SUMON DAS

CE13B051

Humanities & Social Sciences Department
First Semester 2014-15
HS 3002: Principles of Economics
Surprise Quiz-I
Weightage: 10%   Date: 27/08/14

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Choose the most appropriate choice of the following.

1. The meaning of the word 'economic' is most closely associated with the word
   - A. free
   - B. scarce
   - C. unlimited
   - D. unrestricted

2. Microeconomics includes the study of the
   - A. aggregate effects on the national economy
   - B. recessions and inflation in the global economy
   - C. choices made by individuals and businesses
   - D. reasons why the Central bank changes interest rate

3. Normative statements
   - A. describe how the World is
   - B. describe how the World ought to be
   - C. depend on people's values and cannot be tested
   - D. both answers b and c are correct

4. The term "the best thing that you must give up to get something" defines
   - A. sunk cost
   - B. marginal cost
   - C. opportunity cost
   - D. marginal benefit

5. The market equilibrium for a commodity is determined by
   - A. the market demand for the commodity
   - B. the market supply of the commodity
   - C. the balancing of the forces of demand and supply for the commodity
   - D. any of the above

6. In a free market economy the problem of allocation and distribution are solved by
   - A. a planning commission
   - B. the elected representatives of the people
   - C. the price mechanism
   - D. none of the above

7. In drawing an individual's demand curve for a commodity, which one of the following is not kept constant?
   - A. the individual's money income
   - B. the prices of other commodities
   - C. the price of the commodity under consideration
   - D. the tastes of the individuals

8. A fall in the price of a commodity, holding everything else constant, results in and is referred to as
   A. an increase in demand
   B. a decrease in demand
   C. an increase in quantity demanded
   D. a decrease in quantity demanded

9. If the quantity of a commodity demanded remains unchanged as its price changes, the coefficient of price elasticity of demand is
   A. greater than 1
   B. equal to 1
   C. smaller than 1
   D. zero

10. An increase in consumer income will increase demand for a -------- and will decrease demand for ------------
   A. Substitute good, inferior good
   B. Normal good, inferior good
   C. Inferior good, normal good
   D. Normal good, complementary good.

(0.5*10)

11. Which of the following are macroeconomic issues, which are micro economic ones?
   a. Inflation
   b. Why the price of cabbages fluctuates
   c. The rate of economic growth this year compared with last year
   d. The decline of traditional manufacturing industries

(1.0)

12. Explain each of the following events impact on the market of banana using demand and supply diagram for bananas.
   Demand (a) reports surface that bananas are infected with a deadly virus
   (b) the price of bananas rises

(2.0)

13. Ramesh and Karthik are auto mechanics. Ramesh takes 4 hours to replace a clutch and 2 hours to replace a set of brakes. Karthik takes 6 hours to replace a clutch and 2 hours to replace a set of brakes. If they open a motor repair shop:
   (a) Ramesh should work only on clutches, and Karthik should work only on brakes.
   (b) Ramesh has an absolute advantage at replacing clutches.

   Explain your answer whether you agree or not.

(2.0)

Note:- Right Answers ticked in paper

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First Semester 2014-15
HS 3002: Principles of Economics
Surprise Quiz-2 Marks: 10 Date: 24/10/14

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Answers:	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**
Choice :	D	D	B	D	D	B	C	C	D	D

Answers:	**11**	**12**	**13**	**14**	**15**	**16**	**17**	**18**	**19**	**20**
Choice :	B	D	A	D	B	B	B	C	D	B

Choose the most appropriate choice of the following.

1. Unlike perfect competition, monopolistic competition features -----
   (a) freedom of buyers and sellers
   (b) independent buyers and sellers
   (c) well informed buyers and sellers
   (d) real or imagined product differences
2. In the case of natural monopolies, the goal of government regulations is to ______
   (a) stop price-fixing, which reduces competition among firms $P = MC$
   (b) take advantage of the monopolies' lower production costs
   (c) halt the growth of natural monopolies or to break them up entirely
   (d) set a level of price and service that would exist under competition
3. Comparing a monopoly and a competitive firm, the monopolist will ______
   (a) produce more at a lower price
   (b) produce less at a higher price
   (c) produce more at a higher price
   (d) produce less at a lower price
4. Perfect price discrimination means that every customer
   (a) buys the same amount
   (b) contributes the same revenue
   (c) pays what she/he thinks the product is worth
   (d) pays the same price
5. A dominant strategy is ____________
   (a) a losing strategy
   (b) a players best strategy when moving first
   (c) a winning strategy
   (d) a player's best strategy whatever the strategies adopted by rivals

6. A firm in a monopolistically competitive industry:
   (a) sells a fixed amount of output regardless of price.
   (b) must lower price to sell more output
   (c) can sell an infinite amount of output at the market-determined price.
   (d) must raise price to sell more output.
7. The long-run equilibrium outcomes in monopolistic competition and perfect competition are similar, because in both market structures:
   (a) firms will be producing at minimum average cost.
   (b) firms realise all economies of scale.
   (c) firms will only earn a normal profit. Tangency point
   (d) the efficient output level will be produced in the long run
8. When one firm in the breakfast cereal market started an advertising campaign that stressed the nutritional value of its cereals, all other cereal manufacturers started similar advertising campaigns. This suggests that the breakfast cereal market is:
   (a) perfectly competitive
   (b) indeterminate from this information
   (c) monopolistic
   (d) none of the above
9. Assume that firms in an oligopoly are currently colluding to set price and output to maximize total industry profit. If the oligopolists are forced to stop colluding, the price charged by the oligopolists will _______ and the total output produced will _________ towards competitive Market
   (a) increase; increase
   (b) increase; decrease
   (c) decrease; decrease
   (d) decrease; increase
10. A group of firms that gets together to make price and output decisions is called
    (a) an oligopoly
    (b) price leadership
    (c) a concentrated industry
    (d) a cartel
11. Which of the following is not true for a perfectly competitive market

(a) Product differentiation is absent

(b) Equality between marginal revenue and marginal cost is the only required condition for profit maximizing equilibrium

(c) Average revenue and marginal revenue curve is same

(d) Both (b) and (c)

12. In a perfectly competitive market, a producer's short-run supply curve is

(a) The upward segment of her/his average variable cost curve

(b) The upward segment of her/his marginal cost curve

(c) The upward segment of her/his marginal cost curve which is above the lowest point of the average total cost curve

(d) None of these AVC

13. Comparing the short run and the long run profit maximizing positions of a perfectly competitive firm, which one of the following statements is true?

(a) Price will equal marginal cost in the short-run, but not necessarily in the long-run

(b) Economic profit may be positive in both the short and in the long run

(c) Price should equal average cost in the long-run, but not necessarily in the short run

(d) The firm will produce at minimum average cost in both the short and the long run

14. In a monopolistically competitive market, economic profits will eventually lead to

(a) Rightward parallel shifts of the demand curve of each of the incumbent firms

(b) Leftward parallel shifts of the demand curve of each of the incumbent firms

(c) Leftward shifts of the demand curve of each of the incumbent firms and it will be relatively flatter Goes towards Market Competition

(d) Leftward shifts of the demand curve of each of the incumbent firms and it will be relatively steeper

15. A profit maximizing oligopolist

(a) Produces output which is less than both the monopoly and the perfectly competitive output and charges more than perfectly competitive price

(b) Produces more than monopoly output but less than perfectly competitive output and charges less than monopoly price but more than perfectly competitive price

(c) Produces socially optimum level of output but charges more than socially optimum level of price.

(d) Outputs and prices in these three kinds of markets are not comparable at all

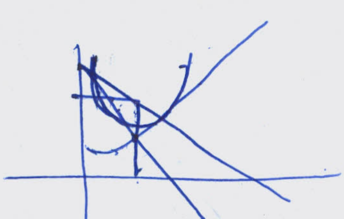
16. Four monopolists (Person having Monopoly) were overheard talking at an expensive restaurant. Which one of their statements below contains correct strategy for maximizing profits?

(a) "In my company, we don't increase output unless we know that the larger output will raise total revenue"

(b) "I think cost minimization is the key to maximizing profits"

(c) "We try to make most of our equipment by producing at maximum capacity"

(d) "I don't really keep close tabs on total profits, but I don't approve any business deal unless it increases my revenue more than it increases my costs"



17. A product has a demand curve P = 210 – 4Q and it was supplied by a monopolist; the monopolist faces a constant marginal cost MC = 10. Calculate the profit-maximizing monopoly quantity and price.

a. P=100, Q = 25
b. P= 110, Q = 25
c. P = 120, Q = 50
d. P = 100, Q = 50

$TR = 210Q - 4Q^2$

$MR = 210 - 8Q$

$210 - 8Q = 10$

$200 = 8Q$

$\boxed{Q = 25}$

$P = 210 - 1$

18. Suppose that all firms in a perfectly competitive equilibrium had a constant marginal cost MC = 10. For the same demand curve as given in above question, find the long run perfectly competitive industry price and quantity.

a. P=100, Q = 50
b. P= 110, Q = 25
c. P = 10, Q = 50
d. P = 10, Q = 25

P=MC

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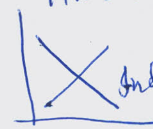

Industry

19. If the market demand curve for a commodity has a negative slope then the market structure must be

a. perfect competition.
b. monopoly.
c. imperfect competition.
d. The market structure cannot be determined from the information given.

Identify

20. Which of the following markets comes close to satisfying the assumptions of a perfectly competitive market structure?

a. The stock market.
b. The market for agricultural commodities such as wheat or corn.
c. The market for petroleum and natural gas.
d. All of the above come close to satisfying the assumptions of perfect competition.