

Economics MCQ (1-50)

GAT Subject Management Sciences

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51. If a 5% increase in price causes no change in total revenue, this means?
- (a) Demand is price inelastic (b) Demand is price elastic
(c) **Demand is unit elastic** (d) Demand is perfectly inelastic
52. Which of the following statements is true?
- (a) Because a straight line demand curve has constant slope, price elasticity of demand will remain constant as we move along various points on the curve (b) Three supply curves, with different slopes, but all originating from the origin will have different price elasticities of supply (c) **We only need to know the magnitude of the elasticity, not its sign, to determine whether it falls in the elastic or inelastic range**
(d) A straight line demand curve with a slope of -1 delivers unit elasticity
53. When firms advertise their product, they are trying to?
- (a) Shift the demand curve to the right (b) Make the demand curve steeper
(c) Make demand for the product more inelastic (d) **All of the above**
54. A lower income country, Z, which exports primary products and imports luxury goods eventually runs into balance of payments problems because?
- (a) The income elasticity of demand for Z's exports is low, while the income elasticity of demand for Z's imports is high
(b) Z's exports grow at a slower rate than the rate of growth of the world income; Z's imports rise at a faster rate than the rate of growth of Z's income
(c) Z's terms of trade (price of exports / price of imports) deteriorate (d) **All of the above**
55. "The government of a lower income country, K, is worried that rising domestic prices will lead to higher imports and therefore causes balance of payments problems." This most closely illustrates which elasticity concept?
- (a) Price elasticity of demand (b) Price elasticity of supply
(c) Income elasticity of demand (d) **Cross price elasticity of demand**
56. Economists use the term utility to mean?
- (a) The value of a product before it has been advertised
(b) **The satisfaction a consumer obtains from a good or service**
(c) Any characteristic of a good or service which cannot be measured
(d) The contribution a good or service makes to social welfare
57. Economists use the term marginal utility to mean?
- (a) Additional satisfaction gained divided by additional cost of the last unit
(b) **Additional satisfaction gained by the consumption of one more unit of a good**
(c) Total satisfaction gained when consuming a given number of units
(d) The process of comparing marginal units of all goods which could be purchased
58. The law of diminishing marginal utility states that?
- (a) Total satisfaction will decrease as more units of the good are consumed
(b) **The satisfaction derived from each additional unit of a good consumed will decrease**
(c) Total utility will become negative (d) Both the first and third option

59. By total consumer surplus economists mean (in P-Q space)?
- (a) **The area of the triangle formed by the demand curve, the price axis and the equilibrium price line**
 (b) The area between the average revenue and marginal revenue curves
 (c) The difference between the maximum price the consumer is willing to pay for a good (vertical-intercept of demand curve) and the minimum price the producer is willing to sell at (vertical intercept of supply curve)
 (d) A and C
60. The equation for Rida's demand curve for bouquets of flowers is $P = 40 - 2Q$. If the price of a bouquet is Rs18, her consumer surplus will be?
- (a) Rs. 198 (b) Rs. 121 (c) **Rs. 11** (d) Rs. 242
61. The price of an ice cream cone is Rs. 1.50 and you buy three ice cream cones per week. If the price of an ice cream cone falls to Rs. 1.25 and you still buy three ice cream cones per week, which of the following is (are) correct?
- (a) **The marginal utility of the fourth ice cream cone per week must be worth less than Rs. 1.25 to you**
 (b) The total utility of the four ice cream cones per week must be worth less than Rs. 5.75 ($=3 \times \text{Rs. 1.50} + \text{Rs. 1.25}$) to you
 (c) The total utility of the four ice cream cones per week must be less than Rs. 5.00 ($3 \times \text{Rs. 1.25} + \text{Rs. 1.25}$) to you
 (d) None of the above
62. Economists have used the idea of diminishing marginal utility to explain why?
- (a) Demand curves slope downwards (b) Demand curves become flatter at lower prices
 (c) Demand curves are inelastic (d) **Both the first and second option**
63. A consumer will buy more units of a good if the value of the good's?
- (a) Total utility is greater than price (b) Marginal utility is less than price
 (c) **Marginal utility is greater than price** (d) Total utility is less than price
64. The diamond-water paradox can be explained by suggesting that the price of a product is determined by?
- (a) Consumer incomes (b) **Its marginal utility**
 (c) Consumer surplus (d) Diminishing marginal utility
65. A utility-maximizing consumer changes her spending on goods X and Y until?
- (a) $MU_x = MU_y$ (b) $P_x (MU_x) = P_y (MU_y)$ (c) $TU_x/P_x = TU_y/P_y$ (d) **$MU_x (P_y) = MU_y (P_x)$**
66. The MU_x/MU_y ratio is 10 and the P_x/P_y ratio is 8, so the consumer should buy?
- (a) Less X and more Y (b) More X and more Y
 (c) **More X and less Y** (d) Less X and less Y
67. Economists define an indifference curve as the set of points?
- (a) At which the consumer is in equilibrium as the consumer's income changes
 (b) Which yield the same marginal utility (c) **Which yield the same total utility**
 (d) At which the consumer is in equilibrium as prices change
68. Which of the following is a property of an indifference curve?
- (a) The marginal rate of substitution is constant as you move along an indifference curve
 (b) Marginal utility is constant as you move along an indifference curve (c) **It is convex to the origin**
 (d) Total utility is greatest where the 45 degree line cuts the indifference curve

69. The limits imposed on household choices by income, wealth, and product prices are captured by the?
- (a) **Budget constraint** (b) Choice set
(c) Assumption of perfect knowledge (d) Preference set
70. Waris has Rs. 5,000 a week to spend on units of food and clothing. The unit price of food is Rs. 100 and the unit price of clothing is Rs. 250. Which of the following pairs of food and clothing are in the Waris's choice set?
- (a) 50 units of clothing and 50 units of food (b) 20 units of clothing and 50 units of food
(c) 10 units of clothing and 25 units of food (d) **0 units of clothing and 50 units of food**
71. If a household's money income is doubled?
- (a) The budget constraint will shift in and parallel to the old one (b) The budget constraint is not affected
(c) The budget constraint will swivel outward at the Y-intercept
(d) **The budget constraint will shift out parallel to the old one**
72. The curve that is traced out when we keep indifference curves constant and move the budget line parallel to its original position is?
- (a) **The income-consumption curve** (b) The Engel curve
(c) The demand curve (d) The income-demand curve
73. The curve that is traced out when we keep indifference curves constant and swivel the budget line at the Y-intercept to reflect a change the price of good X, is?
- (a) The Engel curve (b) The demand curve for X
(c) The substitution curve (d) **The price-consumption curve for X**
74. The curve that is traced out when we keep indifference curves and the total effective budget constant and only change the relative price of good X (i.e. slope of budget line) is?
- (a) A the Engel curve (b) The demand curve for X
(c) **The substitution curve** (d) The price-consumption curve for X
75. If the income and substitution effects of a price increase work in the same direction the good whose price has changed is a?
- (a) Inferior good (b) Giffen good
(c) **Normal good** (d) Superior good
76. If the price (or budget) line has a slope of -2 and it cuts indifference curve IC_a at points P and R (given that the slope of IC_a at point P is -4 and at point R is -1), the consumer can maximize utility by?
- (a) Choosing consumption bundle P (b) Choosing consumption bundle R
(c) **Moving to a higher indifference curve** (d) We don't enough information to answer the question
77. Indifference curves cannot?
- (a) Be L shaped (b) Be straight lines (c) **Intersect** (d) All of the above
78. The main problem with marginal utility analysis is?
- (a) That it cannot solve problems involving more than two goods (b) **Its cardinal measurement of utility**
(c) Its inability to explain the diamond-water paradox (d) All of the above

79. This question is about the demand for washing machines under uncertainty about whether the machine will turn out to be a good buy or a bad one. The odds ratio (OR) is defined as the ratio of the probability of the machine being good to the probability of the machine being bad. Let's say the OR is < 1 , and the consumer does not buy the machine. What can you conclude about the consumer's attitude towards risk?
- (a) She is risk averse (b) She is risk neutral
(c) She is risk loving (d) **We do not have enough information to answer the question**
80. The concept of diminishing marginal utility of income (DMUy) helps explain?
- (a) Why a marginal dollar might have higher utility for a pauper than a millionaire
(b) Why the total utility curve (in Utility-Income space) is convex
(c) Why the average consumer is risk-averse (d) **All of the above**
81. "Moral hazard" and "adverse selection" are problems related to asymmetric information that arise?
- (a) In ex-ante and ex-post contexts, respectively (b) **In ex-post and ex-ante contexts, respectively**
(c) In ex-ante contexts (d) In ex-post contexts
82. Profit-maximizing firms want to maximize the difference between?
- (a) **Total revenue and total cost** (b) Marginal revenue and marginal cost
(c) Marginal revenue and average cost (d) Total revenue and marginal cost
83. Which statement is false?
- (a) Fixed costs do not depend on the firm's level of output
(b) **Fixed costs are zero if the firm is producing nothing**
(c) Fixed costs are the difference between total costs and total variable costs
(d) There are no fixed costs in the long run
84. Which of the following is most likely to be a variable cost for a firm?
- (a) The monthly rent on office space that it leased for a year
(b) The franchiser's fee that a restaurant must pay to the national restaurant chain
(c) The interest payments made on loans
(d) **Workers' wages**
85. The costs that depend on output in the short run are?
- (a) Total variable costs only (b) **Both total variable costs and total costs**
(c) Total costs only (d) Total fixed cost only
86. The short run, as economists use the phrase, is characterized by
- (a) A period where the law of diminishing returns does not hold
(b) **At least one fixed factor of production, and firms neither leaving nor entering the industry**
(c) All inputs being variable (d) No variable inputs - that is all of the factors of production are fixed
87. Diminishing marginal returns implies?
- (a) Increasing average fixed costs (b) Decreasing marginal costs
(c) Decreasing average variable costs (d) **Increasing marginal costs**

88. Which of the following is a correct statement about the relationship between average product (AP) and marginal product (MP)?
- (a) If AP is at a maximum, then MP is also (b) If TP is declining then AP is negative
 (c) **If AP exceeds MP, then AP is falling** (d) If AP = MP, then total product is at a maximum
89. If the total product of two workers is 80 and the total product of 3 workers is 90, then the marginal product of the third worker is _____ and the average product of the third worker is _____?
- (a) 270; 160 (b) 3.33; 10 (c) **10; 30** (d) 30; 10
90. Engineers for Imran Bike Company have determined that a 15% increase in “all” inputs will cause a 15% increase in output. Assuming that input prices remain constant, you correctly deduce that such a change will cause _____ as output increases?
- (a) Long- run average costs to increase (b) Long- run marginal costs to increase
 (c) **Long-run average costs to remain constant** (d) Long- run average costs to decrease
91. Suppose Isa Khan’s Ice Cream experiences economies of scale up to a certain point and diseconomies of scale beyond that point. Its long-run average cost curve is most likely to be?
- (a) Upward sloping to the right (b) **U-shaped** (c) Horizontal (d) Downward sloping to the right
92. A graph showing all the combinations of capital and labor that can be used to produce a given amount of output is?
- (a) An isocost line (b) A production function (c) **An isoquant** (d) An indifference curve
93. The rate at which a firm can substitute capital for labor and hold output constant is the?
- (a) Law of diminishing marginal returns (b) **Marginal rate of technical substitution**
 (c) Marginal rate of substitution (d) Marginal rate of production
94. A graph showing all the combinations of capital and labor available for a given total cost is the?
- (a) Budget constraint (b) Isoquant (c) Expenditure set (d) **Isocost line**
95. The formula for average fixed costs is?
- (a) $dTFC/dq$ (b) **TFC/q** (c) q/TFC (d) $TFC - q$
96. The formula for AVC is?
- (a) q/TVC (b) $dTVC/dq$ (c) $dq/dTVC$ (d) **TVC/q**
97. When _____ substitutes exist, a monopolist has _____ power to raise price?
- (a) More; more (b) Fewer; less (c) No; infinite (d) **More; less**
98. The amount of profit a firm makes can be shown on a diagram using?
- (a) **The AC and AR curves** (b) The MR and AR curves
 (c) The AC and MC curves (d) The MR and MC curves
99. Marginal revenue is?
- (a) The additional profit the firm earns when it sells an additional unit of output
 (b) **The added revenue that a firm takes in when it increases output by one additional unit**
 (c) The difference between total revenue and total costs (d) The ratio of total revenue to quantity

- 100.** A firm in a perfectly competitive industry is producing 50 units, its profit-maximizing quantity. Industry price is Rs. 2,000; total fixed costs are 25,000 and average variable costs are Rs. 800. The firm's economic profit is?
- (a) Rs 15,000 (b) Rs 25,000 (c) **Rs 35,000** (d) Zero

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