Economics Mid-Semester Exam Questions

Question 1

For a monopolist who does not price discriminate, the following holds true at the profit-maximising point:

- [ ] AR=MR=MC
- [ ] MR=MC>AR
- [ ] AR>MR=MC

Question 2

Price discrimination is the business practice of:

- [ ] Selling the same good at the same prices to different customers
- [ ] Selling the same good at different prices to different customers
- [ ] Neither of the other options

Question 3

When two goods are perfect complements, the indifference curve is:

- [ ] A straight line
- [ ] Downward sloping and bowed inward
- [ ] L-shaped

Question 4

Producer surplus is measured by:

- [ ] The area below the price and above the supply curve
- [ ] The area below the demand curve and above the supply curve
- [ ] Neither of the other options

Question 5

The growth rate of Country X has been stable over the past five years. This is a:

- [ ] Positive statement
- [ ] Normative statement
- [ ] It is indeterminate

Question 6

Price discrimination can be exercised by:

- [ ] Seller under perfect competition
- [ ] Seller under monopoly
- [ ] Neither of the sellers mentioned in the other two options can price discriminate

Question 7

If Indifference curves are downward sloping and bowed inward, this means that:

- [ ] People are less willing to trade away goods that they have in abundance and more willing to trade away goods of which they have little.
- [ ] People are more willing to trade away goods that they have in abundance and less willing to trade away goods of which they have little.
- [ ] Neither of the other two options

Question 8

The efficient scale of the firm is achieved at the:

- [ ] The minimum point of the Average Variable Cost Curve
- [ ] The minimum point of the Average Total Cost Curve
- [ ] The minimum point of the Marginal Cost Curve

Question 9

If there is an improvement in the available production technology, then the supply curve will:

- [ ] Remain unchanged
- [ ] Shift inward/leftward/downward
- [ ] Shift outward/rightward/upward

Question 10

The study of Microeconomics focuses on the individual parts of the economy.

- [ ] True
- [ ] False
- [ ] Uncertain

Question 11

The Average Fixed Cost curve:

- [ ] May rise or fall
- [ ] Is always rising
- [ ] Is always falling

Question 12

If the supply is inelastic and demand is elastic, then the majority of the tax burden will be borne by the:

- [ ] Buyers
- [ ] Sellers
- [ ] Indeterminate

Question 13

In the short run, a perfectly competitive firm shuts down whenever:

- [ ] Price < Average Variable Cost
- [ ] Price < Average Total Cost
- [ ] Price < Marginal Cost

Question 14

Positive statements are statements that attempt to describe the world as it is.

- [ ] True
- [ ] False
- [ ] Uncertain

Question 15

In the long run under perfect competition, a firm makes:

- [ ] Positive economic profits
- [ ] Zero economic profits
- [ ] Profits depend on demand conditions and can be positive, negative, or zero in long run

Question 16

The law of supply states that, other things equal, the quantity supplied of a good falls when the price of the good rises. This statement is:

- [ ] True
- [ ] False
- [ ] Maybe true or false

Question 17

A "natural monopoly" arises when a single firm can supply a good or service to an entire market at a smaller cost than could two or more firms. Is this statement correct?

- [ ] Yes
- [ ] No
- [ ] Maybe

Question 18

"When Price > Average Variable Cost, the firm under perfect competition makes positive economic profits". This statement is:

- [ ] Always true
- [ ] Always false
- [ ] Neither of the other two options is true

Question 19

When there is an inward/leftward/downward shift of the demand curve and an outward/rightward/upward shift of the supply curve, the effect on the equilibrium price (P) and quantity (Q) is the following:

- [ ] P is down, Q is down
- [ ] P is down, Q is ambiguous
- [ ] Neither of the other two options is true

Question 20

If there are a large number of close substitutes available, then the absolute value of own price elasticity of demand is:

- [ ] Low
- [ ] High
- [ ] There is no link between number of substitutes and elasticity

Question 21

Suppose a market is characterized by:

- Few sellers
- Not always aggressive competition
  This market structure is called:

- [ ] Monopoly

- [ ] Oligopoly
- [ ] Monopolistic Competition

Question 22

For a perfectly competitive firm:

- [ ] Average Revenue is equal to Marginal Revenue
- [ ] Average Revenue is never equal to Marginal Revenue
- [ ] The relationship is not fixed

Question 23

Suppose two goods X and Y are complements. Then, a rise in the price of Y would result:

- [ ] In an upward movement along the current demand curve of X
- [ ] In an inward/leftward/downward shift of the current demand curve of X
- [ ] In an outward/rightward/upward shift of the current demand curve of X

Question 24

If all the consumers expect the price of the product to rise in the future, then it will result:

- [ ] In an upward movement along the current demand curve
- [ ] In an inward/leftward/downward shift of the current demand curve
- [ ] In an outward/rightward/upward shift of the current demand curve

Question 25

If a price ceiling is set below the market-clearing equilibrium price, this has:

- [ ] No effect on the equilibrium output
- [ ] Creates a situation of excess supply
- [ ] Creates a situation of excess demand

Question 26

"Supply is less elastic in the long run". This statement is:

- [ ] True
- [ ] False
- [ ] There is no relation between elasticity and time period

Question 27

Suppose a market is characterized by:

- Many sellers
- Slightly differentiated products
- Each seller may set price for its own product

  This market structure is called:

- [ ] Monopoly
- [ ] Oligopoly
- [ ] Monopolistic Competition

Question 28

While calculating economic profits, the firm considers:

- [ ] Only explicit costs
- [ ] Only implicit costs
- [ ] Both explicit and implicit costs

Question 29

When the price was 10 rupees, the quantity demanded was 150 units. The quantity demanded rose to 200 units when the price fell to 5 rupees. In this case, the elasticity of demand calculated by the mid-point formula is given by:

- [ ] 0.518
- [ ] 0.428
- [ ] 0.492

Question 30

Consider two goods, books and cakes. The absolute slope of the consumer's budget constraint is measured by the:

- [ ] Consumer's income divided by the price of cakes
- [ ] Relative price of books and cakes
- [ ] Consumer's marginal rate of substitution

Question 31

If a consumer's income decreases, the budget constraint for bread and sugar will:

- [ ] Shift outward/rightward/upward, parallel to the original budget constraint
- [ ] Shift inward/leftward/downward, parallel to the original budget constraint
- [ ] Rotate outward along the axis measuring bread because we can afford more breads

Question 32

In any market structure (perfect competition, oligopoly, monopoly), the demand curve is the same as the average revenue curve. Is this statement always true?

- [ ] Yes
- [ ] No
- [ ] Insufficient information is provided to answer

Question 33

When there is a change in Quantity Demanded owing to a change in the own Price of the product, it is captured by:

- [ ] Shift of the demand curve
- [ ] Movement along the demand curve
- [ ] Both of the other two options are true

Question 34

An inferior good will necessarily be a Giffen good. Is this statement always true?

- [ ] Yes
- [ ] No
- [ ] There is no relation between inferior and Giffen goods

Question 35

If the MC curve is above the AVC curve, then the AVC curve is:

- [ ] Rising
- [ ] Falling
- [ ] Indeterminate

Question 36

The slope of an indifference curve at any point is given by:

- [ ] The relative price ratio of the goods
- [ ] The consumer’s marginal rate of substitution
- [ ] The ratio of price and money income of the consumer

Question 37

When two goods are perfect substitutes for the consumer, the marginal rate of substitution:

- [ ] Is increasing
- [ ] Is decreasing

- [ ] Is constant

Question 38

When both goods are disliked by the consumer, the indifference curve:

- [ ] Is upward sloping
- [ ] Is downward sloping
- [ ] Indeterminate

Question 39

Indifference curves:

- [ ] Can sometimes intersect
- [ ] Always intersect
- [ ] Never intersect

Question 40

The monopolist will receive economic profits as long as:

- [ ] Price is greater than marginal cost
- [ ] Price is greater than average variable cost
- [ ] Price is greater than average total cost

Question 41

The marginal cost intersects the average total cost curve at:

- [ ] The maximum point of the average total cost curve
- [ ] The minimum point of the average total cost curve
- [ ] An indeterminate point

Question 42

The *production possibilities frontier* is a graph that shows the combinations of output that the economy can possibly produce given the:

- [ ] Available factors of production and demand conditions
- [ ] Available production technology and ongoing prices
- [ ] Available factors of production and available production technology

Question 43

The consumer surplus in the market is measured by:

- [ ] The area below the demand curve and above the supply curve
- [ ] The area below the demand curve
- [ ] The area below the demand curve and above the price

Question 44

"Efficiency" means the benefits of resources are distributed fairly among the members of society. Is this definition always correct?

- [ ] Yes
- [ ] No
- [ ] Maybe

Question 45

Following are the features in a perfectly competitive market in the LONG RUN:
(i) All costs are variable
(ii) Possible entry or exit of firms is allowed

- [ ] Only the first feature (i) is correct
- [ ] Only the second feature (ii) is correct
- [ ] Both features (i) and (ii) are correct

Question 46

A welfare maximizing level of output is produced by a profit maximizing monopolist who does not price discriminate. Is this statement true?

- [ ] Yes
- [ ] No
- [ ] Maybe

Question 47

The rule of Marginal Revenue=Marginal Cost is followed by a profit maximizing firm under perfect competition and a profit maximizing monopolist who does not price discriminate. Is this statement true?

- [ ] Yes
- [ ] No
- [ ] There is no link between MR=MC condition and profit maximisation

Question 48

For a normal good, the demand curve is:

- [ ] Always downward sloping
- [ ] Maybe upward or downward sloping
- [ ] Always upward sloping

Question 49

Substitution Effect works:

- [ ] In opposite directions for normal and inferior goods
- [ ] In the same direction for both normal and inferior goods
- [ ] It depends on a case to case basis

Question 50

The shape of the indifference curve depends:

- [ ] Both on the preferences and money income of the consumer
- [ ] Both on the preferences and prices of the goods
- [ ] Only on the preferences of the consumer