Topic-1: Production Possibility Frontier (PPF)

MCQ:

1. The Production Possibilities Frontier (PPF) of a nation shows -
   a) how much people consume   b) how much production take place
   c) the prices of the products   d) the population

2. Any point inside the PPF is called?
   a. Unattainable point
   b. Inefficient point
   c. Efficient point
   d. None of the above

3. Any point on the PPF is called?
   a. Unattainable point
   b. Inefficient point
   c. Efficient point
   d. None of the above

Practice Questions:

i) Draw and define a hypothetical production possibilities frontier (PPF) for an economy that produces milk and cookies.

ii) Indicate and describe an efficient, inefficient and unattainable point in the PPF with a diagram.

iii) What happens to this frontier if disease kills half of the economy's cows? Explain with necessary illustration.

Topic-2: Demand, Supply and Equilibrium

MCQ:

1. Demand curve is—
   a. Positively slopped   b. Negatively sloped   c. Upward sloping   d. Both (a) and (c)

2. Supply Curve is--
   a. Positively slopped   b. Negatively sloped   c. Upward sloping   d. Both (a) and (c)

3. Ceteris paribus means:
   a) Other thing being unequal   b) Other thing being equal
   c) Other thing being inadequate   d) Both b & c

4. Which factor can lead to movement in the supply curve?
   a) Product's Own Price   b) Input prices   c) Technology   d) Number of sellers

5. A decrease in demand means that:

a) When price increases consumers are willing to purchase lesser quantities of the good
b) Consumers are willing to purchase lesser quantities of the good at any given price
c) When the price rises, consumers are willing to purchase greater quantities of the good
d) Consumers cause the price drop by buying greater quantities of the good

6. Suppose that a scientific study just published demonstrates that having sugar makes people much unhealthier. How will this affect the equilibrium price and quantity of sugar in the market?

a) The equilibrium price will increase and the equilibrium quantity will decrease
b) The equilibrium price will decrease and the equilibrium quantity will increase
c) Both the equilibrium quantity and price will increase
d) Both the equilibrium quantity and price will decrease

7. In the market equilibrium diagram, price is in—
a) Horizontal axis   b) Vertical axis   c) Both axis   d) None of the above

8. Shortage in the market occurs at point when---
a. quantity demand < quantity supply
b. quantity demand > quantity supply
c. quantity demand = quantity supply
d. None of the above

9. Surplus in the market occurs at point when-
a. quantity demand < quantity supply
b. quantity demand > quantity supply
c. quantity demand = quantity supply
d. None of the above

10. If the price in a market happens to be above equilibrium price, there will be a ________ in the market, and the price will tend to ________.

a) surplus, fall   b) surplus, rise
c) shortage, fall   d) shortage, rise

Practice Questions:

The following is the hypothetical supply and demand schedule for Ice cream:

Price (Tk.)	Quantity demanded	Quantity Supplied
3	15	2
5	11	6
6	8	8
7	6	9
8	5	11
9	3	12

i) Graph the demand and supply curves from the demand and supply schedule.

ii) What is the equilibrium price and quantity in this Ice cream market?

iii) Suppose in one summer, the weather is extremely hot as there happens to be a heat wave. In addition to that during the same summer, a cyclone destroys part of the sugarcane crop and drives up the price of sugar; which is an essential ingredient for Ice cream production. How do these events affect the market (demand and supply) equilibrium for ice cream? Explain with the diagram.

iv) Discuss the difference between a shift and a movement along in the demand curve.

v) Discuss any FOUR determinants/variables that can shift the demand curve with relevant diagrams.

Topic-3: Elasticity

1. Perfectly elastic demand is___________

(a) horizontal (b) vertical (c) diagonal (d) downward

2. A perfectly inelastic demand is represented graphically by a:

a) relatively steep demand curve b) relatively flat demand curve
c) vertical demand curve d) horizontal demand curve

3. If there is a 1 percent price cut increases the quantity demanded by more than one percent then demand is____________

(a) elastic (b) inelastic (c) unit elastic (d) perfectly inelastic

4. Cross price elasticity of demand for complementary goods is__________

(a) positive (b) zero (c) negative (d) none

5. Suppose that two goods have a cross-price elasticity of demand of 0.8. This means that these goods are –

a) Normal b) Inferior
c) Complementary d) Substitute

6. Suppose that consumers' incomes rise by 2% and this causes demand for a good to increase by 6 %. What is the income elasticity of demand?

a) 2 b) 3
c) 0.3 d) 0.2

7. The more time consumers have to adjust to a price change, the _____________ is the demand for that good.

(a) more inelastic (b) more elastic (c) perfectly elastic (d) none

8. The less time consumers have to adjust to a price change, the .... is the demand for that good.

a) more inelastic b) more perfectly elastic
c) more elastic d) none of the above

9. Demand tends to be more inelastic if the good is a______

(a) luxury good (b) necessary good (c) both (d) none

Practice Questions:

a) Define the price elasticity of demand and the income elasticity of demand.

b) Explain the relationship between total revenue and the price elasticity of demand with relevant diagrams.

c) Answer the following questions on the basis of the following table:

Point	Price of Oil ($)	Price of Car ($)	Demand for Car ('000)
A	150	500000	17
B	120	450000	25
C	90	380000	38
D	75	300000	55

i. Calculate price elasticity of demand for car from point A to Point B? Interpret your answer.
ii. Calculate cross price elasticity of demand for car from point D to point A? Based on your answer identify whether the goods are complements or substitutes.

Topic-4: Output and Costs

MCQ:

1. The cost of producing an extra unit of output is the…………………

a) average variable cost b) average fixed cost
c) average total cost d) marginal cost

2. Efficient scale is the quantity that minimizes……………………………..

a) average variable cost b) average fixed cost
c) average total cost d) marginal cost

PART B: Fill in the type of Cost that best completes each sentence from the below mentioned costs:

opportunity cost, total cost, fixed cost, variable cost, explicit costs, average total cost, average variable cost, accounting cost, and marginal cost

1. What you give up for taking some action is called the ….Opportunity cost

2. …Fixed costs…. are those costs that do not vary with the quantity of output produced.

3. A cost that does not depend on the quantity produced is a(n) ……fixed cost………..

4. The cost of producing an extra unit of output is the………marginal cost…………..

5. The ………average total cost…………….. curve is U-shaped.

6. The ……marginal cost………….. crosses the average-total-cost curve at the efficient scale.

7. ……average total cost………… is falling when marginal cost is below it and rising when marginal cost is above it.

8. In the ice-cream industry in the short run, ……variable cost…………… includes the cost of cream and sugar but not the cost of the factory.

PART C: Modified True and False: Write TRUE if the statement is correct and if the statement is FALSE underline the word(s) that makes it FALSE and write the Correct word(s) under the marked word(s).

__True__1. Microeconomics deals with the behavior of individual economic units.

__False_ 2. Changes in a product's own price represents shift (movement) in the demand curve.

__False_ 3. Market demand is the sum of all individual supplies (demands) at each possible price.

__False_ 4. Whenever marginal cost is less than average total cost, average total cost is rising (falling).

__False_ 5. Demand tends to be more inelastic (elastic), if the good is a luxury good.

__False_ 6. Demand tends to be more elastic (inelastic), if the good is a necessary good.

__False_ 7. The short-run is a time frame in which the quantities of all inputs can be varied fixed.

__False_ 8. The Long-run is a time frame in which the quantities of all inputs can be fixed (Varied).

__False_ 9. Suppose that consumers' income rise causes demand for a good to decrease, the good is a normal (inferior) good.