

**Economic Analysis for Business Decisions**  
**Multiple Choice Questions**  
**Unit-1: Basic Concepts of Economics**

1. In a free-market economy the allocation of resources is determined by:  
a. Votes taken by consumers   b. A central planning authority  
c. **By consumer preferences**   d. The level of profits of firms
2. A rational person does not act unless:  
a. The action is ethical  
b. The action produces marginal costs that exceed marginal benefits  
c. **The action produces marginal benefits that exceed marginal costs**  
d. The action makes money for the person
3. Economics is a ----- science which deals with human wants and their satisfaction.  
a. **Social**   b. Political   c. Natural   d. Physical
4. ----- defined economics as a study of mankind in the ordinary business of life.  
a. Adam smith   b. Lionel Robbins   c. Samuelson   d. **Alfred Marshall**
5. The growth of an economy is indicated by an  
a. Increase in savings   b. Increase in investment  
c. Increase in general prices   d. **Increase in national income**
- 6.-----equals revenue minus all explicit costs.  
a. **Accounting profit**   b. Economic profit   c. Normal profit   d. Loss
7. The father of New Economics is :  
a. Marshall   b. **J.M.Keynes**   c. Adam Smith   d. Karl Marx
8. The ----- problem refers to the possibility that owners and their managers may have different objectives.  
a. Company- Manager problem   b. **Principal-Agent Problem**  
c. Firm-Employee problem   d. Problem of different objectives
9. Economic profit refers to ----- minus all relevant costs , both explicit and implicit.  
a. Profit   b. Cost   c. Expenses   d. **Revenues**

10. The interaction of individuals and firms in a market can be described as a ----- of money, goods and services and resources through product and factor markets.

- a. Constant flow   b. Stable flow   c. **Circular Flow**   d. Regular Flow

11. ----- focuses on the behavior of the individual actors on the economic stage , that is, firms and individuals and their interaction in markets.

- a. Macroeconomics   b. **Microeconomics**   c. Managerial Economics   d. Economics

12. In free market economy, the organization and interaction of producers and consumers is accomplished through the ----- system.

- a. **Price**   b. Cost   c. Profit   d. Revenue

13. An economic system:

- a. Requires a grouping of private markets linked to one another.  
b. **Is a particular set of institutional arrangements and a coordinating mechanism used to respond to the economizing problem.**  
c. Requires some sort of centralized authority (such as government) to coordinate economic activity.  
d. Is a plan or scheme that allows a firm to make money at some other firm's expense

14. The regulatory mechanism of the market system is:

- a. Self-interest.   b. Private property.   c. **Competition.**   d. Specialization.

15. Which of the following is not an economic cost?

- a. Wages.   b. Rents.   c. **Economic profits.**  
d. Payments made to the entrepreneur for organizing production

16. From society's point of view the economic function of profits and losses is to:

- a. Promote the equal distribution of real assets and wealth.  
b. Achieve full employment and price level stability.  
c. Contribute to a more equal distribution of income.  
d. **Reallocate resources from less desired to more desired uses.**

17. The invisible hand refers to the:

- a. Fact that the U.S. tax system redistributes income from rich to poor.  
b. **Notion that, under competition, decisions motivated by self-interest promote the social interest.**   c. Tendency of monopolistic sellers to raise prices above competitive levels.  
d. Fact that government controls the functioning of the market system.

18. The invisible-hand concept suggests that: .

- a. Market failures imply the need for a national economic plan.
- b. Big businesses are inherently more efficient than small businesses.
- c. The competitiveness of a capitalistic market economy invariably diminishes over time.
- d. **Assuming competition, private and public interests will coincide**

19. Two major virtues of the market system are that it:

- a. **Allocates resources efficiently and allows economic freedom.**
- b. Results in an equitable personal distribution of income and always maintains full employment.
- c. Results in price level stability and a fair personal distribution of income.
- d. Eliminates discrimination and minimizes environmental pollution.

20. The simple circular flow model shows that:

- a. Households are on the buying side of both product and resource markets.
- b. Businesses are on the selling side of both product and resource markets.
- c. **Households are on the selling side of the resource market and on the buying side of the product market.**
- d. Businesses are on the buying side of the product market and on the selling side of the resource market.

21. The two basic markets shown by the simple circular flow model are:

- a. Capital goods and consumer goods.    b. Free and controlled.
- c. **Product and resource.**    d. Household and business.

22. Which of the following is a limitation of the simple circular flow model?

- a. Product markets are ignored.    b. Resource markets are ignored.
- c. **The determination of product and resource prices is not explained.**
- d. Households are included, but not businesses.

23. In economics the central problem is:

- a. Money.    **b. Scarcity.**    c. Allocation.    d. Production.

24. Macroeconomics deals with:

- a. The behavior of firms.    **b. Economic aggregates.**
- c. The behavior of the electronics industry.    d. The activities of individual units.

25. Microeconomics is not concerned with the behavior of:

- a. Consumers.    **b. Aggregate demand.**    c. Firms.    d. Industries.

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

- a. **Aggregate demand.**
- b. Gross national product.
- c. Economy-wide demand.
- d. National demand.

27. Unemployment means that:

- a. People are not willing to work at the going wage rate.
- b. **At the going wage rate, there are people who want to work but cannot find work.**
- c. There are some people who will not work at the going wage rate.
- d. There is excess demand in the labour market.

28. Opportunity cost is

- a. A cost that cannot be avoided, regardless of what is done in the future.
- b. The cost incurred in the past before we make a decision about what to do in the future.
- c. **That which we forgo, or give up, when we make a choice or a decision.**
- d. The additional benefit of buying an additional unit of a product.

29. The circular flow of goods and incomes shows the relationship between:

- a. **Firms and households.**
- b. Goods and services.
- c. Income and money.
- d. Wages and salaries.

30. In a planned or command economy, all the economic decisions are taken by the:

- a. Workers.
- b. Consumers.
- c. Voters.
- d. **Government.**

31. Which one of the following is a normative statement?

- a. The richest 10 per cent of the population has had a bigger percentage increase in incomes over the past 10 years than the poorest 10 per cent.
- b. The proportion of people's income paid in taxes is higher under this government than under the previous one.
- c. Inflation is rising.
- d. **Inequality in the distribution of income is a more serious problem than unemployment.**

32. Continues consumption of homogeneous product is a assumption for:

- a. Law of Demand.
- b. Law of Supply.
- c. **Law of Diminishing Marginal Utility.**

33. Goods and Services bought and sold in:

- a. **Product Market.**
- b. Factor Market.
- c. Capital Market.
- d. Money Market.

34. In Product market money flows from:

**a. Individual to firm.** b. Business to households. c. Government to household.

35. In factor market suppliers are:

a. Firms. **b. Households.** c. Government

36. In economic activities which are the outflows:

a. Government spending. b. Investment. **c. Savings.**

37. Indian economy is:

a. Capitalist Economy b. Socialist Economy **c. Mixed Economy**

38. Father of Economics:

**a. Lionel Robbins.** b. Adam Smith. c. Alfred Marshal.

39. Implicit Cost added in:

a. Accounting cost. **b. Economic cost.** c. Both.

40. Business Economics is also known as.....

a. Managerial Economics b. Economics for Executives  
c. Economic analysis for business decisions **d. All the above**

41. State whether economics is

a. A positive science only b. Neither a positive nor normative science  
c. A science but not art  
**d. A science or an art depending on who uses economics and for what purpose.**

42. The branch of economics wherein mathematics and statistics are used to measure and analyze economics activities is called.....

a. Applied Economics **b. Econometrics** c. Statistics d. Macro Economics

43. The opportunity cost of a machine which can produce only one product is:

**a. Low** b. Infinite c. High d. Medium

44. It is defined as a state of knowledge in which one or more alternatives result in a set of specific outcomes but where the probabilities of the outcomes are neither known nor meaningful.

- a. Risk                      b. **Uncertainty**                      c. Peril                      d. All of the above

45. Opportunity cost is term which describes

- a. A bargain for a factor of production   b. Costs related to an optimum level of production  
c. Average variable cost   **d. None of these**

46. It is also known as prescriptive economics

- a. Positive Economics   b. Micro economics   **c. Normative economics**   d. Economics

47. ....cost are also known as Imputed Costs

- a. Opportunity**   b. Marginal   c. Total   d. Historical

48. There are .....branches of economics.

- a. 2**      **b. 3**      c. 4      d. 6

49. It is the study of economics actions of individuals and small groups of individuals.

- a. Micro-Economics**   b. Macro-Economics   c. Managerial Economics   d. Business Economics

50. An input should be so allocated that the value added by the last unit is the same in all cases.

- a. Opportunity Cost Principle   **b. Equi-Marginal Principle**  
c. Incremental Principle      d. Discounting Principle

51. The term 'Economics' in English language has its origin in -----word.

- a. Greek**   b. Italic   c. Latin   d. Indian

52. Economics includes the following economic activities:

- a. Production   b. Consumption   c. Exchange   **d. All of the above**

53. It refers to the determination of prices of all goods and services by the interaction of the forces of demand and supply without any external interference.

- a. Product-mechanism   **b. Price-mechanism**   c. Cost-mechanism   d. None of these

54. The principle reasons behind economic problems

- a. Unlimited wants   b. Limited or Scarce of Means  
c. Alternatives Uses of Means   **d. All of the above**

55. Income flow is also known as-----.

a. Product Flow   **b. Money flow**   c. Profit flow   d. Cash flow

56. Flows of the factor of production and the goods and services between the different sectors is -  
-----.

**a. Real flow**   b. Money flow   c. Cash flow   d. Product flow

57. It is also called output flow or real flow

a. Profit flow   b. Cash flow   **c. Product flow**   d. None of these

58. Accounting profit=-----Explicit Costs

**a. Total Revenue**   b. Total Cost   c. Implicit cost   d. None of these

59. According to Professor S.E.Landsbury, “Firm is an organization that produces and sells goods with the goal of-----its profits”.

a. Minimizing   **b. Maximizing**   c. Optimizing   d. All of the above

60. According to profit maximization theory of the firm, management.

a. Decides output level which maximizes revenue

b. Output level which minimizes cost.

**c. Output level which maximizes difference between the two**

d. None of these

61. According to Simon if a firm fails to achieve its target initially results in:

a. A sense of helplessness   **b. Search behavior**

c. Sacking of its managerial team   d. Appropriate revision of the aspiration level

62. Managerial utility function is expressed as:

a.  $U = S(S, M, I)$    b.  $U = S(S, M)$    **c.  $U = f(S, M, I)$**    d.  $U = F(S, M, I)$

63. It is the difference between total revenue and total economic cost

a. Accounting Profit   b. Economic Profit   c. Gross Profit   **d. Net Profit**

64. Invisible hand theory is given by-----

a. Lord Robbins   b. Samuelson   c. Marshall   **d. Adam Smith**

65. Managers are Agent when:

a. Managers and workers.   **b. Shareholders and managers.**   c. Managers and contractors.

66. Accounting cost include:

- a. Owner's land for company establishment. **b. Depreciation** c. Management skill of a owner

67. If economic profit equal to zero then:

- a. Owners receive a profit more than their opportunity cost.  
b. Owners receive a profit less than their opportunity cost.  
**c. Owners receive a profit equal to their opportunity cost.**

68. Trade-offs are required because wants are unlimited and resources are:

- a. Economical. b. Unlimited c. Efficient d. Marginal **e. Scarce**

69. Economics is the study of:

- a. how society manages its unlimited resources. b. how to reduce our wants until we are satisfied. **c. how society manages its scarce resources.** d. how to fully satisfy our unlimited wants. e. how to avoid having to make trade-offs

70. Which of the following statements regarding the circular-flow diagram is true?

- a. If Vijay works for XYZ Solutions Ltd. and receives a salary payment, the transaction takes place in the market for goods and services.  
b. If XYZ Solutions Ltd. sells a military aircraft, the transaction takes place in the market for factors of production.  
c. None of these answers.  
**d. The factors of production are owned by households.**  
e. The factors of production are owned by firms.

71. Which of the following is not a Productive Resource?

- a. Labour b. Land **c. Money** d. Capital e. All of these answers are factors of production.

72. Which of the following issues is related to microeconomics?

- a. The impact of oil prices on car production** b. The impact of money on inflation  
c. The impact of technology on economic growth d. The impact of the deficit on saving

73. The word economy comes from the Greek word for

- a. "Environment." b. "One who participates in a market." **c. "One who manages a household."** d. "Conservation."

74. Economics deals primarily with the concept of

- a. Poverty. **b. Scarcity.** c. Change. d. Power.



75. The opportunity cost of an item is

- a. The number of hours needed to earn money to buy it.
- b. What you give up to get that item.**
- c. Always less than the dollar value of the item.
- d. Always equal to the dollar value of the item.

76. Factors of production are :

- a. Inputs into the production process.**
- b. Weather, social, and political conditions that affect production.
- c. The physical relationships between economic inputs and outputs.
- d. The mathematical calculations firms make to determine production.

77. In the circular-flow diagram,

- a. Firms are sellers in the resource market and the product market.
- b. Households are sellers in the resource market.**
- c. Firms are buyers in the product market.
- d. Spending on goods and services flow from firms to households.

78. In the circular-flow diagram,

- a. Spending on goods and services flow from firms to households.**
- b. Goods and services flow from households to firms.
- c. Factors of production flow from firms to households.
- d. Income from factors of production flows from firms to households.

79. Scarcity is a condition that exists when

- a. There is a fixed supply of resources.
- b. There is a large demand for a product.
- c. Resources are not able to meet the entire demand for a product.**
- d. All of the above.

80. Company goals that are concerned with creating employee and customer satisfaction and maintaining a high degree of social responsibility are called \_\_\_\_\_ objectives.

- a. Social   **b. Noneconomic**   c. Welfare   d. Public Relations

81. The value of an entrepreneur's resources that she uses in production are known as:

- a. Explicit costs.   b. Sunk costs.   c. Operating expenses.   d. Technological expenses.
- e. Implicit costs.**

82. One of the most important differences between a firm's economic profit and its accounting profit is the subtraction of:

- a. Costs incurred when hiring labor, capital, and land.
- b. Any explicit cost incurred by the entrepreneur for risk taking.
- c. Any implicit charges for the use of capital owned by the entrepreneur.**
- d. Any taxes on the retained earnings of the firm.
- e. The costs of distributing the firm's output.

83. That profit functions as an incentive for innovation was among the key contributions to economic thought by:

- a. Karl Marx.
- b. Frank Knight.
- c. Joseph Schumpeter.**
- d. Adam Smith.
- e. Alfred Marshall.

84. Which two of the following are characteristics of the 'principal-agent' problem?

- a) Ownership and control in hands of same people
  - b) Ownership and control in hands of different people
  - c) Shareholders and managers pursue different objectives
  - d) Shareholders and managers pursue same objectives
  - e) Sole traders are the dominant form of business organization
- a. b) and e)
  - b. b) and d)
  - c. b) and c)**
  - d. a) and e)
  - e. a) and c)

85. Economic profit is...

- a. Calculated by subtracting implicit costs of using owner-supplied resources from the firm's total revenue.
- b. a theoretical measure of a firm's performance and has little value in real world decision-making.
- c. Generally larger than accounting profit.
- d. Negative when costs exceed revenues.**

86. Economic profit is...

- a. The difference between total revenue and explicit costs.
- b. The difference between total revenue and the opportunity cost of all the resources used in production.**
- c. The difference between accounting profit and explicit costs.
- d. The difference between accounting profit and the opportunity cost of the market-supplied resources used by the firm.

87. The principal-agent problem arises when...

- a. The principal and the agent have different objectives
- b. The principal cannot decide whether the firm should seek to maximize the expected future profits of the firm or maximize the price for which the firm can be sold.
- c. The principal cannot enforce the contract with the agent or finds it too costly to monitor the agent.
- d. Both a and c**
- e. None of the above

88. Moral hazard...

- a. Occurs when managers pursue profit maximization without regard to the interests of society in general.
- b. Is the cause of principal-agent problems.**
- c. Occurs only rarely in modern corporations.
- d. Exists when either party to a contract has an incentive to cancel the contract.
- E. Both a and b

89. Economic profit is the best measure of a firm's performance because...

- a. Economic profit fully accounts for all sources of revenue.
- b. Implicit costs are generally too difficult to measure accurately.
- c. The opportunity cost of using ALL resources is subtracted from total revenue.**
- d. Only explicit costs influence managerial decisions since, in general, only explicit costs can be subtracted from revenue for the purposes of computing taxable profit.

90. Business Economics is also known as \_\_\_\_\_

- a. Managerial Economics
- b. Economics for Executive
- c. Economic Analysis for Business Decision
- d. All the above**

91. It is the study of economic actions of individuals and small groups of individuals:

- a. Micro – Economics**
- b. Macro Economics
- c. Managerial Economics
- d. Business Economics

92. The principal reasons behind economic problems :

- a. Unlimited Wants
- b. Limited or Scarce Resources**
- c. Alternative uses of Means
- d. All the above

93. Invisible hand theory is give by :

- a. Lord Robbins
- b. Samuelson
- c. Marshal
- d. Adam Smith**

94. The ultimate effect of the "invisible hand" of Adam Smith is that, in a competitive economy, everyone:

**a. Benefits if each acts in his/her own interest.**

b. Will increase their profits in a free market. c. Should act to maximize economic growth.

d. Should act to promote the public interest.

95. The three fundamental questions of economic organization are:

a. When, for whom, and how. **b. How, what, and for whom.**

c. Who, how, and when. d. What, who, and why.

96. "Economics is the science, which studies human behaviours as a relationship between ends and scarce means which have alternative uses." This definition of Economics is given by,

**a. Lord Robbins** b. Samuelson c. Alfred Marshal d. Adam Smith

97. Which of the following is true regarding the circular flow model?

a. Households provide the demand for the factor market and business provide the supply for the goods and services market.

b. Households provide the demand for the goods and service market and business provides the supply for the factor market.

**c. Households provide the supply for the factor market and business provides the supply for the goods and service market**

d. Households provide both the supply and demand for the goods and services market

98. Income and revenues that are created within a country

a. always will remain within that country

b. Can leave that country only when goods are exported.

**c. Can leave that country when goods are imported**

d. Can leave that country when capital flows into that country's financial institutions.

99. In a circular flow model, the real variables are:

a. Money that flows from the factor market to the households.

b. Only the goods and services that are produced.

c. Only the resources that are used.

**d. Both the goods and services produced and the resources that are used.**

100. Money is

a. Backed by gold in Fort Knox b. The same as income.

c. The value of all coins and currency in circulation at any time.

**d. Anything that is generally accepted as a medium of exchange.**

101. The development of money as a medium of exchange has facilitated the expansion of trade because

- a. Holding money increases people's income
- b. No other mediums of exchange are available
- c. Money eliminates the "double coincidence of wants" problem**
- d. Holding money increases people's wealth

102. As the interest rate falls, people hold \_\_\_\_\_ money instead of bonds because the opportunity cost of holding money has \_\_\_\_\_.

- a. More; fallen**
- b. More; risen
- c. Less; fallen
- d. Less; risen

103. The concept of opportunity cost:

- a. Suggests a major increase in public health-care spending means an expansion in other areas will be harder to achieve.**
- b. Suggests all our wants can be achieved.
- c. Would be irrelevant if we eliminated poverty.
- d. Is relevant only for a capitalist economy like the United States.

104. Inflation is:

- a. A decrease in the overall level of economic activity.
- b. An increase in the overall level of economic activity.
- c. An increase in the overall price level.**
- d. A decrease in the overall price level.

105. A recession is:

- a. A period of declining unemployment.
- b. A period of declining prices
- c. A period during which aggregate output declines**
- d. A period of very rapidly declining prices.

106. The statement "The unemployment rate for teens is higher than that for adults" is

- a. A normative statement.
- b. A political statement.
- c. An ethical statement.
- d. A positive statement**

107. Which of the following is a positive statement?

- a. Low rents will restrict the supply of housing.**
- b. Housing costs too much.
- c. Low rents are good because they make apartments more affordable.
- d. Owners of apartment buildings ought to be free to charge whatever rent they want.

108. A normative statement is

- a. One that does not use the ceteris paribus clause.
- b. About what ought to be.**
- c. Always true.
- d. About what is.

109. The task of economic science is to discover \_\_\_\_\_ that are consistent with \_\_\_\_\_.

- a. Positive statements; normative statements
- b. Positive statements; what we observe**
- c. Normative statements; positive statements
- d. Ways to make money; the law

110. Economic models

- a. Are better if they include most of the detail of the real economy.
- b. Rely on simplification.**
- c. Do not address questions about the economy.
- d. Make no assumptions that have not been prove

111. An economic theory is

- a. A generalization that summarizes what we understand about economic choices.**
- b. A positive statement that cannot use the ceteris paribus clause.
- c. Usually more complex than the real world.
- d. Always a mathematical, or nonverbal, model.

112. Ceteris paribus is the Latin expression for

- a. A statement about the way the economic world ought to be.
- b. An expression that means "other things being equal."**
- c. The (false) statement that what is true of the parts is true of the whole or what is true of the whole is true of the parts.
- d. The error of reasoning that a first event causes a second event because the first event occurred before the second event.

113. Opportunity cost means

- a. The accounting cost minus the marginal benefit.
- b. The highest-valued alternative forgone.**
- c. The monetary costs of an activity.
- d. The accounting cost minus the marginal cost

114. Economics is best defined as the study of how people, businesses, governments, and societies

- a. Make choices to cope with scarcity.**
- b. Attain wealth.
- c. Choose abundance over scarcity.
- d. Use their infinite resources.

115. Scarcity requires that people must

- a. Trade.
- b. Compete.
- c. Cooperate.
- d. Make choices**

116. Microeconomics focuses on all of the following EXCEPT

- a. **The effect of increasing the money supply on inflation.**
- b. The purchasing decisions that an individual consumer makes.
- c. The effect of an increase in the tax on cigarettes on cigarette sales.
- d. The hiring decisions that a business makes.

117. Entrepreneurs do all of the following EXCEPT

- a. Bear risk from business decisions.
- b. **Own all the other resources.**
- c. Come up with new ideas about what, how, when and where to produce.
- d. Organize labor, land, and capital.

118. Principal Agent Problem is related to.....

- a. **Managers and Owners**
- b. Suppliers and Buyers
- c. Producers and Sellers
- d. LIC Agents

119. Invisible Hand theory was described by .....

- a. Robert Anthony
- b. **Adam Smith**
- c. Amartya Sen
- d. C.K. Pralhad

120. PV in Unit number one stands for .....

- a. Postal Volume
- b. Past Value
- c. Programmable Value
- d. **Present Value**

121. Which of the following factor is important for demand along other factors?

- a. Selling Power
- b. **Ability to Buy**
- c. Product Development
- d. New product Launch