matched X's price changes.

133. The kinked-demand curve model of oligopoly:

- (A) assumes a firm's rivals will ignore a price cut but match a price increase.
- (B) embodies the possibility that changes in unit costs will have no effect upon equilibrium price and output.
- (C) assumes a firm's rivals will match any price change it may initiate.
- (D) assumes a firm's rivals will ignore any price change it may initiate.



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- (C) 10.0% (D) 12.5%
 ➤ Ans: (B) 7.5%

110. What is the formula for the cross-elasticity of demand of good Y with respect to good X?

- (A) $\frac{\% \text{ change in price of good } X}{\% \text{ change in price of good } Y}$
 (B) $\frac{\% \text{ change in price of good } X}{\% \text{ change in quantity demanded of good } Y}$
 (C) $\frac{\% \text{ change in quantity demanded of good } X}{\% \text{ change in quantity demanded of Good } Y}$
 (D) $\frac{\% \text{ change in quantity demanded of good } Y}{\% \text{ change in price of good } X}$
- Ans: (D)
 $\frac{\% \text{ change in quantity demanded of good } Y}{\% \text{ change in price of good } X}$

111. The table shows the income and cross-elasticities of demand for two commodities X and Y

	Income elasticity	Cross-elasticity in relation to each other
Commodity X	+0.5	+0.5
Commodity Y	0	+0.5

Income rises by 10% and the price of Y falls by 10%. If the price of X remains unchanged, what will happen to the quantity of X demanded?

- (A) It will fall by 10%
 (B) It will remain the same
 (C) It will rise by 10%
 (D) It will rise by 20%
 ➤ Ans: (B) It will remain the same

112. The cross price elasticity of demand between two goods will be higher

- (A) the greater the difference in price between the two goods
 (B) the greater the income elasticities of demand for the two goods

- (C) the greater the price elasticities of demand for the two goods
 (D) the more they are regarded as similar by consumers
 ➤ Ans: (D) the more they are regarded as similar by consumers

113. From which pair of commodities are the cross price elasticities of demand most likely to be negative?

- (A) cinema tickets and videos
 (B) first and second class rail tickets
 (C) petrol and cars
 (D) salt and sugar
 ➤ Ans: (C) petrol and cars

114. Which combination of characteristics makes it likely that a good will be a Giffen good:

- | | |
|--|-----------------------------|
| Percentage of income spent on the good | Income elasticity of demand |
| (A) Low | Slightly negative |
| (B) high | strongly negative |
| (C) low | strongly negative |
| (D) high | slightly negative |
- Ans: (B) high strongly negative

115. It was estimated in 1990 that milk has an income elasticity of demand of -0.6. what can be concluded about milk from this information?

- (A) It accounts for only a small proportion of household expenditure
 (B) It has very few substitutes
 (C) It is a Giffen good
 (D) It is an inferior good
 ➤ Ans: (D) It is an inferior good

116. The supply function for a good can be written as $Q = 2P + 10$, where Q is quantity supplied in kilos and P is the price per kilo in pounds. The price rises from \$10 to \$15 per kilo. The value of price elasticity of supply for this price increase lies in a range from

- (A) $\frac{1}{6}$ to $\frac{1}{4}$
 (B) $\frac{3}{8}$ to $\frac{1}{2}$



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- Ans: (A) shortages
11. If there is a price ceiling, which of the following is NOT likely to occur?
(A) rationing by first-come, first-served
(B) black markets
(C) gray markets
(D) sellers providing goods for free that were formerly not free
➤ Ans: (D) sellers providing goods for free that were formerly not free
12. According to law of demand, a demand curve is:
(A) Horizontal
(B) Vertical
(C) Downward sloping
(D) Directly related to law of supply
➤ Ans: (C) Downward sloping
13. A rational decision maker will take only those actions for which the marginal benefit:
(A) Is positive.
(B) Is at its maximum level.
(C) Is less than marginal cost.
(D) Is greater than or equal to the expected marginal cost.
➤ Ans: (D) Is greater than or equal to the expected marginal cost.
14. All of the following are determinants of supply except:
(A) Price
(B) Income levels
(C) Objectives of the firm
(D) Level of technology
➤ Ans: (B) Income levels
15. The price elasticity of demand is defined as the absolute value of the ratio of:
(A) Price over quantity demanded
(B) Change in price over change in quantity demanded
(C) Percentage change in price over the percentage change in quantity demanded
(D) Change in quantity over change in price multiply by its average..
- Ans: (D) Change in quantity over change in price multiply by its average.
16. If a good is a luxury, its income elasticity of demand is:
(A) positive and less than 1
(B) negative but greater than -1
(C) positive and greater than 1
(D) zero
➤ Ans: (C) positive and greater than 1
17. If the cross-price elasticity between home personal computers and video game units for TV is positive, one can conclude that
(A) These products are substitutes for one another.
(B) These products complement one another.
(C) These products are over-priced
(D) Consumers are irrational.
➤ Ans: (A) These products are substitutes for one another.
18. A supply curve reveals:
(A) The quantity of output consumers are willing to purchase at each possible market price.
(B) The difference between quantity demanded and quantity supplied at each price.
(C) The maximum level of output an industry can produce, regardless of price.
(D) The quantity of output that producers are willing to produce and sell at each possible market price.
➤ Ans: (D) The quantity of output that producers are willing to produce and sell at each possible market price.
19. A resource is something that:
(A) Is used to produce goods and services.
(B) Is provided by nature, not made by society.
(C) Exists in unlimited quantities.
(D) Must be produced by a firm.
➤ Ans: (A) Is used to produce goods and services.

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Which of the following must be equal in the two factories?

- (A) average total costs
(B) average variable costs
(C) marginal costs
(D) total costs

Ans: (C) marginal costs

221. The electricity industry of a country is subject to decreasing average costs. The industry reduces the charge per unit of consumption, but at the same time introduces a standard fixed charge that has to be paid by each consumer. What could be the purpose of this change in pricing structure?

- (A) to discriminate between consumption during off-peak and peak periods

- (B) to discriminate in favour of individuals with low electricity consumption
(C) to make it possible to set price at marginal cost without incurring a loss
(D) to provide an incentive to conserve energy

Ans: (C) to make it possible to set price at marginal cost without incurring a loss

222. What would happen if the firm were required to set a price equal to its marginal cost?

- (A) It would break even
(B) It would make a loss
(C) It would maximize its profits
(D) It would maximize its revenue

- Ans: (B) It would make a loss

223. Many public utilities can be described as 'natural' monopolies. Which statement best describes the situation leading to a 'natural' monopoly?

- (A) There are high fixed cost and falling average costs over all outputs demands
(B) There are legal restriction on new entrants
(C) A single firm controls the supply of raw materials
(D) The firm has a patent on an essential process

- Ans: (A) There are high fixed cost and falling average costs over all outputs demands

224. A cost-minimising firm allocates a given total output between two different factories.

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83. Product A is an input in the production of product. In turn product B is a complement to product C. We can expect a decrease in the price of A to:
- (A) increase the supply of B and increase the demand for C
 - (B) decrease the supply of B and increase the demand for C
 - (C) decrease the supply of B and decrease the demand for C
 - (D) increase the supply of B and decrease the demand for C
- Ans: (A) Increase the supply of B and increase the demand for C
84. A market is in equilibrium:
- (A) provided there is no surplus of the product.
 - (B) at all prices above that shown by the intersection of the supply and demand curves.
 - (C) Where producers want to sell is equal to what the consumers want to buy.
 - (D) whenever the demand curve is down sloping and the supply curve is up sloping.
- Ans: (C) Where producers want to sell is equal to the consumers want to buy.
85. If there is a shortage of product X:
- (A) fewer resources will be allocated to the production of this good
 - (B) the price of the product will rise.
 - (C) the price of the product will decline.
 - (D) All of these.
- Ans: (B) the price of the product will rise.
86. Which of the following is a characteristic of goods which are perfect complements?
- (A) joint demand
 - (B) joint supply
 - (C) indivisibility in production
 - (D) perfect substitutability
- Ans: (A) joint demand
87. Which of the following will cause the demand curve for domestically produced cars to shift to the left?

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- (A) The tariff on imported cars is reduced
 - (B) The tax on petrol is reduced
 - (C) Taxes on the purchases of cars are reduced
 - (D) The price of domestically produced cars is reduced
- Ans: (A) The tariff on imported cars is reduced
88. The quantity demanded of a normal good is inversely related to its price and the quantity supplied is directly related. During a certain period, 10,000 units are sold at a price of 20 C. During a later period, 12,000 units are sold at a price of 22 C
- (A) a reduction in consumers income
 - (B) an increase in the cost of raw material
 - (C) an increase in the productivity of factors of production
 - (D) an increase in the price of a substitute commodity
- Ans: (D) an increase in the price of a substitute commodity
89. In driving the demand curve for a good, which of the following is allowed to vary?
- (A) income
 - (B) the price of the good being considered
 - (C) the price of all other goods
 - (D) tastes
- Ans: (B) the price of the good being considered
90. Demand for a good is said to be effective only when it is associated with:
- (A) the satisfaction of a want
 - (B) knowledge of the characteristics of the good
 - (C) willingness and ability to pay for the good
 - (D) sufficient disposable income to pay for the good
- Ans: willingness and ability to pay for the good
91. Why does an individual's demand curve for a good usually slope down from left to right?

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9. Keynes' explanation for low firm investment during the Great Depression was
 (A) low savings
 (B) high real borrowing rates
 (C) high savings
 (D) A permanent change in corporate ownership structures.
 ➤ Ans: (C) high savings
10. Say's law states that:
 (A) Supply creates its own demand
 (B) Demand creates its own supply.
 (C) There are no such things as a free lunch
 (D) Macroeconomic policy activism
 ➤ Ans: (A) Supply creates its own demand
11. In flow of income, Keynesian equilibrium obtains when
 (A) $S=I, T=G, M=X$
 (B) $S+T+M = I+G+X$
 (C) There is no inflation or unemployment
 (D) The interest rate and exchange rate are equal
 ➤ Ans: (B) $S+T+M = I+G+X$
12. Under conditions of Keynesian equilibrium:
 (A) aggregate demand equals aggregate supply
 (B) aggregate demand equals national income
 (C) both A and B
 (D) none of the above
 ➤ Ans: (C) both A and B
13. One of the tenets of the classical view of the labour market is that the wage adjustments that are necessary to clear the labour market occur:
 (A) Slowly. (B) Quickly.
 (C) Very infrequently
 (D) Instantly.
 ➤ Ans: Quickly.
14. Those that hold the classical view of the labour market are likely to believe that:
 (A) Monetary, but not fiscal policy.
 (B) Both monetary and fiscal policy.
- (C) Fiscal, but not monetary policy.
 (D) Neither monetary nor fiscal policy
 ➤ Ans: (D) Neither monetary nor fiscal policy
15. Which school of economic thought suggested that one possible cause of inflation was a 'push' from the cost side?
 (A) New classical economists.
 (B) Monetarists.
 (C) Marxists. (D) Keynesians.
 ➤ Ans: Keynesians.
16. The origins of classical economics can be traced to the work of:
 (A) Karl Marx (B) Milton Friedman
 (C) John Maynard Keynes
 (D) Adam Smith
 ➤ Ans: (D) Adam Smith
17. Say's Law is a proposition underlying classical economics stating that:
 (A) Supply creates its own demand
 (B) Leakages are greater than injections
 (C) Unemployment is a common condition
 (D) Consumption expenditures are a function of disposable income
 ➤ Ans: (A) Supply creates its own demand
18. According to classical economics, the economy was unlikely to experience:
 (A) Full employment
 (B) Flexible wages and prices
 (C) Equality between saving and investment
 (D) High rates of unemployment
 ➤ Ans: (D) High rates of unemployment
19. Classical economics was replaced as the dominant theory of macroeconomic analysis by:
 (A) Monetarism
 (B) Rational expectations
 (C) Keynesian economics
 (D) Neoclassical economics
 ➤ Ans: (C) Keynesian economics
20. Keynesian economics was largely developed to address the economic problems of the:
 (A) Stagflation of the 1970s

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64. While drawing a given market demand curve, _____ is not considered constant
(A) Income.
(B) The price of the good in question.
(C) The prices of related goods.
(D) Preferences.
➤ Ans: (D) Preferences.
65. If the equilibrium price of bread is Rs. 3 and the government imposes Rs. 2 price ceiling on the price of bread then:
(A) More bread will be produced to meet the increased demand
(B) There will be a shortage of bread
(C) The demand for bread will decrease because suppliers will reduce their supply.
(D) A surplus of bread will emerge.
➤ Ans: (B) There will be a shortage of bread
66. An increase in supply is shown by:
(A) Shifting the supply curve to the left.
(B) Shifting the supply curve to the right.
(C) Upward movement along the supply curve.
(D) Downward movement along the supply curve.
➤ Ans: (B) Shifting the supply curve to the right.
67. Price floor results in:
(A) All of the given options.
(B) Excess supply.
(C) Equilibrium. (D) Excess demand
➤ Ans: (B) Excess supply.
68. The price elasticity of demand measures the responsiveness of quantity demanded to:
(A) Quantity demanded
(B) Quantity supplied
(C) Price. (D) Output.
➤ Ans: (C) Price.
69. Due to capacity constraints, the price elasticity of supply for most products is:
(A) The same in the long run and the short run.

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- (B) Greater in the long run than in the short run.
(C) Greater in the short run than in the long run.
(D) Too uncertain to be estimated
➤ Ans: (B) Greater in the long run than in the short run.
70. If a sales tax on beef leads to reduced tax revenue, this means:
(A) Elasticity of demand is < 1 .
(B) Elasticity of demand is > 1 .
(C) Demand is upward-sloping.
(D) Demand is perfectly inelastic
➤ Ans: (B) Elasticity of demand is > 1 .
71. A market:
(A) Reflects unsloping demand and down sloping supply curves.
(B) entails the exchange of goods,
(C) Is an institution which brings together buyers and sellers.
(D) Always entails face-to-face contact between buyer and seller.
➤ Ans: (C) Is an institution which brings together buyers and sellers.
72. A demand curve:
(A) shows the relationship between price and quantity demanded
(B) indicates the quantity demanded at each price in a series of prices.
(C) graphs as a down sloping line.
(D) has all of the above characteristics.
➤ Ans: (D) has all of the above characteristics.
73. "When the price of a product rises, consumers shift their purchases to other products whose prices are now relatively lower." This statement describes:
(A) an inferior good
(B) the rationing function of prices.
(C) the substitution effect.
(D) the income effect.
➤ Ans: (C) the substitution effect.



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160. In a cartel, members of the firms given a fixed

amount to produce the amount is _____

- (A) Quotient (B) Factor

- (C) Limitless (D) None

➤ Ans: (B) Factor

161. In the Kinked Demand Curve theory it is assumed that _____

- (A) Firms co-operate

- (B) Firms act as part of a cartel

- (C) Firms are competitive with each other

- (D) Firms are not profit maximizers

➤ Ans: (C) Firms are competitive with each other

162. In the Kinked Demand Curve theory:

- (A) The marginal revenue curve is perfectly

- horizontal

- (B) Demand is always price inelastic

- (C) Demand is always price elastic

- (D) Non price competition is likely

➤ Ans: (D) Non price competition is likely

163. Firms in oligopoly are likely to:

- (A) Invest heavily in branding

- (B) Act independently of other firms

- (C) Try to differentiate its products

- (D) Try to be a price maker

➤ Ans: (C) Try to differentiate its products

164. Price discrimination is a market situation where a monopolist

- (A) Sells similar goods at similar prices at similar places

- (B) Sells different goods at different prices

- (C) Sells similar goods at different prices

- (D) Sells different goods at similar prices

➤ Ans: (C) Sells similar goods at different prices

165. Firm is earning abnormal profits in a situation when

- (A) The price or AR is more than AC

- (B) The price or AR is more than MC

- (C) The price or AR is more than MC

- (D) None of the above

➤ Ans: (A) The price or AR is more than AC

➤ Ans: (B) Both B and C

166. When firms in an oligopoly successfully collude and do not cheat on a cartel agreement, they achieve long run economic profit similar to

- (A) Perfect competition

- (B) Monopoly

- (C) Monopolistic competition

- (D) Non colluding oligopolies

➤ Ans: (C) Monopolistic competition

167. Firm is earning abnormal loss in a situation when

- (A) The price or AR is more than MC

- (B) The price of AR is more than MC

- (C) The price of AR is more than MC

- (D) None of the above

➤ Ans: (D) None of the above

168. If the cost conditions are similar and the members of the cartel will share the market demand

- (A) Equally (B) Quarterly

- (C) One fourth (D) Three quarter

➤ Ans: (A) Equally

169. The final quota of each firm depends upon the level of its

- (A) Production & Costs

- (B) Sharing

- (C) Low costs & High production

- (D) Costs & Bargaining skills

➤ Ans: (B) Sharing

170. Medical practitioners are the best example of

- (A) Market sharing by Agreement on Quota

- (B) Non Price Competition Agreement

- (C) Joint Profit Maximization

- (D) None of the above

➤ Ans: (D) None of the above

171. Bargaining process adopted criteria

- (A) Past levels of sales & Costs

- (B) Present levels of production & its style

- (C) Past levels of sales & basis of production

- (D) Both B and C

➤ Ans: (D) Both B and C

172. Fr

(A)

(B)

(C)

(D)

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(D) price to rise.

> Ans: (D) price to rise.

38. Equilibrium in the market for good A obtains

- (A) when there is no surplus or shortage prevailing in the market
- (B) where the demand and supply curves for A intersect
- (C) when all of what is produced of A is consumed
- (D) all of the above

> Ans: (D) all of the above

39. A shift in the demand curve (drawn in the traditional Price-Quantity space to the left may be caused by

- (A) a decrease in supply
- (B) a fall in income.
- (C) a fall in the price of a complementary good
- (D) a fall in the number of substitute goods.

> Ans: (B) a fall in income.

40. A shift in the demand curve (drawn in Income-Quantity space to the left may be caused by

- (A) a fall in the price of a complementary good
- (B) a fall in income.
- (C) a change in tastes such that consumers prefer the good more.
- (D) a rise in the number of substitute goods.

> Ans: (D) a rise in the number of substitute goods (Assume the good is normal)

41. A movement along the demand curve (drawn in Quantity-Price space to the left may be caused by

- (A) an increase in supply
- (B) a rise in income.
- (C) a rise in the price of a complementary good
- (D) a fall in the number of substitute goods.

> Ans: (A) an increase in supply (Assume the good is normal)

42. When the market operates without interference, price increases will distribute

what is available to those who are willing and able to pay the most. This process is known as

- (A) price fixing. (B) quantity setting.
- (C) quantity adjustment
- (D) price rationing.

> Ans: (D) price rationing.

43. What will happen to equilibrium price and quantity when the demand curve shifts to the left and the supply curve shifts to the right

- (A) price falls unambiguously but the effect on quantity cannot be determined
- (B) both price and quantity falls unambiguously
- (C) quantity falls unambiguously but the effect on price cannot be determined
- (D) the effect on both price and quantity cannot be determined

> Ans: (A) price falls unambiguously but the effect on quantity cannot be determined

44. What will happen to equilibrium price and quantity when both the demand and supply curves shift to the left

- (A) price falls unambiguously but the effect on quantity cannot be determined
- (B) both price and quantity falls unambiguously
- (C) quantity falls unambiguously but the effect on price cannot be determined
- (D) the effect on both price and quantity cannot be determined

> Ans: (C) quantity falls unambiguously but the effect on price cannot be determined

45. A price ceiling imposed by the government can cause a shortage (excess demand)

- (A) when the price ceiling is above the free (or unregulated market price)
- (B) when the price ceiling is below the free (or unregulated market price)
- (C) when the price ceiling is equal to the free (or unregulated market price)
- (D) either of the above

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74. One reason why the quantity of a good demanded increases when its price falls is that the:
- price decline shifts the supply curve to the left.
 - lower price shifts the demand curve to the left.
 - lower price shifts the demand curve to the right.
 - lower price increases the real incomes of buyers, enabling them to buy more.
- Ans: (D) lower price increases the real incomes of buyers, enabling them to buy more.
75. A rightward shift in the demand curve for product C might be caused by:
- an increase in income if C is a normal good
 - a decrease in income if C is an inferior good
 - an increase in the price of a product which is a close substitute for C
 - any one or more of the above.
- Ans: (D) any one or more of the above.
76. Video cassette recorders and video cassettes are:
- complementary goods.
 - substitute goods.
 - independent goods.
 - inferior goods.
- Ans: (A) complementary goods
77. If the price of K declines, the demand curve for the complementary product J will:
- shift to the left.
 - decrease.
 - shift to the right.
 - remain unchanged
- Ans: (C) shift to the right.
78. If X is a normal good, a rise in money income will shift the:
- supply curve for X to the left
 - supply curve for X to the right.
 - demand curve for X to the left.

- (D) demand curve for X to the right.
 ➤ Ans: (D) demand curve for X to the right.
79. A normal good is defined as one:
- whose amount demanded will increase as its price decreases.
 - whose amount demanded will increase as its price increases.
 - whose demand curve will shift leftward as incomes rise.
 - the consumption of which varies directly with incomes.
- Ans: (D) the consumption of which varies directly with incomes.
80. An increase in the price of product A will:
- reduce the demand for resources used in the production of (A)
 - increase the demand for complementary product (C)
 - increase the demand for substitute product (B)
 - reduce the demand for substitute product (B)
- Ans: (C) increase the demand for substitute product (B)
81. An "increase in the quantity demanded" means that:
- given supply, the price of the product can be expected to decline.
 - price has declined and consumers want to purchase more.
 - the demand curve has shifted to the right.
 - the demand curve has shifted to the left.
- Ans: (B) price has declined and consumers want to purchase more.

82. Improvement in production technology will:
- increase equilibrium price.
 - shift the supply curve to the left.
 - shift the supply curve to the right.
 - shift the demand curve to the left.
- Ans: (C) shift the supply curve to the right.

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- (B) because of barriers to entry into the industry.
(C) because of barriers to exit from the industry.
(D) by virtue of size alone.
➤ Ans: (A) by producing differentiated products.
40. A monopolistically competitive firm that is incurring a loss will produce as long as the price that the firm charges is sufficient to cover
(A) advertising costs.
(B) fixed costs.
(C) marginal costs.
(D) variable costs.
➤ Ans: (D) variable costs.
41. A firm in a monopolistically competitive industry
(A) must lower price to sell more output.
(B) sells a fixed amount of output regardless of price.
(C) can sell an infinite amount of output at the market-determined price.
(D) must raise price to sell more output.
➤ Ans: (A) must lower price to sell more output.
42. The "long-run" equilibrium outcomes in monopolistic competition and perfect competition are similar in the sense that under both market structures
(A) firms will only earn a normal profit.
(B) the efficient output level will be produced in the long run.
(C) firms will be producing at minimum average cost.
(D) firms realise all economies of scale.
➤ Ans: (A) firms will only earn a normal profit.
43. A form of industry structure characterised by a few firms each large enough to influence market price is
(A) monopolistic competition.
(B) monopoly.

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- (C) perfect competition.
(D) oligopoly.
➤ Ans: (D) oligopoly.
44. When one firm in the cooking oil market started an advertising campaign that stressed the nutritional value of its cooking oil, all other cooking oil manufacturers started similar advertising campaigns. This suggests that the cooking oil market is
(A) monopolistically competitive.
(B) oligopolistic.
(C) perfectly competitive.
(D) indeterminate from this information.
➤ Ans: (B) oligopolistic
45. An industry that has a relatively small number of firms that dominate the market is called
(A) a natural monopoly
(B) a colluding industry.
(C) a merged industry
(D) a concentrated industry.
➤ Ans: (D) a concentrated industry.
46. Assume that firms in an oligopoly are currently colluding to set price and output to maximise total industry profit. If the oligopolists are forced to stop colluding, the price charged by the oligopolists will _____ and the total output produced will _____.
(A) increase; decrease
(B) increase; increase
(C) decrease; decrease
(D) decrease; increase
➤ Ans: (D) decrease; increase
47. A group of firms that gets together to make price and output decisions is called
(A) a non-collusive oligopoly.
(B) price leadership.
(C) a cartel.
(D) a concentrated industry.
➤ Ans: (C) a cartel.
48. In which of the following circumstances would a cartel be most likely to work?
(A) where the product is standardised and there are a large number of growers.



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- (B) In both instances firms will operate at the minimum point
 - (C) Both industries entail the production of differentiated products.
 - (D) barriers to entry are either weak or non-existent.
- Ans: (D) barriers to entry are either weak or non-existent.

119. Nonprime competition refers to:

- (A) competition between products of different industries, for example, competition between aluminium and steel in the manufacture of automobile parts.
 - (B) Price increases by a firm which are ignored by its rivals.
 - (C) advertising, product promotion, and changes in the real or perceived characteristics of a product.
 - (D) reductions in production costs which are not reflected in price reductions.
- Ans: (C) advertising, product promotion, and changes in the real or perceived characteristics of a product.

120. Economic analysis of a monopolistically competitive industry is more complicated than that of pure competition because:

- (A) the number of firms in the industry is larger.
 - (B) firms cannot realize an economic profit in the long run.
 - (C) of product differentiation and consequent product promotion activities.
 - (D) producers are mutually interdependent in their pricing strategies.
- Ans: (C) of product differentiation and consequent product promotion activities.

121. The monopolistically competitive seller's demand curve will become more elastic the:

- (A) more significant the barriers to entering the industry.
- (B) greater the degree of product differentiation.
- (C) larger the number of competitors.
- (D) smaller the number of competitors.

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- Ans: (C) larger the number of competitors.
- 122. The price elasticity of a monopolistically competitive firm's demand curve varies:
 - (A) inversely with the number of competitors and the degree of product differentiation.
 - (B) directly with the number of competitors and the degree of product differentiation.
 - (C) directly with the number of competitors, but inversely with the degree of product differentiation.
 - (D) inversely with the number of competitors, but directly with the degree of product differentiation.
- Ans: (C) directly with the number of competitors, but inversely with the degree of product differentiation.

123. In long-run equilibrium a monopolistically competitive firm's price will:

- (A) be less than both MC and ATC
 - (B) exceed ATC, but equal MC
 - (C) exceed MC, but equal ATC
 - (D) exceed both MC and ATC
- Ans: (C) exceed MC, but equal ATC

124. The term "oligopoly" indicates:

- (A) a one-firm industry.
 - (B) many producers of a differentiated product.
 - (C) a few firms producing either a differentiated or a homogeneous product.
 - (D) an industry whose four-firm concentration ratio is low.
- Ans: (C) a few firms producing either a differentiated or a homogeneous product.

125. Barriers to entry in oligopolistic industries may consist of:

- (A) economies of scale.
 - (B) patents.
 - (C) ownership of essential resources.
 - (D) all of the above.
- Ans: (D) all of the above.

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63. Information products are unique in that the marginal cost of _____ the product is virtually zero.
- (A) producing (B) distributing
 (C) accessing (D) all of the above
 ➤ Ans: (B) distributing
64. Since $TR = PxQ$, suppose a perfectly competitive firm increases its production from 10 units to 11 units. If the market price is \$20 per unit, total revenue for 11 units is:
- (A) \$20 (B) \$200
 (C) \$210 (D) \$220
 ➤ Ans: (D) \$220
65. The profit-maximizing level of output for a perfectly competitive firm occurs where:
- (A) Marginal revenue equals marginal cost
 (B) Total revenue equals total cost
 (C) Average revenue equals average total cost
 (D) Average revenue equals average variable cost
 ➤ Ans: (A) Marginal revenue equals marginal cost
66. Food chains are operating in Pakistan like McDonald, KFC and Pizza Hut Ltd. These food chains sell their products in different countries at different prices. This is an example of:
- (A) First-degree price discrimination
 (B) Second-degree price discrimination
 (C) Third-degree price discrimination
 (D) Monopolistic competition
 ➤ Ans: (C) Third-degree price discrimination
67. You go to the market to purchase mangoes. Suppose 1 KG of mangoes = Rs. 45. If you purchase 1 KG of mangoes, seller will not discount the rate. But if you purchase mangoes in bulk amount then he will sell you at lower price. This is an example of:
- (A) First-degree price discrimination
 (B) Second-degree price discrimination
 (C) Third-degree price discrimination
 (D) Monopolistic competition
- Ans: (B) Second-degree price discrimination
68. Which of the following is true for both perfect and monopolistic competition?
- (A) Firms produce a differentiated product
 (B) Firms face a downward sloping demand curve
 (C) Firms produce a homogeneous product
 (D) There is freedom of entry and exit in the long run
 ➤ Ans: (D) There is freedom of entry and exit in the long run
69. A feature of monopolistic competition that makes it similar to monopoly is the:
- (A) Inability to influence the price
 (B) Downward sloping demand curve
 (C) Ease of entry into the industry
 (D) Horizontal marginal revenue curve
 ➤ Ans: (B) Downward sloping demand curve
70. Monopolistic competition is a market structure characterized by:
- (A) A single buyer and several sellers
 (B) A product with no close substitutes
 (C) Barriers to entry and exit
 (D) Differentiated products
 ➤ Ans: (D) Differentiated products
71. A feature of oligopoly that makes it similar to monopoly is the:
- (A) Inability to influence the price
 (B) Downward-sloping demand curve
 (C) Freedom of entry into the industry
 (D) Horizontal marginal revenue curve
 ➤ Ans: (B) Downward-sloping demand curve
72. The market structure in which each firm is independent in decisions is known as:
- (A) Monopolistic competition
 (B) Oligopoly
 (C) Perfect competition
 (D) Monopoly
 ➤ Ans: (D) Monopoly

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- (B) neither a "price maker" nor a "price taker."
(C) a "price taker."
(D) a "price maker."
➤ Ans: (C) a "price taker."
93. The demand schedule or curve confronted by the individual purely competitive firm is:
(A) relatively elastic, that is, the elasticity coefficient is greater than unity.
(B) perfectly elastic
(C) relatively inelastic, that is, the elasticity coefficient is less than unity.
(D) perfectly inelastic
➤ Ans: (B) perfectly elastic
94. If a firm in a purely competitive industry is confronted with an equilibrium price of \$5, its marginal revenue:
(A) may be either greater or less than \$5.
(B) will also be \$5.
(C) will be less than \$5.
(D) will be greater than \$5.
➤ Ans: (B) will also be \$5.
95. For a purely competitive firm total revenue:
(A) is price times quantity sold
(B) increases by a constant absolute amount as output expands.
(C) graphs as a straight unsloping line from the origin.
(D) has all of the above characteristics.
➤ Ans: (D) has all of the above characteristics.
96. A purely competitive seller's average revenue curve coincides with:
(A) its marginal revenue curve only.
(B) its demand curve only.
(C) both its demand and marginal revenue curves.
(D) neither its demand nor its marginal revenue curve.
➤ Ans: (C) both its demand and marginal revenue curves.
97. A firm reaches a break-even point (normal profit position). Where:

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- (A) marginal revenue cuts the horizontal axis.
(B) marginal cost intersects the average variable cost curve.
(C) total revenue equals total variable cost.
(D) total revenue and total cost are equal.
➤ Ans: (D) total revenue and total cost are equal.
98. When a firm is maximizing profit it will necessarily be:
(A) maximizing profit per unit of output.
(B) maximizing the difference between total revenue and total cost.
(C) minimizing total cost.
(D) maximizing total revenue.
➤ Ans: (B) maximizing the difference between total revenue and total cost.
99. Assume the XYZ Corporation is producing 20 units of output. It is selling this output in a purely competitive market at \$10 per unit. Its total fixed costs are \$100 and its average variable cost is \$3 at 20 units of output. This corporation:
(A) should close down in the short run.
(B) is maximizing its profits.
(C) is realizing a loss of \$60.
(D) is realizing an economic profit of \$40.
➤ Ans: (D) is realizing an economic profit of \$40.
100. Suppose you find that the price of your product is less than minimum (AVC) you should:
(A) minimize your losses by producing where $P = MC$
(B) maximize your profits by producing where $P = MC$
(C) close down because losses will exceed total fixed costs.
(D) close down because total revenue exceeds total variable cost.
➤ Ans: (C) close down because losses will exceed total fixed costs.

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172. Firms sell at the price settled by under PC

- (A) Market Forces
 (B) Leader
 (C) Equal Shares
 (D) Cartel

Ans: (A) Market Forces

173. In the Kinked Demand Curve Model, suppose MC curve shifts upward in discontinuous

Production (tonnes)	Total revenue (\$)	Marginal cost (\$)
2	100	10
3	120	15
4	140	20
5	160	25
6	180	30
7	200	40

Within which of the following output ranges will the firm's profits be maximized?
 (A) 2 – 3 tonnes (B) 3 – 4 tonnes
 (C) 5 – 6 tonnes (D) 6 – 7 tonnes

Ans: (B) 3 – 4 tonnes

175. In the short run, a profit maximizing firm will produce the output at which marginal revenue equals short-run marginal cost provide that
 (A) average revenue exceeds average fixed cost
 (B) average revenue exceeds average variable cost
 (C) average revenue exceeds marginal costs
 (D) average variable cost exceeds marginal revenue

Ans: (B) average revenue exceeds

average variable costs

176. The maximum profits, an entrepreneur must produce that output which A equates average revenue and average cost

- (A) equates average revenue and average cost

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range of MR curve. Which one of the following correct at equilibrium

- (A) Price rises but quantity remains same
 (B) Price and quantity both rises
 (C) Price and quantity both same
 (D) quantity rises but price remains same

Ans: (C) Price and quantity both same

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(B) equates marginal revenue and marginal cost

(C) equates marginal revenue and average cost

(D) maximum profit per unit output

Ans: (B) equates marginal revenue and marginal cost

177. In which of the following circumstances will a firm cease production in the short run?

- (A) It makes a profit which is less than its total variable costs
 (B) It makes a profit which is less than its total fixed costs
 (C) Its average revenue is less than its average fixed cost.
 (D) Its average revenue is less than its average variable cost.

Ans: (D) Its average revenue is less than its average variable cost.

178. In the short run, a firm is producing at its minimum average cost per unit of output. What effect will a small reduction in output have on the firm's marginal average and total costs?

- | Marginal Cost | Average cost | Total Cost |
|---------------|--------------|------------|
| (A) fall | fall | fall |
| (B) fall | rise | fall |
| (C) rise | fall | fall |
| (D) rise | rise | fall |

Ans: (B) fall

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CLASSICAL AND KEYNESIAN ECONOMICS

1. According to Classical models, the level of employment is determined primarily by
 - (A) interest rates.
 - (B) the level of prices.
 - (C) the level of aggregate supply in the economy
 - (D) the level of aggregate demand for goods and services.

➤ Ans: (C) the level of aggregate supply in the economy
2. Macroeconomic theory that emphasised the theories of Keynes and de-emphasised the Classical theory developed as the result of the failure of
 - (A) Economic theory during the 1970s.
 - (B) Fine tuning during the 1960s.
 - (C) The economy to grow at a rapid rate during the 1950s.
 - (D) The classical model.

➤ Ans: (D) The classical model.
3. Keynes believed falling wages were not a solution to persistent unemployment because
 - (A) falling wages demoralized workers.
 - (B) this would reduce the purchasing power of labourers as consumers
 - (C) the unemployment was caused by frictional and structural factors.
 - (D) wages would fall more than required to clear the labour market.

➤ Ans: (B) this would reduce the purchasing power of labourers as consumers
4. According to Keynes, the level of employment is determined by
 - (A) interest rates.
 - (B) the level of prices.
 - (C) the level of aggregate supply in the economy
 - (D) the level of aggregate demand for goods and services.

➤ Ans: (D) the level of aggregate demand for goods and services.
5. According to the Classical model, unemployment
 - (A) could not persist because wages.
 - (B) could persist for long periods of time because wages are not flexible.
 - (C) could be eliminated only through government intervention.
 - (D) could never exist.

➤ Ans: (A) could not persist because
6. To get the economy out of a slump, Keynes believed that the government should
 - (A) increase both taxes and government spending.
 - (B) increase taxes and/or decrease government spending.
 - (C) cut both taxes and government spending.
 - (D) decrease taxes and/or increase government spending.

➤ Ans: (D) decrease taxes and/or increase government spending.
7. According to the Classical economists, the economy
 - (A) requires fine tuning to reach full employment.
 - (B) should not be left to market forces.
 - (C) will never be at full employment.
 - (D) is self correcting.

➤ Ans: (D) is self correcting.
8. Monetarism became popular because it was able to, unlike Classical or Keynesian economics, explain
 - (A) stagflation in the late 1970s.
 - (B) demand-pull inflation in the 1960s.
 - (C) low growth rates in the 1950s.
 - (D) the prolonged existence of high unemployment during the Great Depression.

➤ Ans: (A) stagflation in the late 1970s.



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- (B) Great Depression of the 1930s
(C) English industrial revolution of the late 1700s
(D) American industrial revolution of the late 1800s
➤ Ans: (B) Great Depression of the 1930s
21. Keynesian economics was the predominant economic theory:
(A) Prior to the late 1700s
(B) From the late 1700s to the early 1900s
(C) From the 1930s to the 1970s
(D) Since the 1970s
➤ Ans: (C) From the 1930s to the 1970s
22. Keynesian economics rejected the classical assumption that:
(A) Supply creates its own demand
(B) Prices and wages are inflexible
(C) Self-correction takes a long time
(D) Consumption expenditures depend on disposable income
➤ Ans: (A) Supply creates its own demand
23. According to Keynes macroeconomic equilibrium is attained when:
(A) Prime Minister is PhD in Macroeconomics
(B) Aggregate Demand Equals Aggregate Supply
(C) Inflation Exists in Economy.
(D) None
➤ Ans: (B) Aggregate Demand Equals Aggregate Supply
24. Under conditions of Keynesian equilibrium:
(A) aggregate demand equals aggregate supply
(B) aggregate demand equals national income
(C) both A and B
(D) none of the above
➤ Ans: (C) both A and B
25. According to Keynesian economists, those who are not working

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- (A) have given up looking for a job, but would accept a job at the current wage if one were offered to them.
(B) are too productive to be hired at the current wage.
(C) have chosen not to work at the market wage.
(D) are unable to find a job at the current wage rate.
➤ Ans: (D) are unable to find a job at the current wage rate.
26. In the complete classical model, a rightward shift of the labour supply curve will:
(A) Decrease the price level and increase the nominal wage.
(B) Decrease the nominal wage and increase the price level.
(C) Decrease both the price level and the nominal wage.
(D) Increase both the price level and the nominal wage.
➤ Ans: (D) Increase both the price level and the nominal wage.
27. The Great Depression of 1930s opened the door to the _____ revolution in macroeconomic theory.
(A) Keynesian.
(B) New classical.
(C) Old classical.
(D) New Keynesian.
➤ Ans: (A) Keynesian
28. In the Keynesian cross model, the 45-degree line has a slope of:
(A) 45. (B) Infinity.
(C) 1. (D) 0.
➤ Ans: (C) 1.
29. The view that the market system will ensure full employment is associated with:
(A) Keynesian economics.
(B) GDP gap analysis.
(C) Classical economics.
(D) The aggregate expenditures model.
➤ Ans: (C) Classical economics.

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- Ans: (C) One person's use of X does not affect another person's ability to use
56. Why might advertising exceed its socially optimal level?
- (A) Because the marginal social costs of advertising are less than the marginal private costs.
 - (B) Because private firms cannot incorporate marginal external costs when deciding how much to advertise.
 - (C) The marginal external benefit to advertising is not taken into account by firms.
 - (D) None of the above.
- Ans: (B) Because private firms cannot incorporate marginal external costs when deciding how much to advertise.
57. If $MSBX > MPBX$, what can the government do to align the market outcome with the social optimum:
- (A) Impose a consumption tax.
 - (B) Impose a production tax.
 - (C) Provide a consumption subsidy.
 - (D) Provide a production subsidy.
- Ans: (C) Provide a consumption subsidy.
58. If the VMP for labour > the MRP for labour, and there is no government intervention, you can conclude that the underlying market structure is:
- (A) a monopoly.
 - (B) perfect competition.
 - (C) not perfect competition.
 - (D) none of the above.
- Ans: (C) not perfect competition.
59. A backward bending labour supply curve (roughly similar in shape to an inverted C) obtains when the income effect of a wage rise (beyond a certain wage level) dominates the substitution effect. If it was also the case that the income effect of a wage reduction (below a certain wage level) dominated the substitution effect, what would the complete labour supply curve roughly look like in "wage-hours worked" space?

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- (A) a Z. (B) an inverted Z.
(C) an S. (D) an inverted S.
➤ Ans: (D) an inverted S.
60. A firm is considering the project of buying an ice-cream producing machine costing Rs.1,000,000 that will serve for 10 years and then have a scrap value of Rs. 110,000 at the end of 10 years. If the present value of the net ice-cream sales revenues that the machine will generate is Rs.900,000, then, assuming a 10% annual discount rate:
- (A) the firm should not buy the machine because the NPV associated with the overall project is negative.
 - (B) the firm should be indifferent between buying and not buying because the NPV of the overall project is zero.
 - (C) The firm should buy the machine because the NPV of the overall project is positive.
 - (D) None of the above.
- Ans: (A) the firm should not buy the machine because the NPV associated with the overall project is negative.
61. If the quarterly rent from a house is Rs.5,000, the annual interest rate is fixed at 5%, and housing market conditions are stable, what would you expect the market price of the house to be?
- (A) Rs.100,000 (B) Rs.200,000
 - (C) Rs.400,000 (D) Rs.800,000
- Ans: (C) Rs.400,000
62. There are many differences between labour and land as factors of production, for e.g.:
- (A) Labour cannot be purchased like land, it can only be rented
 - (B) There is no obvious reason why landowners will reduce the supply of land when the rental price of land goes up.
 - (C) The decision to hire labour does not directly depend on the interest rate.
 - (D) All of the above.
- Ans: (D) All of the above.

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MARKET FORCES

1. The law of demand states that:

- (A) as the quantity demanded rises, the price rises
 - (B) as the price rises, the quantity demanded rises
 - (C) as the price rises, the quantity demanded falls
 - (D) as supply rises, the demand rises
- Ans: (C) as the price rises, the quantity demanded falls

2. The price elasticity of demand is the:

- (A) Percentage change in quantity demanded divided by the percentage change in price
- (B) Percentage change in price divided by the percentage change in quantity demanded
- (C) Dollar Change in quantity demanded divided by the dollar change in price
- (D) Percentage change in quantity demanded divided by the percentage change in quantity supplied

➤ Ans: (A) Percentage change in quantity demanded divided by the percentage change in price

3. Income elasticity of demand for an inferior good is:

- (A) Positive (B) Zero
 - (C) Both (A) & (B) (D) None of these
- Ans: (D) None of these

4. A Company desired to increase revenues.

They decided to raise prices to Rs. 20 per unit because they believed this would result in greater revenues. But in reality, total revenues fell. What will be the elasticity of their product?

- (A) relatively inelastic
- (B) unit elastic
- (C) relatively elastic
- (D) perfectly elastic

➤ Ans: (C) relatively elastic

5. Demand curve in case of Geffen good is:

- (A) Negatively sloped

- (B) Vertical
 - (C) Positively sloped
 - (D) None of these
- Ans: (C) Positively sloped

6. The demand for a product would be more inelastic:

- (A) the greater is the time under consideration
 - (B) the greater is the number of substitutes available to buyers
 - (C) the less expensive is the product in relation to incomes
 - (D) all of the above
- Ans: (C) the less expensive is the product in relation to incomes

7. In the case of agriculture,

- (A) the demand has shifted to the right more than the supply has shifted to the right
 - (B) the demand has shifted to the right less than the supply has shifted to the right
 - (C) the demand has shifted to the left more than the supply has shifted to the left
 - (D) the demand has shifted to the left less than the supply has shifted to the left
- Ans: (B) the demand has shifted to the right less than the supply has shifted to the right

8. The agricultural price support program is an example of

- (A) a price ceiling
 - (B) a price floor
 - (C) equilibrium pricing
 - (D) None of these
- Ans: (B) a price floor

9. If there is a price floor, there will be

- (A) shortages (B) surpluses
 - (C) equilibrium (D) none
- Ans: (B) surpluses

10. If there is a price ceiling, there will be

- (A) shortages (B) surpluses
- (C) equilibrium (D) none

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- Ans: (A) Product diversity.
82. As compared to existing firms, a new firm entering in monopolist market has:
 (A) High costs. (B) Low costs.
 (C) Equal costs.
 (D) None of the given options.
 ➤ Ans: (A) High costs
83. In monopoly, which of the following is NOT true?
 (A) Products are differentiated
 (B) There is freedom of entry and exit into the industry in the long run.
 (C) The firm is a price maker.
 (D) There is one main seller.
 ➤ Ans: (B) There is freedom of entry and exit into the industry in the long run.
84. Under the kinked demand curve model, an increase in marginal cost will lead to:
 (A) An increase in output level and a decrease in price.
 (B) A decrease in output level and an increase in price.
 (C) A decrease in output level and no change in price.
 (D) Neither a change in output level nor a change in price.
 ➤ Ans: (D) Neither a change in output level nor a change in price.
85. Which of the following market situation is much like a pure monopoly except that its member firms tend to cheat on agreed upon price and output strategies?
 (A) Duopoly. (B) Cartel.
 (C) Market sharing monopoly.
 (D) Natural monopoly.
 ➤ Ans: (B) Cartel
86. The most important factor in determining the long-run profit potential in monopolistic competition is
 (A) Free entry and exit
 (B) The elasticity of the market demand curve.

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- (C) The elasticity of the firm's demand curve
 (D) The reaction of rival firms to a change in price
 ➤ Ans: (A) Free entry and exit
87. Which of the following can be thought of as a barrier to entry?
 (A) Scale economies.
 (B) Patents.
 (C) Strategic actions by incumbent firms.
 (D) All of the given options are true.
 ➤ Ans: (D) All of the given options are true.
88. Which of the following is NOT regarded as a source of inefficiency in monopolistic competition?
 (A) Product diversity.
 (B) Excess capacity.
 (C) The fact that price exceeds marginal cost.
 (D) The fact that long-run average cost is not minimized
 ➤ Ans: (A) Product diversity.
89. Which of the following industries most closely approximates pure competition?
 (A) agriculture (B) farm implements
 (C) clothing (D) steel
 ➤ Ans: (A) agriculture
90. In which of the following industry structures is the entry of new firms the most difficult?
 (A) pure monopoly
 (B) oligopoly
 (C) monopolistic competition
 (D) pure competition
 ➤ Ans: (A) pure monopoly
91. An industry comprised of a very large number of sellers producing a standardized product is known as:
 (A) monopolistic competition
 (B) oligopoly
 (C) pure monopoly
 (D) pure competition
 ➤ Ans: (D) pure competition
92. A purely competitive seller is:
 (A) both a "price maker" and a "price taker."

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214. A perfectly competitive industry becomes a profit maximizing monopoly. The marginal cost curve of the monopolist is identical to the supply curve of the perfectly competitive industry.
- Output Price
 (A) higher higher
 (B) higher unchanged
 (C) lower higher
 (D) lower lower
- Ans: (C) lower higher

215. A patent, which has conferred a temporary monopoly position of a firm, lapses. What is likely to happen to the demand curve for the firm's product?

- (A) It will shift to the left and become less elastic
 (B) It will shift to the left with unchanged elasticity
 (C) It will shift to the left and become more elastic
 (D) It will shift to the right and become more elastic
- Ans: (C) It will shift to the left and become more elastic

216. A single monopolist enjoying internal economies of scale is replaced by a large number of producers operating under perfect competition. What will be the effect on the industry's price and output?

- Price Output
 (A) fall rise
 (B) rise fall
 (C) uncertain uncertain
 (D) rise uncertain
- Ans: (C) uncertain uncertain

217. What would be the effect of a specific subsidy on each item produced by a profit maximizing monopolist?

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- (A) Average revenue rises by the amount of the subsidy
 (B) Marginal costs fall by the amount of the subsidy
 (C) Price and output do not change
 (D) Price falls by the amount of the subsidy
- Ans: (B) Marginal costs fall by the amount of the subsidy

218. A large number of small firms in a competitive industry are taken over and combined to form a single monopoly supplier. Given the existence of internal economies of scale, what effect will this have on price and output?

- Price Output
 (A) fall uncertain
 (B) rise increase
 (C) uncertain decrease
 (D) uncertain uncertain
- Ans: (D) uncertain uncertain

219. What is the basic difference between a firm's perfect competition and a monopoly?

- (A) The elasticity of demand for the product of the monopolist is greater than that for the product of the perfect competitor.
 (B) the perfect competitor can sell whatever quantity the firm chooses at the market price whereas the monopolist can only increase sales by reducing price.
 (C) The perfect competitor will aim to equal price and average cost while the monopolist will always aim to maximize profits.
 (D) Supernormal profits are possible in the short run for the monopolist but not for a perfect competitor.
- Ans: (B) the perfect competitor can sell whatever quantity the firm chooses at the market price whereas the monopolist can only increase sales by reducing price.

220. Which condition makes price discrimination possible?

(A) a large number of firms in the market
 (B) identical elasticities of demand in different markets in which the product is sold

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189. A firm earns supernormal profit when its profit is above that
(A) earned by competing firms
(B) needed to cover its fixed costs
(C) needed to keep the firm in production in the short run
(D) required to keep its resources in their present use.
- Ans: (D) required to keep its resources in their present use.
190. A firm manufactures a homogeneous product at a number of different plants. How should it allocate output between the different plants in order to minimize its overall production costs?
(A) equate average costs at each plant
(B) equate marginal costs at each plant
(C) minimize capital costs at each plant
(D) share production equally between the different plants.
- Ans: (B) equate marginal costs at each plant
191. A firm is producing a level of output where its marginal cost equals its marginal revenue. What must this mean?
(A) Any other output would mean a lower profit or a higher loss
(B) The firm is operating in a perfectly competitive market
(C) Normal profit is being earned
(D) Total revenue is being maximized
- Ans: (A) Any other output would mean a lower profit or a higher loss
192. When is a profit-maximising firm in equilibrium?
(A) when average profit is maximised
(B) when its output is at its lowest
(C) when the firm is maximizing total revenue
(D) when there is no tendency to change output
- Ans: (D) when there is no tendency to change output
193. A firm earns supernormal profit when its profit is above that
(A) earned by competing firms
(B) needed to cover its fixed costs
(C) need to keep the firm in production in the short run
(D) required to keep its resources in their present use.
- Ans: (D) required to keep its resources in their present use.
194. Which of the following represents the short-run supply curve of a profit maximizing firm selling in a perfectly competitive market?
(A) the marginal cost curve above minimum average total cost
(B) the marginal cost curve above minimum average variable cost
(C) the average variable cost curve above minimum marginal cost
(D) the average total cost curve above minimum marginal cost
- Ans: (B) the marginal cost curve above minimum average variable cost
195. The table shows that the total cost of a perfectly competitive firm at different levels of output
- | Output (Units) | Total Cost (\$) |
|----------------|-----------------|
| 0 | 10 |
| 10 | 50 |
| 20 | 95 |
| 30 | 125 |
| 40 | 170 |
196. A specific tax of 30 paisa per unit on a commodity produced in a perfectly competitive industry causes the price paid by consumers to rise by 30 paisa. If it is known that the demand curve is downward sloping then this industry is characterized by
(A) decreasing costs
(B) increasing costs
(C) a perfectly inelastic supply curve
(D) a perfectly elastic supply curve
- Ans: (D) a perfectly elastic supply curve

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| <p>Ans: (B) monopolistic competition</p> <p>monopoly</p> <p>228. Which of the following explains why in long-run equilibrium in monopolistic competition, firms make only normal profits?</p> <p>(A) consumer resistance
 (B) freedom of entry and exit
 (C) decreasing returns to scale
 (D) product differentiations</p> <p>Ans: (B) freedom of entry and exit</p> <p>229. In which way does monopolistic competition differ from perfect competition?</p> <p>(A) Average revenue exceeds average cost in long-run equilibrium
 (B) Barriers exist of entry of new firms
 (C) Marginal revenue exceeds marginal cost in long-run equilibrium
 (D) Products are differentiated</p> <p>Ans: (D) Products are differentiated</p> <p>230. A firm in monopolistic competition is producing at the minimum point on its average total cost curve. What can be deduced from this?</p> <p>(A) It's maximizing its profits.
 (B) It's minimizing its total costs.
 (C) Marginal cost equals average total cost.
 (D) Marginal cost equals average variable cost</p> <p>Ans: (C) Marginal cost equals average total cost</p> | <p>231. Long-run equilibrium in imperfect competition requires that all firms in the industry:</p> <p>(A) earn no more than normal profit
 (B) have an equal share of the market
 (C) act in collusion to maximize joint profit
 (D) set their price at the limit imposed by barriers to entry</p> <p>Ans: (A) earn no more than normal profit</p> <p>232. What would facilitate collusion between firms in an oligopolistic industry?</p> <p>(A) an increase in the number of firms
 (B) large fluctuations in demand
 (C) rapid changes in technology</p> | <p>233. What would make it easier for firms in an oligopolistic industry to collude?</p> <p>(A) an increase in the number of firms
 (B) a standardized product
 (C) large fluctuations in demand
 (D) rapid changes in technology</p> <p>Ans: (B) a standardized product</p> <p>234. Some of the firms in an industry agree to set the same price. What would threaten the continuation of the agreement?</p> <p>(A) homogeneity of the product
 (B) the inclusion of the dominant firm in the industry
 (C) difference in cost structures between firms
 (D) significant barriers to entry into the industry</p> <p>Ans: (C) difference in cost structures between firms</p> <p>235. Which of the following is an assumption underlying the kinked demand curve in oligopoly?</p> <p>(A) A firm will increase its price in response to a price increase by a rival.
 (B) A firm will not match a price cut by a rival
 (C) Consumers are less sensitive to price increases than price decreases
 (D) Rivals are expected to match any reduction in price</p> <p>Ans: (D) Rivals are expected to match any reduction in price</p> <p>236. Which of the following characteristics is most likely to be present when collusion occurs between firms in an industry?</p> <p>(A) low barriers to entry
 (B) a large number of firms
 (C) the absence of significant economies of scale</p> <p>Ans: (D) product homogeneity</p> |
|--|--|--|



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- (C) the existence of external economies of scale
(D) the law of diminishing returns
- Ans: (A) an increase in the price of factor inputs as the industry's output expands

205. The short-run supply curve of a perfectly competitive firm is the

- (A) entire marginal cost curve
(B) marginal cost curve above the short-run average total cost curve
(C) marginal cost curve above the short-run average variable cost curve
(D) short-run average cost curve above the minimum marginal cost

Ans: (C) marginal cost curve above the short-run average variable cost curve

206. In perfect competition, what is the value of the cross-elasticity of demand for the good produced by one firm with respect to changes in the prices of the goods produced by the other firms in the market?

- (A) between 0 and 1
(B) above 1 but less than infinity
(C) 1
(D) infinity

Ans: (D) infinity

207. What is a characteristic of a firm in a perfectly competitive industry that must apply when the industry is in long-run equilibrium, but need not apply in the short-run?

- (A) Average cost is equal to average revenue
(B) Marginal cost is equal to marginal revenue
(C) price is equal to marginal cost
(D) Price is greater than average cost

Ans: (A) Average cost is equal to average revenue

208. The table refers to a perfectly competitive industry during two successive periods.

Period	Price (\$)	Output (millions)
1	60	1.2
2	68	1.5

209. Which change might explain the data?

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- (A) a decrease in the cost of raw materials.
(B) a decrease in the price of a substitute good

Ans: (A) an increase in consumer incomes

- (C) an increase in labour productivity
(D) an increase in consumer incomes

210. What is the essential feature of a contestable market?

- (A) ease of entry and exit
(B) interdependence between firms
(C) large number of buyers and sellers
(D) product homogeneity

Ans: (A) ease of entry and exit

211. Under which of the following conditions would a market be described as monopolistic?

- (A) The number of buyers and sellers are equal
(B) There is a single seller and many buyers
(C) There is a single buyer and many sellers
(D) There are many buyers and few sellers

Ans: (C) There is a single buyer and many sellers

212. Which of the following would be an example of price discrimination?

- (A) British Coal charging less per ton for coke than for coal
(B) British Telecom charging reduced rates for telephone calls
(C) a bus company charging less than British Rail
(D) petrol stations charging a lower price for unleaded petrol than for leaded petrol

Ans: (B) British Telecom charging reduced rates for telephone calls

213. A single monopolist enjoying internal economies of scale is replaced by a large number of producers operating under price competition. What will be the effect on price and output?

- (A) Price rise
(B) Price fall

Ans: (B) Price fall

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- (B) where there are few producers but there is great product differentiation.
(C) where there are very few producers and the product is standardised
(D) where there are a large number of producers but the demand is for inelastic
- Ans: (C) where there are very few producers and the product is standardised
49. A collusive oligopoly (with a dominant price leader) will produce a level of output
(A) that would prevail under perfect competition.
(B) equal to what a monopolist would choose in the same industry.
(C) Both (A) and (B)
(D) None of these
- Ans: (B) equal to what a monopolist would choose in the same industry.
50. The kinked demand curve model of oligopoly assumes that the price elasticity of demand
(A) in response to a price increase is more than the elasticity of demand in response to a price decrease.
(B) is constant regardless of whether price increases or decreases.
(C) is infinite if price increases and zero if price decreases.
(D) in response to a price increase is less than the elasticity of demand in response to a price decrease.
- Ans: (A) in response to a price increase is more than the elasticity of demand in response to a price decrease
51. Price discrimination involves
(A) firms selling different products at different prices to different consumers.
(B) firms selling the same product at different prices to different consumers.
(C) consumers discriminating between different sellers on the basis of the different prices they quote for different products.
- (D) consumers discriminating between different sellers on the basis of the different prices they quote for the same product.
- Ans: (B) firms selling the same product at different prices to different consumers.
52. Price discrimination often favours public interest because it
(A) allows some products to be produced that would otherwise not be produced in the economy due to the fear of making losses.
(B) opens consumption possibilities to consumers that would otherwise not be inaccessible (or unaffordable) if a single price prevailed in the market.
(C) allows firms to make supernormal profits which in turn allows them to sustain price wars when breaking into new markets.
(D) all of the above
- Ans: (D) all of the above
53. Oligopolistic firms making their price-output decisions keeping in view the current and possible future decisions of their rival firms, is an example of:
(A) Strategic interaction
(B) Prisoner's dilemma
(C) Price leadership
(D) None of the above
- Ans: (A) Strategic interaction
54. Which of the following would NOT constitute a pure public good?
(A) National defence.
(B) A new national holiday.
(C) Free health service.
(D) National environmental protection.
- Ans: (C) Free health service.
55. One of the characteristics of a public good, X, is that it is "non-rival". It means:
(A) It is not possible to exclude anyone from using (or benefiting from) X.
(B) There is no substitute for X.
(C) One person's use of X does not affect another person's ability to use
- (D) None of the above.

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- > Ans: (B) when the price ceiling is below the free (or unregulated market price)
- 46. What is the effect of imposing a fixed per unit tax on a good on its equilibrium price and quantity?
 - (A) Price falls, quantity rises
 - (B) Price rises, quantity falls
 - (C) Both price and quantity fall
 - (D) Both price and quantity rise> Ans: (B) Price rises, quantity falls
- 47. A price floor is
 - (A) a maximum price usually set by government.
 - (B) a minimum price usually set by government
 - (C) the difference between the initial equilibrium price
 - (D) the minimum price that consumers are willing to pay.> Ans: (B) a minimum price usually set by government
- 48. The need for rationing a good arises when
 - (A) there is a perfectly inelastic demand for the good
 - (B) supply exceeds demand
 - (C) demand exceeds supply.
 - (D) a surplus exists.> Ans: (C) demand exceeds supply.
- 49. If the "regulated-market" price is below the equilibrium (or "free-market" price):
 - (A) the quantity demanded will be greater than quantity supplied
 - (B) demand will be less than supply.
 - (C) quantity demanded will be less than quantity supplied
 - (D) quantity demanded will equal quantity supplied> Ans: (A) the quantity demanded will be greater than quantity supplied
- 50. Alpha Corporation produces chairs. An economist working for the firm predicts that 'if people's incomes rise next year, then the demand for our chairs will increase, ceteris

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- paribus.' The accuracy of the economist's prediction depends on whether the chairs Alpha produce
- (A) are normal goods.
 - (B) have few complementary goods.
 - (C) have many complementary goods.
 - (D) have few substitutes.
- > Ans: (A) are normal goods.
51. When the decrease in the price of one good causes the demand for another good to decrease, the goods are
 - (A) complements.
 - (B) normal.
 - (C) inferior.
 - (D) substitutes.> Ans: (D) substitutes.
52. The price of apples falls by 5% and quantity demanded increases by 6%. Demand for apples is:
 - (A) inelastic
 - (B) perfectly inelastic
 - (C) elastic
 - (D) perfectly elastic> Ans: (C) elastic
53. The price of bread increases by 22% and the quantity of bread demanded falls by 25%. This indicates that demand for bread is
 - (A) elastic
 - (B) inelastic
 - (C) unitarily elastic
 - (D) perfectly elastic> Ans: (A) elastic
54. If the cross-price elasticity of demand between two goods is negative, then the two goods are
 - (A) unrelated goods.
 - (B) substitutes.
 - (C) complements.
 - (D) normal goods.> Ans: (C) complements.
55. The burden (incidence) of a tax will fall mainly on the producers if:
 - (A) The producers are the ones legally obliged to pay the tax.
 - (B) Supply is inelastic and demand is elastic
 - (C) Demand is inelastic and supply is elastic
 - (D) There are many producers in the market.

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73. In the kinked demand curve model, if one firm reduces its price:

- (A) Other firms will also reduce their price
- (B) Other firms will compete on a non-price basis
- (C) Other firms will raise their price
- (D) All of the given options

➤ Ans: (A) Other firms will also reduce their price

74. Given the following table, what would Firm A, which is a firm operating in a duopoly (along with firm B) do, if it were following a maximum strategy?

(π stands for profit or payoff)		STRATEGY FOR FIRM A	
STRATEGY FOR FIRM B	Not lower price	Not lower price	Lower price
	= Rs 400m	= Rs 300m	
	Lower price	= Rs 100m	= Rs 200m

- (A) Lower its price
- (B) Not lower its price
- (C) We do not have information on π_B so we cannot answer the question
- (D) None of the above

➤ Ans: (A) Lower its price

75. A price taker is:

- (A) A firm that accepts different prices from different customers.
- (B) A consumer who accepts different prices from different firms.
- (C) A firm that cannot influence the market price.
- (D) Both (B) and (C)

➤ Ans: (C) A firm that cannot influence the market price.

76. Compared to the equilibrium price and quantity sold in a competitive market, a monopolist will charge a _____ price and sell a _____ quantity:

- (A) Higher; larger (B) Lower; larger

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- (C) Higher; smaller

- (D) Lower; smaller

➤ Ans: (C) Higher; smaller

77. For which of the following market structures it is assumed that there are no barriers to entry?

- (A) Perfect competition
- (B) Monopolistic competition
- (C) Monopoly (D) All of the above

➤ Ans: (A) Perfect competition

78. A market with complete entry barriers and a firm that sell product is:

- (A) Purely competitive.
- (B) A monopoly.
- (C) Monopolistically competitive.
- (D) Oligopolistic

➤ Ans: (B) A monopoly

79. The oligopoly model that predicts that oligopoly prices will tend to be very rigid is the _____ model.

- (A) Cournot (B) Stackelberg
- (C) Dominant firm
- (D) Kinked demand

➤ Ans: (D) Kinked demand

80. Which of the following concepts apply to oligopoly more than to any other market structure?

- (A) Advertising and product differentiation
- (B) Easy entry and more than one firm in the market
- (C) Homogeneous product and perfect information
- (D) Concentration and interdependence

➤ Ans: (D) Concentration and interdependence

81. Which of the following is NOT regarded as a source of inefficiency in monopolistic competition?

- (A) Product diversity.
- (B) Excess capacity.
- (C) The fact that price exceeds marginal cost.
- (D) The fact that long-run average cost is not minimized

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101. In the short run a purely competitive firm will always make an economic profit if:
- $P = AT(C)$
 - $P > AV(C)$
 - $P = M(C)$
 - $P > AT(C)$
- Ans: (D) $P > AT(C)$

102. A firm finds that at its $MR = MC$ output, its $TC = \$1000$, $TVC = \$800$, $TFC = \$200$, and total revenue is \$900. This firm should:
- shut down in the short run.
 - produce because the resulting loss is less than its TFC.
 - produce because it will realize an economic profit.
 - liquidate its assets and go out of business.
- Ans: (B) produce because the resulting loss is less than its TFC

104.

103. Pure monopoly means:
- any market in which the demand curve to the firm is downsloping.
 - a standardized product being produced by many firms.
 - a single firm producing a product for which there are no close substitutes.
 - a large number of firms producing a differentiated product.
- Ans: (C) a single firm producing a product for which there are no close substitutes.

105.

104. Pure monopolists may earn economic profits in the long run because:
- of advertising.
 - marginal revenue is constant as sales increase.
 - of barriers to entry.
 - of rising average fixed costs.
- Ans: (C) of barriers to entry.

105. Which of the following is a characteristic of pure monopoly?
- close substitute products
 - barriers to entry
 - the absence of market power
 - "price taking"
- Ans: (B) barriers to entry

106. A natural monopoly occurs when:

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- (A) long-run average costs decline continuously through the range of demand
 (B) a firm owns or controls some resource essential to production.
 (C) long-run average costs rise continuously as output is increased
 (D) economies of scale are obtained at relatively low levels of output.
- Ans: (A) long-run average costs decline continuously through the range of demand

107. What do economies of scale, the ownership of essential raw materials, and patents have in common?

- They must all be present before price discrimination can be practiced
 - They are all barriers to entry.
 - They all help explain why a monopolist's demand and marginal revenue curves coincide.
 - They all help explain why the long-run average cost curve is U-shaped
- Ans: (B) They are all barriers to entry.

108. If a non-discrimination imperfectly competitive firm is selling its 100th unit of output for \$35, its marginal revenue:

- may be either greater or less than \$35.
 - will also be \$35.
 - will be less than \$35.
 - will be greater than \$35.
- Ans: (C) will be less than \$35.

109. For an imperfectly competitive firm:

- total revenue is a straight, unsloping line because a firm's sales are independent of product price.
- the marginal revenue curve lies above the demand curve because any reduction in price applies to all units sold
- the marginal revenue curve lies below the demand curve because any reduction in price applies to all units sold
- the marginal revenue curve lies below the demand curve because any reduction in price applies only to the extra unit sold

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- > Ans: (B) Supply is inelastic and demand is elastic
56. Income elasticity of demand is the % change in quantity demanded divided by the % change in income. Which type of goods have negative income elasticity of demand?
 (A) Inferior goods. (B) Normal goods.
 (C) Substitute goods
 (D) Complementary goods.
 > Ans: (A) Inferior goods.
57. If total revenue rises by 20% when price increases by 10%, this means:
 (A) demand is price inelastic
 (B) demand is price elastic
 (C) demand is unit elastic
 (D) demand is perfectly inelastic
 > Ans: (A) demand is price inelastic
58. If a 5% increase in price causes no change in total revenue, this means:
 (A) demand is price inelastic
 (B) demand is price elastic
 (C) demand is unit elastic
 (D) demand is perfectly inelastic
 > Ans: (C) demand is unit elastic
59. Which of the following statements is true:
 (A) Because a straight line demand curve has constant slope, price elasticity of demand will remain constant as we move along various points on the curve.
 (B) Three supply curves, with different slopes, but all originating from the origin will have different price elasticities of supply.
 (C) We only need to know the magnitude of the elasticity, not its sign, to determine whether it falls in the elastic or inelastic range
 (D) A straight line demand curve with a slope of -1 delivers unit elasticity.
 > Ans: (C) We only need to know the magnitude of the elasticity, not its sign, to determine whether it falls in the elastic or inelastic range

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60. When firms advertise their product, they are

trying to:

- (A) Shift the demand curve to the right
 (B) Make the demand curve steeper
 (C) Make demand for the product more inelastic
 (D) All of the above

> Ans: (D) All of the above

61. "It is possible for milk to be treated as an inferior good and a normal good by different population segments in the same economy."

- (A) False. A good can only have one characterization
 (B) False. Milk is always and everywhere a normal good
 (C) True
 (D) None of these.

> Ans: (C) True

62. A lower income country, Z, that exports primary products and imports luxury goods eventually runs into balance of payments problems because:

- (A) the income elasticity of demand for Z's exports is low, while the income elasticity of demand for Z's imports is high
 (B) Z's exports grow at a slower rate than the rate of growth of the world income; Z's imports rise at a faster rate than the rate of growth of Z's income
 (C) Z's terms of trade (price of exports / price of imports) deteriorate
 (D) All of the above.

> Ans: (D) All of the above.

63. "The government of a lower income country, K, is worried that rising domestic prices will lead to higher imports and therefore cause balance of payments problems." This most closely illustrates which elasticity concept:

- (A) Price elasticity of demand
 (B) Price elasticity of supply
 (C) Income elasticity of demand
 (D) Cross price elasticity of demand

> Ans: (D) Cross price elasticity of demand

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147. When the firm is unable to bear even _____ cost it will have to shut down
(A) Minimum (B) Fixed
(C) Variable (D) Initial
➤ Ans: (B) Fixed
148. The purely competitive firms produce at most efficient level of production is _____ of pure competition
(A) Advantage (B) Disadvantage
(C) Normal (D) Factor
➤ Ans: (A) Advantage
149. The economic problems arises when
(A) Wants are unlimited
(B) Resources have alternative uses
(C) Resources are limited
(D) All of the above
➤ Ans: (D) All of the above
150. Production could be efficient when
(A) Input produced more outputs
(B) Resources are fully engaged in production
(C) The re-allocation of resources cannot increase the production
(D) All of the above
➤ Ans: (D) All of the above
151. The variable cost vary in direct proportion to the
(A) Volume of its Resources
(B) Volume of its output
(C) Volume of its sales (D) Extent of its profit
➤ Ans: (B) Volume of its output
152. Increasing returns to scale occur due to
(A) Division of labour (B) Specialization
(C) Economies of scale (D) All of the above
➤ Ans: (D) All of the above
153. Most important determinant of demand is
(A) Income (B) Wealth
(C) Supply (D) Price
➤ Ans: (C) Supply
154. In pure monopoly, what is the relation between the price and the marginal revenue?
- (A) The price is greater than the marginal revenue
(B) There is no relation
(C) They are equal
(D) None of the above
➤ Ans: (A) The price is greater than the marginal revenue
155. Cartel and price leadership Models in connection with _____
(A) Formal – collusive models
(B) Informal collusive models
(C) Collusive oligopoly
(D) Cournot Model
➤ Ans: (A) Formal – collusive models
156. "Garner and Bow are two local petrol stations. Although they have different constant marginal costs, they both survive continued competition. Garner and Bow do not constitute:
(A) A monopolistically competitive industry
(B) A Cournot oligopoly
(C) A Stackelberg oligopoly
(D) A Bertrand oligopoly
➤ Ans: (B) A Cournot oligopoly
157. 10 or 15 firms producing vehicle spare parts had decided they will not compete regarding sales called _____
(A) Joint ventures (B) Oligopoly
(C) Cartels (D) None of the above
➤ Ans: (D) None of the above
158. In cartels aiming at joint profit maximization assume that all the firms have _____
(A) Same production level
(B) Similar way of sales
(C) Similar goods
(D) Similar resources
➤ Ans: (C) Similar goods
159. Joint profit cartels are known as
(A) Central agency (B) Decentralized
(C) Diversion of Firms (D) Centralized cartel
➤ Ans: (D) Centralized cartel

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- Ans: (C) the marginal revenue curve lies below the demand curve because any reduction in price applies to all units sold

110. A monopolistic firm has a sales schedule such that it can sell 10 prefabricated garages per week at \$10,000 each, but if it restricts its output to 9 per week it can sell these at \$11,000 each. The marginal revenue of the tenth unit of sales per week is:

- (A) -\$1,000. (B) \$9,000.
(C) \$10,000. (D) \$1,000.

➤ Ans: (D) \$1,000.

111. With respect to the pure monopolist's demand curve it can be said that:

- (A) the stronger the barriers to entry, the more elastic are the monopolist's demand curve.
(B) price exceeds marginal revenue at all outputs greater than 1.
(C) demand is perfectly inelastic
(D) marginal revenue equals price at all outputs.
- Ans: (B) price exceeds marginal revenue at all outputs greater than 1.

112. Because the monopolist's demand curve is down sloping:

- (A) MR will equal price.
(B) price must be lowered to sell more output.
(C) the elasticity coefficient will increase as price is lowered
(D) its supply curve will also be down sloping.
- Ans: (B) price must be lowered to sell more output.

113. When total revenue is increasing:

- (A) marginal revenue may be either positive or negative.
(B) the demand curve is relatively inelastic
(C) marginal revenue is positive.
(D) marginal revenue is negative.
- Ans: (C) marginal revenue is positive.

114. For a pure monopolist marginal revenue is less than price because:

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- (A) the monopolist's demand curve is perfectly elastic
(B) the monopolist's demand curve is perfectly inelastic
(C) when a monopolist lowers price to sell more output
(D) the monopolist's total revenue curve is linear and slopes upward to the right.
- Ans: (C) when a monopolist lowers price to sell more output

115. If a pure monopolist is operating in a range of output where demand is elastic:

- (A) it cannot possibly be maximizing profits.
(B) marginal revenue will be positive but declining.
(C) marginal revenue will be positive and rising.
(D) total revenue will be declining.
- Ans: (B) marginal revenue will be positive but declining.

116. A nondiscriminating pure monopolist finds that it can sell its fiftieth unit of output for \$50. We can surmise that the marginal:

- (A) cost of the fiftieth unit is also \$50.
(B) revenue of the fiftieth unit is also \$50.
(C) revenue of the fiftieth unit is less than \$50.
(D) revenue of the fiftieth unit is greater than \$50.
- Ans: (C) revenue of the fiftieth unit is less than \$50.

117. The $MR = MC$ rule:

- (A) applies only to pure competition.
(B) applies only to pure monopoly.
(C) does not apply to pure monopoly
(D) applies both to pure monopoly and pure competition.
- Ans: (D) applies both to pure monopoly and pure competition.

118. Monopolistic competition resembles pure competition because:

- (A) Both industries emphasize nonprice competition



- Ans: (B) embodies the possibility that changes in unit costs will have no effect upon equilibrium price and output.

curve because:

(A) products are differentiated

(B) an abrupt change in price elasticity occurs.

(C) the firm will ignore price cuts by rivals, but will match their price increases.

(D) there is a gap in marginal costs.

Ans: (B) an abrupt change in price elasticity occurs.

135. In perfect competition there are _____ number of buyer & sellers.
- (A) Limited (B) Large
(C) Few (D) Fixed
- Ans: (B) Large

136. In perfect competition (PC) the prices are settled by the forces of _____

(A) Demand & Supply

(B) Increase in Demand

(C) Increase in Supply

(D) Increase in Production

Ans: (A) Demand & Supply

137. In PC there is no _____ to entry and exit
- (A) Restriction (B) Permission
(C) Availability (D) Opportunity
- Ans: (A) Restriction

138. The two firms have complete control over production is _____

(A) Monopoly

(B) Oligopoly

(C) Duopoly

(D) Monopolistic Competition

Ans: (C) Duopoly

139. Where few firms control whole market

(A) Oligopoly

(B) Perfect Competition

(C) Duopoly

(D) Monopolistic Competition

Ans: (D) Monopolistic Competition

140. Where so many monopolistic are competing each other on basis of differentiation is _____
- (A) Duopoly (B) Oligopoly
(C) Monopolistic Competition
(D) Perfect Competition

141. Where a single firm has complete control over production & sale of a good is _____
- (A) Perfect Competition
(B) Monopoly
(C) Oligopoly
(D) Monopolistic Competition

Ans: (B) Monopoly

142. No new plant installation is possible under _____
- (A) Short Run (B) Long Run
(C) Monopoly (D) Competition

Ans: (B) Long Run

143. The firm is in _____ where $MC = MR$

(A) Profit (B) Equilibrium
(C) Sustenance (D) Betterment

Ans: (B) Equilibrium

144. SRSC of a firm shows the amount of commodity the firm is prepared to sell at different prices by changing just _____ factors

(A) Fixed

(B) Variable

(C) Few

(D) Three

Ans: (B) Variable

145. Reward of enterprises for risk taking is _____

(A) Progress (B) Prestige

(C) Profit

(D) Pride

Ans: (C) Profit

146. Under PC the demand curve and margin _____ revenue curve

(A) Moves upward

(B) Moves downward

(C) Coincide

(D) Remain separate

Ans: (C) Coincide

- (D) marginal cost equals marginal revenue

Ans: (B) average cost equals marginal

revenue

180. A firm faces average variable costs of \$2 at an output level of 20 000 units. If total fixed costs are \$80 000 if the firm adopts a pricing policy designed to yield normal profit only, what price will it charge?

(A) \$2

(B) \$4

(C) \$6

(D) \$10

101.

181. A firm manufactures a homogeneous product at a number of different plants. How should it allocate output between the different plants, in order to minimize its overall production costs?

(A) equate average costs at each plant

(B) equate marginal costs at each plant

(C) minimize capital costs at each plant

(D) share production equally between the different plants

Ans: (B) equate marginal costs at each plant

182. The minimum price needed for a firm to remain in production in the short run is equal to

(A) average fixed cost

(B) average fixed cost plus average variable

(C) average fixed cost plus marginal cost

(D) average variable cost

Ans: (D) average variable cost

183. The owner of a well decides to sell water to local people. There is a fixed cost but no variable costs in operating the well. What should the owner do to maximize his profits?

(A) maximize his total revenue

(B) minimize his total cost

(C) sell at the highest possible price

(D) sell as much water as possible

Ans: (D) sell as much water as possible

184. Which of the following defines the minimum efficient scale of output?

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Answers

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- (A) where a plant of a given size is used to full capacity

(B) where the firm can avoid making a loss

(C) where the firm's operating profits are maximised

(D) where the long-run average costs of a firm stop falling

Ans: (D) where the long-run average

costs of a firm stop falling

185. The price per unit at which a profit-maximising firm can sell its output is fixed by the government. The firm will produce at the level of output where

(A) average cost is equal to average revenue

(B) average cost is minimised

(C) marginal cost is equal to price

(D) total revenue is maximised

Ans: (C) marginal cost is equal to price

186. A cost-minimising firm allocates a given total output between two different plants. Which of the following must be equal in the two plants?

(A) average total costs

(B) average variable costs

(C) marginal costs

(D) total costs

Ans: (C) marginal costs

187. The owner/manager of a small business decides against adopting a new venture because the extra profit does not compensate for the extra workload and the stress.

(A) cost minimisation

(B) long-term profit maximisation

(C) protection of market share

(D) satisfying profit

Ans: (D) satisfying profit

188. A firm maximizes its profit by maximizing its total revenue. What does this imply?

(A) Average fixed cost is zero

(B) Average revenue is equal to average cost

(C) Marginal cost is zero

(D) Marginal revenue is greater than marginal cost

