Section: Roll No.: Name:

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1) In case of inelastic demand, an increase in price causes
   a. An increase in total revenue
   b. A decrease in total revenue
   c. No change in total revenue
   d. Random change in revenue

2) In the price leadership model equillibrium
   a. The follower must always set the same price as the leader
   b. The follower is able to set a price less than the leader
   c. The follower charges a price equal to marginal cost
   d. None of the above

3) Firms operate with excess capacity in monopolistic competition because
   a. They are not able to lower their average cost of production
   b. They have to reduce the price of the good
   c. They already produce at the quantity that minimizes average total cost
   d. They are charging a markup over marginal cost

4) What is the value of elasticity of demand on rectangular hyperbola demand curve?
   a. Infinity
   b. Unity
   c. Zero
   d. 0.5

5) Suppose the price of a burger is Rs 8 and the price of coke is Rs 3. Assume that the consumer has spent all of his income. If the marginal utility of a burger is Rs 32 and the marginal utility of coke is Rs 15. For current consumption bundle to optimal-
   a. consumer should buy less burgers & more Coke
   b. current bundle is optimal
   c. consumer should buy more burgers & less Coke
   d. cannot say from available information

6) Statements: I) The firm's decision to produce zero output when the price is less than the average variable cost of production is known as the shutdown rule. and II) The firm's supply decision is to generate zero output for all prices below the minimum AVC.
   a. I and II are true.
   b. I is true and II is false
   c. II is true and I is false
   d. I and II are false

7) In a production process, all inputs are increased by 10%; but output increases less than 10%. This means that the firm experiences their return to scales
   a. decreasing
   b. constant
   c. increasing
   d. negative

8) Indifference curves are convex to the origin because of:
   a. transitivity of consumer preferences.
   b. the assumption of a diminishing MRS
   c. the assumption that more is preferred to less
   d. the assumption of completeness.

9) If price is between AVC and ATC, the most practical thing for a perfectly competitive firm to do is
   a. lower prices to gain revenue from extra volume.
   b. shut down immediately, but not exit business.
   c. shut down immediately and exit the business.
   d. continue operating, but plan to exit business.

10) What happens if price falls below the market clearing price?
    a. Demand shifts out
    b. Supply shifts in
    c. Demand decreases,Supply increases,price falls
    d. Demand increases,Supply decreases,price rises