

Economics MCQ (1-50)

GAT Subject Management Sciences

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1. The process by which resources are transformed into useful forms is?
(a) Capitalization (b) Consumption (c) Allocation (d) **Production**
2. The concept of choice would become irrelevant if?
(a) Capital were eliminated (b) **Scarcity were eliminated**
(c) We were dealing with a very simple, one-person economy (d) Poverty were eliminated
3. Which of the following is not a resource as the term is used by economists?
(a) **Money** (b) Land (c) Buildings (d) Labor
4. Capital, as economists use the term?
(a) Is the money the firm spends to hire resources (b) Is money the firm raises from selling stock
(c) Refers to the process by which resources are transformed into useful forms
(d) **Refers to things that have already been produced that are in turn used to produce other goods and services**
5. Opportunity cost, most broadly define, is?
(a) The additional cost of producing an additional unit of output
(b) **What we forgo, or give up, when we make a choice or a decision**
(c) A cost that cannot be avoided, regardless of what is done in the future
(d) The additional cost of buying an additional unit of a product
6. A graph showing all the combinations of goods and services that can be produced if all of society's resources are used efficiently is a?
(a) Demand curve (b) Supply curve (c) **Production possibility frontier** (c) Circular-flow diagram
7. Periods of "less than full employment" of resources correspond to?
(a) Points on the ppf (b) Points outside the ppf.
(c) Either points inside or outside the ppf. (d) **Points inside the ppf.**
8. What lies is at the heart of the allocation of goods and services in a free-market economy?
(a) Concerns of equity or equal distribution among individuals
(b) The order or command of the ruling government or dictator
(c) The wishes of consumers in the market (d) **The price mechanism**
9. The phrase 'ceteris paribus' is best expressed as?
(a) **'All else equal'** (b) 'Everything affects everything else'
(c) 'Scarcity is a fact of life' (d) 'There is no such thing as a free lunch'
10. Laboratory (or controlled) experiments cannot be performed in economics because?
(a) Of resource scarcity (b) Economics is a natural science
(c) Of the difficulty of distinguishing between normative and positive statements
(d) **Economics is a social science**
11. Positive statements are?
(a) Value judgments (b) **Verifiable or testable**
(c) Statements in the affirmative (d) Good statements

12. The former Soviet Union was an example of?
(a) **A planned economy** (b) Free-market/capitalism (c) Dictatorship (d) A mixed economy
13. Rational choice or rational decision-making involves?
(a) Comparing the net benefit of a choice with the total net benefit foregone of all the alternatives combined
(b) Weighing up total costs and total benefits associated with a decision
(c) **Weighing up marginal costs and marginal benefits associated with a decision** (d) All of the above
14. The PPF can be used to illustrate?
(a) The principle of opportunity costs and increasing opportunity costs
(b) The distinction between micro and macroeconomics
(c) Efficient, infeasible and inefficient production combinations (d) **All of the above**
15. The concept of “interdependence of markets” can refer to the interdependence between?
(a) Two or more factor markets (b) Goods and factor markets
(c) Goods markets (d) **All of the above**
16. The 'law of demand' implies that?
(a) **As prices fall, quantity demanded increases** (b) As prices fall, demand increases
(c) As prices rise, quantity demanded increases (d) As prices rise, demand decreases
17. What effect is working when the price of a good falls and consumers tend to buy it instead of other goods?
(a) **The substitution effect** (b) The ceteris paribus effect
(c) The total price effect (d) The income effect
18. The quantity demanded (Qd) of a soft drink brand A has decreased. This could be because?
(a) A's consumers have had an increase in income (b) **The price of A has increased**
(c) A's advertising is not as effective as in the past (d) The price of rival brand B has increased
19. Demand curves in P-Q space are derived while holding constant?
(a) Consumer tastes and the prices of other goods (b) Incomes, tastes, and the price of the good
(c) Incomes and tastes (d) **Incomes, tastes, and the prices of other goods**
20. Suppose the demand for good Z goes up when the price of good Y goes down. We can say that goods Z and Y are?
(a) Perfect substitutes (b) Unrelated goods (c) **Complements** (d) Substitutes
21. If the demand for coffee decreases as income decreases, coffee is?
(a) **A normal good** (b) A complementary good (c) An inferior good (d) A substitute good
22. Which of the following will not cause a shift in the demand curve for compact discs?
(a) A change in the price of pre-recorded cassette tapes (b) A change in wealth
(c) A change in income (d) **A change in the price of compact discs**
23. Which of the following is consistent with the law of supply?
(a) As the price of calculators rises, the supply of calculators increases, ceteris paribus
(b) As the price of calculators falls, the supply of calculators increases, ceteris paribus
(c) **As the price of calculators rises, the quantity supplied of calculators increases, ceteris paribus**
(d) As the price of calculators rises, the quantity supplied of calculators decreases, ceteris paribus

24. The price of computer chips used in the manufacture of personal computers has fallen. This will lead to _____ personal computers?
(a) A decrease in the supply of (b) A decrease in the quantity supplied of
(c) **An increase in the supply of** (d) An increase in the quantity supplied of
25. When there is excess demand in an unregulated market, there is a tendency for?
(a) Quantity demanded to increase (b) Quantity supplied to decrease (c) Price to fall (d) **Price to rise**
26. Equilibrium in the market for good A obtains?
(a) When there is no surplus or shortage prevailing in the market
(b) Where the demand and supply curves for A intersect
(c) When all of what is produced of A is consumed (d) **All of the above**
27. A shift in the demand curve (drawn in the traditional Price-Quantity space) to the left may be caused by?
(a) A decrease in supply (b) **A fall in income**
(c) A fall in the price of a complementary good (d) A fall in the number of substitute goods
28. A shift in the demand curve (drawn in Income-Quantity space) to the left may be caused by?
(a) a fall in the price of a complementary good (b) a fall in income
(c) A change in tastes such that consumers prefer the good more (d) **A rise in the number of substitute goods**
29. A movement along the demand curve (drawn in Quantity-Price space) to the left may be caused by?
(a) **An increase in supply** (b) A rise in income
(c) A rise in the price of a complementary good (d) A fall in the number of substitute goods
30. When the market operates without interference, price increases will distribute what is available to those who are willing and able to pay the most. This process is known as?
(a) Price fixing (b) Quantity setting (c) Quantity adjustment (d) **Price rationing**
31. How many different equilibria can obtain when you allow for shifts in the demand and/or the supply curves?
(a) 2 (b) 4 (c) 8 (d) 16
32. What will happen to equilibrium price and quantity when the demand curve shifts to the left and the supply curve shifts to the right?
(a) **Price falls unambiguously but the effect on quantity cannot be determined**
(b) Both price and quantity falls unambiguously
(c) Quantity falls unambiguously but the effect on price cannot be determined
(d) The effect on both price and quantity cannot be determined
33. What will happen to equilibrium price and quantity when both the demand and supply curves shift to the left?
(a) Price falls unambiguously but the effect on quantity cannot be determined
(b) Both price and quantity falls unambiguously
(c) **Quantity falls unambiguously but the effect on price cannot be determined**
(d) The effect on both price and quantity cannot be determined
34. A price ceiling imposed by the government can cause a shortage (excess demand)?
(a) When the price ceiling is above the free (or unregulated) market price
(b) **When the price ceiling is below the free (or unregulated) market price**
(c) When the price ceiling is equal to the free (or unregulated) market price (d) Either of the above

35. What is the effect of imposing a fixed per unit tax on a good on its equilibrium price and quantity?
- (a) Price falls, quantity raises (b) **Price rises, and quantity falls**
(c) Both price and quantity fall (d) Both price and quantity rise
36. A price floor is?
- (a) A maximum price usually set by government, that sellers may charge for a good or service
(b) **A minimum price usually set by government, that sellers must charge for a good or service**
(c) The difference between the initial equilibrium price and the equilibrium price after a decrease in supply
(d) The minimum price that consumers are willing to pay for a good or service
37. The need for rationing a good arises when?
- (a) There is a perfectly inelastic demand for the good (b) Supply exceeds demand
(c) **Demand exceeds supply** (d) A surplus exists
38. If the “regulated-market” price is below the equilibrium (or “free-market” price) price?
- (a) **The quantity demanded will be greater than quantity supplied**
(b) Demand will be less than supply (c) Quantity demanded will be less than quantity supplied
(d) Quantity demanded will equal quantity supplied
39. If a government were to fix a minimum wage for workers that were higher than the market clearing equilibrium wage, economists would predict that?
- (a) **More workers would become employed** (b) There would be more unemployment
(c) The costs and prices of firms employing cheap labor would increase
(d) Wages in general would fall as employers tried to hold down costs
40. Alpha Corporation produces chairs. An economist working for the firm predicts that ‘if people's incomes rise next year, then the demand for our chairs will increase, ceteris paribus.’ The accuracy of the economist's prediction depends on whether the chairs Alpha produce?
- (a) **Are normal goods** (b) Have few complementary goods
(c) Have many complementary goods (d) Have few substitutes
41. When the decrease in the price of one good causes the demand for another good to decrease, the goods are?
- (a) Complements (b) Normal (c) Inferior (d) **Substitutes**
42. The price elasticity of demand is the?
- (a) **Ratio of the percentage change in quantity demanded to the percentage change in price**
(b) Ratio of the change in price to the change in quantity demanded
(c) Ratio of the change in quantity demanded to the change in price
(d) Ratio of the percentage change in price to the percentage change in quantity demanded
43. The price of apples falls by 5% and quantity demanded increases by 6%. Demand for apples is?
- (a) Inelastic (b) Perfectly inelastic (c) **Elastic** (d) Perfectly elastic
44. The price of bread increases by 22% and the quantity of bread demanded falls by 25%. This indicates that demand for bread is?
- (a) **Elastic** (b) Inelastic (c) Unitarily elastic (d) Perfectly elastic
45. If the cross-price elasticity of demand between two goods is negative, then the two goods are?
- (a) Unrelated goods (b) Substitutes (c) **Complements** (d) Normal goods

