

## **ECON F211: Tut Test 1 Solution**

**9<sup>th</sup> Feb 2021 at 8 AM**

1. If consumer income increases, then for a normal good the equilibrium price of that commodity will:

- a. increase.
- b. decrease.
- c. stay the same.
- d. not enough information to answer the question.

Ans: A

2. One of the impact of changes in prices in the input market on the equilibrium price and quantity of the output is that:

- a. as the price in the input market increases the equilibrium price in the output market increases and quantity demanded decreases.
- b. as the price in the input market increases the equilibrium price in the output market decreases and quantity demanded increases.
- c. as the price in the input market decreases the equilibrium price in the output market increases and quantity demanded increases.
- d. as the price in the input market decreases the equilibrium price in the output market decreases and quantity demanded decreases.
- e. there are more than one correct answers in this question.

Ans: A

3. The point elasticity of a straight-line demand curve:

- a. is always constant.
- b. can be inferred only by the slope of the demand curve of that commodity.
- c. is related to the slope of the demand curve.
- d. is always dependent on the income of the households.
- e. none of the given answers are correct.

Ans: C

4. If the college's cultural program organizing committee decides to raise ticket prices to provide more funds to finance professional shows, the committee is assuming that the demand for tickets is:

- a. parallel to the horizontal axis.
- b. shifting to the left.
- c. inelastic.
- d. elastic.
- e. none of the given options are correct.

Ans: C

5. The demand schedules for such essential products as eggs, salt, rice, and electricity tend to be:

- a. perfectly price elastic.
- b. of unit price elasticity.
- c. relatively price inelastic.
- d. relatively price elastic.
- e. none of the given options are correct.

Ans: C

6. Which of the following statements is *not* correct?

- a. The larger an item is in one's budget, the greater the price elasticity of demand.
- b. The price elasticity of demand is greater for necessities than it is for luxuries.
- c. The larger the number of close substitutes available, the greater will be the price elasticity of demand for a particular product.
- d. The price elasticity of demand is greater the longer the time period under consideration.
- e. None of the given options are correct

Ans: B

7. If the coefficient of price elasticity is between -1 and zero, demand is:

- a. perfectly inelastic.
- b. perfectly elastic.
- c. relatively inelastic.
- d. relatively elastic.
- e. none of the given options are correct

Ans: C

8. The research studies conducted on the minimum wage indicate that the price elasticity of demand for teenage laborers is relatively inelastic. This means that:
- a. an increase in the minimum wage would increase the total incomes of the teenage age laborers as a group.
  - b. an increase in the minimum wage would decrease the total incomes of the teenage age laborers as a group.
  - c. the effect on unemployment due to an increase in the minimum wage would be relatively large.
  - d. the cross elasticity of demand between the teenage working group and the adult working group is positive and very large.
  - e. none of the given options are correct.

Ans: A

9. Suppose the price elasticity of supply of product X is perfectly inelastic. If there is an increase in the demand for product X in the market, the equilibrium price:
- a. will decrease but the equilibrium quantity will increase.
  - b. and the quantity will both decrease.
  - c. will increase but the equilibrium quantity will decline.
  - d. will increase but the equilibrium quantity will be unchanged.
  - e. None of the given options are correct.

Ans: D

10. The interpretation of price elasticity (E) of demand is that:
- a. if price changes by P% then quantity demanded changes by  $E \cdot P\%$ .
  - b. if price changes by P% then quantity demanded changes by  $E + P\%$ .
  - c. if quantity demanded changes by Q% then price changes by  $E \cdot Q\%$ .
  - d. if quantity demanded changes by Q% then price changes by  $E + Q\%$ .
  - e. there are more than one correct answers in this question.

Ans: A

11. Which type of goods and services are most likely *adversely* impacted during economic slowdown?
- a. Goods and services for which the income elasticity coefficient is relatively low.
  - b. Goods and services for which the income elasticity coefficient is relatively high.
  - c. Goods and services for which the cross-price elasticity coefficient is positive.
  - d. Goods and services for which the cross-price elasticity coefficient is negative.

e. None of the given options are correct.

Ans: B

12. We would expect the cross price elasticity of demand between Pepsi and Coke to be:

- a. positive, indicating normal goods.
- b. positive, indicating inferior goods.
- c. positive, indicating substitute goods.
- d. negative, indicating substitute goods.
- e. None of the given options are correct

Ans: C

13. If the price of commodity K declines, the demand curve for the complementary product J will:

- a. shift to the left
- b. decrease
- c. shift to the right
- d. remains unchanged
- e. none of the given options are correct

Ans: C

14. Which of the following would *not* shift the demand curve for beer?

- a. widely publicized study which indicates beer consumption increases one's blood pressure.
- b. a reduction in the price of bottling and packaging beer.
- c. an effective advertising campaign by wine producers.
- d. a change in the incomes of beer consumers.
- e. None of the given options are correct

Ans: B

15. The law of downward-sloping demand is most appropriately related to which statement:
- a. a surplus of goods supply will cause price to fall.
  - b. people buy more of a normal good as their incomes rise.
  - c. the quantity of a good that consumers willingly purchase increases as the price of that good falls.
  - d. the quantity of a good purchased will decrease as it goes out of style or is replaced by something of better quality.
  - e. There are more than one correct options in this question.

Ans: C

16. Suppose that the demand curve for commodity *X* shifts to the left. One reasonable explanation for this shift would be:
- a. the supply of *X* has decreased for some reason.
  - b. the price of *X* has increased, so people have decided to buy less of it than they did before.
  - c. consumer tastes have shifted in favor of this commodity, and they want to buy more of it than they did before at any given price.
  - d. the price of *X* has fallen, so people have decided to buy more of it than they did before.
  - e. none of these events.

Ans: E

17. When applied to the quantity demanded for commodity *X* the phrase “ceteris paribus,” or “other things constant,” means that:
- a. the price of *X* is held constant.
  - b. both buyer incomes and the price of *X* are held constant.
  - c. buyer incomes, tastes, and the price of *X* are held constant.
  - d. all factors that might influence the demand for *X* including the price of *X* are held constant.
  - e. none of the given options are correct.

Ans: E

18. If Dell and HP computers are substitutes, a decrease in the price of Dell PCs will cause:
- a. a decrease in the demand for HP computers.
  - b. an increase in the demand for Dell computers.
  - c. an increase in the supply of Dell computers.
  - d. an increase in the supply of HP computers.
  - e. there are more than one correct options in this question.

Ans: A

19. The demand for ceramic cups has increased recently as more people have developed preference for it. This change in preference will cause the supply curve for ceramic cups to:
- a. shift to the left.
  - b. shift to the right.
  - c. remain the same.
  - d. decrease next year.
  - e. none of the given options are correct.

Ans: C

20. Equilibrium in a market indicates:

- a. the price at which quantity supplied equals quantity demanded.
- b. that every buyer who wants to buy can buy at the equilibrium price, and every seller who wants to sell can sell at the equilibrium price.
- c. there is no tendency for price to change.
- d. all of the above.
- e. none of the above.

Ans: A

21. Let the initial price of a good be \$5. If buyers wish to purchase 400 units per week at that price while sellers wish to sell 500 units per week, then:

- a. price will tend to increase in the future.
- b. firm output will tend to increase in the future.
- c. price and output will tend to remain the same in the future.
- d. price will tend to decrease in the future.
- e. something is wrong—this could not happen.

Ans: D

22. Government's role in a modern economy is to:

- a. ensure efficiency.
- b. correct an unfair distribution of income.
- c. promote economic growth and stability.
- d. there are more than one correct options given in the question
- e. none of the given options apply.

Ans: D

23. When reference is made to "a capitalist economy," the indication is most probably to an economy:

- a. in which most capital goods are privately owned.
- b. in which the stock of capital is large relative to the population of that economy.
- c. that is under communist or socialist rule, so property rights to the capital belong to the government.
- d. suffering from high and increasing rates of inflation.
- e. in which financial capital is equally distributed among all members of the economy.

Ans: A

24. The philosophy of laissez-faire means that:

- a. government controls the economy through a central planning board.
- b. firms are allowed to monopolize industries in the economy to make greater profits.
- c. barter is used instead of money to make all transactions.
- d. the government uses taxing and spending policies to redistribute income and wealth.

- e. government interferes as little as possible in economic affairs.

Ans: E

25. People generally take up education because it improves prospects for them to earn a better wage rate. This is best described as:

- a. a positive statement
- b. a normative statement
- c. an example of opportunity cost
- d. an example of Marginalism
- e. none of the given options are correct

Ans: A

26. Normative economics is an approach to economics that

- a. seeks to understand behavior and the operation of systems without making judgments.
- b. analyzes outcomes of economic behavior, evaluates them as good or bad, and may prescribe preferred courses of action.
- c. applies statistical techniques and data to economic problems.
- d. examines the role of government in the economy.
- e. none of the given options are correct

Ans: B

27. There is great concern over the idea that currency in circulation should be prohibited through demonetization in order to curb counterfeit notes and terror financing. A study of the costs and benefits of implementing a demonetization program is an example of

- a. laissez-faire economics.
- b. positive economics.
- c. labor economics.
- d. normative economics.
- e. none of the given options are correct.

Ans: B

28. Which one of following economics related issues falls under the purview of macroeconomics:

- a. fiscal deficit management by the finance ministry.
- b. cost benefit analysis of new waste management technology in a metropolitan city.
- c. volatility in the share price of Reliance Industries Limited.
- d. analysis of opportunity cost incurred by the exchequer for a large-scale infrastructure revamp in national capital.
- e. there are more than two correct options in this question.

Ans: A

29. If resources are combined efficiently in production, then the society

- a. is producing at the most-desirable point on the production possibility frontier.
- b. is producing at a point on the production possibility frontier but not necessarily at the most-desirable point.
- c. is producing at a point outside the production possibility frontier.

- d. is experiencing economic growth.
- e. none of the given options are correct.

Answer: B

30. The value of the slope of a society's production possibility frontier is called its

- a. marginal rate of substitution.
- b. inflation rate.
- c. unemployment rate.
- d. marginal rate of transformation.
- e. none of the given options are correct.

Answer: D

31. The marginal rate of transformation is the

- a. slope of the production possibility frontier.
- b. dollar value of the best forgone alternative.
- c. process of using resources to produce new capital.
- d. transformation of resources into a form that is useful to people.
- e. none of the given options are correct.

Answer: A

\*\*\*\*\*