

### **ECONOMICS Multiple Choice Questions (MCQ)**

Compiled by ADEBAJO ABDULRAZAK (PKA General) in conjunction with OJUIFUN OLUWATOBA JOHN (PKA Teejay)

1. Economics can best be defined as the study of:
  - A. How society resolves the problem of scarcity
  - B. Why productive resources are scarce?
  - C. How to interpret economic theories
  - D. The features of different types of economic system
  - E. How the consumers maximize their utility
  
2. The fundamental economic problems facing all societies arise because of:
  - A. Availability of unlimited resources
  - B. The insatiable wants of man
  - C. Resources being scarce in relation to human want
  - D. Government's passive role in the economy
  - E. Large bureaucratic structures of governments
  
3. Pure capitalism is an economic system characterized by:
  - I. Private ownership of productive resources
  - II Freedom of choice and enterprise
  - III Competition
  - A. I only
  - B. II only
  - C. I and II only
  - D. III only
  - E. I, II and III
  
4. Which of the following is a statement in positive economics?
  - A. The pump litre price of petrol should be increased
  - B. The government ought to provide more hospitals
  - C. Anti-corruption agency is desirable in all developing countries
  - D. There is high rate of inflation in most West-African countries
  - E. Government should tax the rich more
  
5. The production possibilities curve CAN NOT be usefully employed to illustrate
  - A. Opportunity Cost
  - B. Economic Scarcity
  - C. Economic Growth
  - D. Unemployment
  - E. Scale of preference
  
6. The following are determinants of quantity demanded of a commodity

EXCEPT:

- A. Income of the consumer
- B. Price of the commodity
- C. Prices of related commodities
- D. Prices of factors of production
- E. Taste

7. Which of the following is not responsible for a shift in supply curve?

- A. Changes in technology
- B. Increase in prices of related goods
- C. A reduction in inputs prices
- D. Prices of the good
- E. Favourable weather conditions

8. When the price of a given commodity rises above the equilibrium price, the quantity

supplied of that commodity

- A. Exceeds the demand
- B. Equals demand
- C. Less than the demand
- D. Increases continuously
- E. Cannot be determined

9. Given the demand function for milk as  $Q_d = 120 - 3P$ , and supply function as  $Q_s = 50 + 4P$ , the equilibrium quantity is

- A. 90
- B. 80
- C. 70
- D. 60
- E. 50

10. Which of the following best describes a tabular arrangement of various prices of a commodity and the corresponding quantities purchased at a given time?

- A. Demand curve
- B. Demand schedule
- C. Demand line
- D. Market demand
- E. Law of demand

11. When the price elasticity of supply coefficient is greater than 1, the supply of the product

is said to be

- A. Perfectly elastic
- B. Perfectly inelastic

- C. Elastic
- D. Inelastic
- E. Unit elastic

12. Which of the following factors does not determine price elasticity of demand for particular goods?

- A. Closeness of substitute goods
- B. The percentage of income spent on the commodity
- C. Habit of the consumer on the commodity
- D. The quantity of the goods demanded
- E. The number of possible uses of the commodity

13. A good is described as inferior when its income elasticity of demand coefficient is

- A. Negative
- B. Positive
- C. Zero
- D. Infinity
- E. One

14. The responsiveness of the quantity demanded of one commodity to a change in the price of another commodity defines

- A. Own price elasticity of demand
- B. Cross-price elasticity of demand
- C. Income elasticity of demand
- D. Income inelasticity of demand
- E. Perfect elasticity of demand

15. When a 15 percent increase in the price of a product leads to a 25 percent increase in the quantity supplied of the product, then the price elasticity of supply coefficient is

- A. 0.6
- B. 1.7
- C. 1.5
- D. 0.33
- E. 0.25

16. The theory of consumer behaviour is propounded primarily to

- I. Validate the law of demand
- II. Disprove the law of demand
- III. Rationalize the downward sloping demand curve

- A. I only
- B. II only
- C. III only
- D. I and II only
- E. I and III only

17. The presumption that the average consumer will always maintain the utility

maximization position in his spending is referred to as

- A. Cardinal utility
- B. Consumer equilibrium
- C. Consumer rationality
- D. Diminishing marginal utility
- E. Constant marginal utility of money

18. Which of the following indicates the negative slope of the indifference curve?

- A. Marginal rate of commodity substitution
- B. Axiom of transitivity
- C. Budget schedule
- D. Consumer equilibrium
- E. Ordinal utility

19. Which of the following gives the reason why it would be logically impossible for two indifference curves to cross?

- A. The law of diminishing marginal utility
- B. Axiom of transitivity
- C. Assumption of consumer rationality
- D. The negative slope of the indifference curve
- E. The law of diminishing marginal rate of commodity substitution

20. The adjustment of demand to the relative price change alone is called

- A. The substitution effect
- B. The income effect
- C. The total effect
- D. Market demand curve
- E. Individual demand curve

21. The output per unit of the variable factor employed is called

- A. Marginal product
- B. Average product
- C. Total product
- D. Average cost

## E. Productivity of labour

22. Increase in all inputs by a certain percentage resulting in a relatively higher percentage increase in output is referred to as:

- A. Constant returns of scale
- B. Decreasing returns to scale
- C. Increasing returns to scale
- D. Diminishing returns
- E. Law of variable proportion

23. The following are advantages of division of labour EXCEPT:

- A. Increase in productivity
- B. Monotony of work
- C. Saves time
- D. Improves skills of workers
- E. Increases use of machines

24. Which of the following is not a possible source of finance of a sole proprietorship?

- A. Personal savings
- B. Borrowing from banks
- C. Ploughing back profit
- D. Inherited capital
- E. Selling shares to the public

25. The following are contained in Article of Association of a limited liability company

EXCEPT:

- A. The address of the registered office
- B. The rights of the shareholders
- C. Allocation of shares
- D. Internal constitution of the company
- E. How shares are transferred

26. Which of the following is true of a perfectly competitive firm?

- A. Price = AR = MR at equilibrium
- B. Demand is always greater than AR
- C. The MR curve is downward sloping
- D. Price = AR = MR = D at equilibrium
- E. At equilibrium position,  $MR > MC$

27. The sum of the average variable cost and average fixed cost gives

- A. Marginal cost
- B. Average total cost

- C. Total cost
- D. Total fixed cost
- E. Total variable cost

28. At the levels of output where the Average Cost is falling, the marginal cost is

- A. Falling but less than Average cost
- B. Rising faster than the average cost
- C. Falling but greater than the average cost
- D. Equal to the average cost
- E. Rising but less than average cost

29. Which of the following profit concepts does not include implicit cost elements?

- A. Accounting profit
- B. Economists profit
- C. Normal profit
- D. Super normal profit
- E. Economic loss

30. The necessary condition for a firm to be at equilibrium at a given output level is

where:

- A. The marginal cost is rising
- B.  $MC = MR$
- C.  $AC = AR$
- D.  $TC < TR$
- E.  $TVC = TR$

31. The demand curve facing each firm in perfect competition is

- A. Perfectly price elastic
- B. Perfectly price inelastic
- C. Fairly price elastic
- D. Fairly price inelastic
- E. Unit-price elastic

32. Which of the following statements is true of the perfectly competitive firm?

- A. Marginal revenue is less than its price
- B. Marginal revenue is equal to its price
- C. Marginal revenue is higher than its price
- D. Marginal cost is equal to its total cost
- E. Marginal cost is equal to its fixed cost

33. The demand curve faced by a pure monopoly is

- A. Downward sloping
- B. Horizontal
- C. Vertical
- D. Upward sloping to the right
- E. Upward sloping from the left

34. The monopoly firm is in short-run equilibrium when

- A. Price equals marginal cost
- B. Price equals average cost
- C. Price equals marginal revenue
- D. Marginal cost equals marginal revenue
- E. Marginal cost equals average revenue

35. Kinked demand curve is associated with:

- A. Perfect competition
- B. Monopolistic competition
- C. Monopoly
- D. Duopoly
- E. Oligopoly

### SHORT ANSWERS QUESTIONS

36. Goods that have prices and their production requires scarce resources which have alternative uses are referred to as .....

37. The study of aggregate economic variables is the primary concern of.....

38. The economic system characterized by private ownership of resources is.....

39. The economist who defined Economics as the social science which studies human behaviour as a relationship between ends and scarce means which have alternative uses is .....

40. The economic term for the satisfaction and fulfilment that people derive from the consumption of goods and services is referred to as .....

41. The graphical relationship between price and quantity purchased of a particular commodity is called .....
42. An increase in subsidies and reduction of taxes will shift the supply curve to the .....
43. The demand of a product for the production of another commodity is referred to as .....
44. All things being equal, the economic good whose demand decreases when the consumer's income increases, is classified as .....goods.
45. Given the demand and supply functions for a particular commodity as  $Q_d = 136 - 2p$  and  $Q_s = 100 + 2p$  respectively, the market price is.....
46. The responsiveness of quantity demanded for a commodity to changes in consumers income is called.....
47. Two commodities are .....if the co-efficient of their cross price elasticity of demand is positive.
48. If the quantity demanded of a commodity increases from 100 to 140 when unit price falls from N 50 to N 45 , the co-efficient of price elasticity of demand is .....
49. Given that any quantity of a particular commodity can be bought at a given price, the demand for the commodity is said to be .....
50. What will be the effect on the market price of a product if an increase in its demand and its supply remains constant and perfectly price inelastic?
51. The additional satisfaction which a consumer derives from the consumption of one more unit of a commodity is called .....
52. The maximum combination of two goods that the consumer can buy given money income and unit prices of the goods is illustrated graphically by .....
53. The locus of points representing different combinations of two goods



which gives the consumer the same level of satisfaction is .....

54. The negative slope of the indifference curve is called.....

55. Under the indifference curve theory of consumer behaviour, the equilibrium position of rational consumer is illustrated graphically by.....

56. The technical relationship between output and set of inputs at given time period is called.....

57. A man – made resource that is used up in a production process is referred to as .....

58. A change in total production resulting from the use of one additional unit of a variable input is .....

59. An operating period of production in which all factors of production are variables is called .....

60. The simplest form of business organisation is the .....

61. A cost concept that is equivalent of the change in the total variable cost with respect to output is.....

62. The benefits that a firm enjoys as it expands its scale of operation are called.....

63. The relationship  $P=MR=MC$  gives the profit maximisation condition for a market structure called.....

64. The product of price and the corresponding quantity sold by a firm is called.....

65. The cost disadvantages that a firm confronts as it expands its scale of production is called.....

66. A market structure in which the firm is also the industry is .....

67. The demand curve facing the firm in the perfect competition is ..... elastic

68. A market structure characterised by a large number of firms producing differentiated product is called .....

69. The shut-down condition for a monopolistic firm is when.....

70. A profit maximization position of a monopolistic firm is when.....

## **SOLUTION TO MULTIPLE CHOICE QUESTIONS (MCQS)**

1. A
2. C
3. E
4. D
5. E
6. D
7. A
8. A
9. A
10. B
11. C
12. D
13. A
14. B
15. B
16. A
17. C
18. A
19. B
20. A
21. B
22. C
23. B
24. E
25. A
26. D
27. B
28. A
29. A
30. B
31. A
32. B
33. A
34. D
35. E

## **SOLUTION TO SHORT ANSWERS QUESTIONS**

36. Economic goods
  37. Macroeconomics
  38. Capitalism
  39. Lionel Charles Robbins
  40. Utility
  41. Demand curve
  42. Right
  43. Derived demand
  44. Inferior
  45. N34
- $Q_d = 136 - 2p$   
 $Q_S = 100 + 2p$

Price is the point of intersection between the Demand and Supply functions. Thus, the equilibrium price (P) is obtained by solving the following equation for P thus

$$136 - 2p = 100 - 2p$$

$$4p = 136$$

$$\text{or } p = 136 / 4 = 34$$

46. Income elasticity of demand

47. Substitutes

48. 4

49. Perfectly elastic

50. The market price increases

51. Marginal utility

52. The budget line

53. Indifference curve

54. Marginal rate of commodity substitution

55. The point of tangency between the budget line and indifference curve.

56. Production function

57. Circulating capital or capital

58. Marginal product

59. Long-run period

60. Sole proprietorship/sole trader

61. Marginal cost

62. Internal economies of scale

63. Perfect market/ competitive market

64. Total revenue

65. Internal diseconomies

66. Monopoly

67. Perfectly price elastic

68. Monopolistic competition

69. Price is less than average variable cost (AVC)

70.  $MC=MR$