

UNIVERSITY OF CALICUT
SCHOOL OF DISTANCE EDUCATION

BA Economics - MICRO ECONOMICS - I
(Core Course – 2019 admission onwards (CBCSS))

QUESTION BANK

1. Total utility is maximum when

- | | |
|--------------------------------|---------------------------------|
| (a) Marginal utility is zero | (b) Marginal utility is maximum |
| (c) Marginal utility increases | (d) Average utility is maximum |

2. Which of the following is called gossans first law

- | | |
|---|----------------------------------|
| (a) Law of substitution | (b) Law of equi marginal utility |
| (c) Law of diminishing marginal utility | (d) None of the above |

3. When individuals income falls (everything remain the same) his demand for an inferior good

- | | |
|----------------------|--|
| (a) Rises | (b) Falls |
| (c) Remains the same | (d) We cannot say without additional information |

4. If negative income effect is greater than positive substitution effect : the product will be

- | | |
|-------------------|--------------------------|
| (a) A normal good | (b) An inferior good |
| (c) A giffen good | (d) A complementary good |

5. Which of the following statement is FALSE with regard to marginal utility

- | |
|---|
| (a) Marginal utility is the utility derived from last unit |
| (b) As consumption increases Marginal utility goes on diminishing |
| (c) At saturation point marginal utility is Zero |
| (d) Marginal utility increases at a diminishing range |

6. According to Marshall consumer surplus is:

- | | |
|--------------------------------------|--------------------------------------|
| (a) Total utility – marginal utility | (b) Total utility + Marginal utility |
| (c) Total utility derived – Price | (d) Price – Marginal utility |

7. If both the products X & Y are normal goods

- | | |
|-------------------------------|------------------------------|
| (a) Slopes down towards right | (b) Slopes up towards right |
| (c) Slopes up towards left | (d) Slopes down towards left |

8. Which of the following statement is TRUE with regard to total utility

- (a) Total utility is the utility derived from last unit
- (b) Total utility increases at a diminishing range
- (c) As consumption increases total utility goes on diminishing
- (d) At saturation point total utility is negative

9. If negative income effect is less than positive substitution effect : the product will be

- (a) A normal good
- (b) An inferior good
- (c) A giffen good
- (d) A complementary good

10. Which of the following statements is true

- (a) Hicksian substitution effect is greater than Slutsky substitution effect
- (b) Slutsky substitution effect is greater than Hicksian substitution effect
- (c) Hicksian substitution effect is same and equal to Slutsky substitution effect
- (d) Hicksian substitution effect is the reverse of Slutsky substitution effect

11. According to Hicks substitution effect is

- (a) The movement to a higher indifference curve
- (b) The movement to a lower indifference curve
- (c) The movement along an indifference curve
- (d) The movement to a decreased consumption

12. Strong ordering means

- (a) Absence of indifference
- (b) Presence of indifference
- (c) No difference between different combinations
- (d) None of the above

13. In the fundamental theorem of consumption and to prove the law of demand, Samuelson uses

- (a) Compensating variation in income
- (b) The cost difference
- (c) The over compensation effect
- (d) Substituting variation in price

14. If negative income effect is greater than positive substitution effect : price effect will be

- (a) Zero
- (b) Negative
- (c) Positive
- (d) Positive and greater than one

15. As per indifference curve analysis consumer equilibrium is attained when

- (a) Slope of indifference curve is constant
- (b) Slopes of both indifference curve and income price line are equal
- (c) Slopes of both indifference curve and income price line are opposite
- (d) Both income price line and indifference curve are parallel.

16. The slope of a budget line is

- (a) The satisfaction level of both the commodities
- (b) The income level of the consumer
- (c) The price ratio of both the commodities under consideration
- (d) Price level of a country

17. At the point of tangency the slope of indifference curve is

- (a) Differ from point to point
- (b) Is equal on the other side of the mid point
- (c) Is the same
- (d) Is increasing

18. The slope of a budget line throughout its length is

- (a) The satisfaction level of both the commodities
- (b) The income level of the consumer
- (c) The price ratio of both the commodities under consideration
- (d) Price level of a country

19. The income effect for a commodity is

- (a) Is always positive
- (b) Is always negative
- (c) Depends upon price effect
- (d) Determines the nature of the commodity

20. The substitution effect for a commodity is

- (a) Is always positive
- (b) Depends upon the nature of the commodity
- (c) Depends upon price effect
- (d) Sometimes negative and sometimes positive

21. Price effect is

- (a) Income effect – substitution effect
- (b) Substitution effect – income effect
- (c) Income effect + substitution effect
- (d) Income effect + substitution effect- negative effects

22. For a giffen good, when price falls

- (a) Demand increases at a faster rate
- (b) Demand decreases
- (c) Demand remains constant
- (d) Demand curve has a negative slope

23. Inferior goods are the goods with

- (a) Falling Income effect
- (b) Rising Income effect
- (c) Negative income effect
- (d) Positive Marshallian effects

24. Indifference curves are

- (a) Always parallel
- (b) May be parallel
- (c) May not be parallel
- (d) Both b and c

25. Revealed preference theory assumes

- (a) Weak ordering
- (b) Strong ordering
- (c) Constant ordering
- (d) Multiple ordering

26. Hicks Allen indifference theory is based on

- (a) Weak ordering
- (b) Strong ordering
- (c) Constant ordering
- (d) Multiple ordering

27. Income consumption curve of an inferior commodity is

- (a) Positively sloped
- (b) Backward bending
- (c) Downward sloping straight line
- (d) Showing constant income effect

28. In case of a convex indifference curve

- (a) MRS xy is constant
- (b) MRS xy is increasing
- (c) MRS xy is negligible
- (d) MRS xy is diminishing

29. 'Higher the indifference curve higher will be level of satisfaction'. The statement is

- (a) Always true
- (b) Always false
- (c) Sometimes true and sometimes false
- (d) True only if price effect is positive

30. As per indifference curve analysis, consumer always try to reach

- (a) Higher indifference
- (b) Lower indifference curve
- (c) Middle indifference curve
- (d) Lower income price line

31. Which method is used by Hicks to eliminate the income effect when price of a product is changed

- (a) Compensating variation in income
- (b) The cost difference
- (c) The over compensation effect
- (d) Substituting variation in price

32. The basic doctrine of consumers' surplus is based on

- (a) Indifference curve analysis
- (b) Revealed preference theory
- (c) Law of substitution
- (d) Law of diminishing marginal utility

33. According to Marshall, The law of diminishing marginal utility

- (a) Applies on money in the manner in which it applies on commodity
- (b) Do not applies on money except bank money
- (c) Does not applies on bank money but applies on cash
- (d) Applies on all commodities except money

34. An indifference curve represent

- (a) Four commodities
- (b) Less than two commodities
- (c) Only two commodities
- (d) Only one commodity

35. Indifference curve is always

- (a) Concave to the origin
- (b) Convex to the origin
- (c) L shaped
- (d) A straight line

36. Engel curve for giffen good is

- (a) Positively sloped
- (b) Negatively sloped
- (c) Horizontal straight line
- (d) Vertical straight line

37. Marginal utility is

- (a) Always zero
- (b) Increases at a diminishing rate
- (c) The utility derived from last unit
- (d) All the above

38. Total utility is

- (a) The sum total of marginal utilities
- (b) Entire utility derived from whole consumption
- (c) Increases at a diminishing rate
- (d) All the above

39. When Total utility is increasing at an decreasing rate, marginal utility is

- (a) Constant
- (b) Negative
- (c) Increasing
- (d) Decreasing

40. Other things being equal a decrease in demand can be caused by

- (a) A fall in price of the commodity
- (b) A fall in income of the consumer
- (c) A rise in price of the substitute
- (d) None of these

41. When price of a product falls, more of it is purchased because of

- (a) The substitution effect
- (b) The income effect
- (c) Neither substitution effect nor income effect
- (d) Both the substitution and income effects

42. "Utility or satisfaction is a subjective concept; therefore it could only be ranked". The statement supports

- (a) Cardinal utility theorist
- (b) Ordinal utility theorist
- (c) Behavioral theorist of the firm
- (d) None of the above

43. Ordinal utility analysis is otherwise known as

- (a) Gossens second law
- (b) Cardinality approach
- (c) Indifference curve analysis
- (d) Rationality approach

44. Ordinal utility analysis Was developed by

- (a) J.R.Hicks & R.J.D. Allen
- (b) Samuelson
- (c) Marshall and Jevons
- (d) Slutsky

45. Total utility curve

- (a) Always rises
- (b) First falls then rises
- (c) Always falls
- (d) First rises and then falls after reaching its maximum

46. At saturation point MU of a commodity is

- (a) Positive
- (b) Negative
- (c) Zero
- (d) Increasing

47. A consumer reaches equilibrium when

- (a) Marginal utility is equal to price
- (b) Marginal utility greater than price
- (c) Marginal utility less than price
- (d) Total utility is equal to price

48. Marshalian cardinal utility analysis assumes

- (a) Marginal utility of money is zero
- (b) Marginal utility of money is decreasing
- (c) Marginal utility of money is increasing
- (d) Marginal utility of money is constant

49. When individuals income rises (everything remain the same) his demand for a normal good

- (a) Rises
- (b) Falls
- (c) Remains the same
- (d) negative

50. When individuals income falls (everything remain the same) his demand for a normal good

- (a) Rises
- (b) Falls
- (c) Remains the same
- (d) negative

51. The concept of utility was introduced by

- (a) Marshall
- (b) Hicks and allen
- (c) Jeremy Bentham
- (d) Gossen

52. Cardinal utility analysis to consumer equilibrium was developed by

- (a) Marshall
- (b) Hicks and Allen
- (c) Jeremy Bentham
- (d) Gossen

53. MC at any level of output is given by

- (a) Slope of TC curve
- (b) Slope of TVC curve
- (c) Slope of either TC or TVC
- (d) Slope of TFC

54. If a firm's average cost is Rs.32 at 6 units of output and Rs.34 at 7 unit, which one among the following is the marginal cost of producing the 7th unit

- (a) 46
- (b) 2
- (c) 36
- (d) 42

55. The cost that cannot be recovered once spent

- (a) Accounting cost
- (b) Fixed cost
- (c) Implicit cost
- (d) Sunk cost

56. The saucer-type of modern Short run Average Variable Cost (SAVC) represents

- (a) Excess capacity
- (b) Managerial costs
- (c) Load factors
- (d) Reserve capacity

57. The Long run Average Cost curve (LAC) in modern cost theory is roughly

- (a) U shaped
- (b) Saucer shaped
- (c) L shaped
- (d) Rectangular hyperbola

58. Under increasing returns to scale, which of the following is the nature of the long run average cost curve?

- (a) Downward sloping
- (b) Upward rising
- (c) Parallel to output axis
- (d) Identical to short run average cost curve

59. Which of the following has a U shape?

- (a) Average fixed cost curve
- (b) Total cost curve
- (c) Average variable cost curve
- (d) Total variable cost curve

60. AFC curve will always be

- (a) Rectangular hyperbola
- (b) U shaped
- (c) Horizontal
- (d) Downward sloping

61. Implicit cost of a factor of production is determined by its

- (a) Sunk cost
- (b) Variable cost
- (c) Fixed cost
- (d) Opportunity cost

62. Economic cost include both

- (a) Explicit cost and implicit cost
- (b) Fixed cost and variable cost
- (c) Explicit cost and prime cost
- (d) Money cost and sunk cost

63. The U shape of MC curve reflects

- (a) Economies of scale
- (b) Law of increasing returns
- (c) Reserve capacity
- (d) Law of variable proportion

64. Envelope curve is

- (a) Long run marginal cost curve
- (b) Long run average cost curve
- (c) Total cost curve
- (d) None of the above

65. In long run, which factor of production is fixed?

- (a) Labour
- (b) Capital
- (c) Building
- (d) None of the above

66. The U shape of the average total cost curve reflects

- (a) LDMU
- (b) The Law of Variable Proportions
- (c) Consumer's Surplus
- (d) Reserve capacity

67. The total fixed cost is a

- (a) Horizontal straight line
- (b) Vertical
- (c) Hyperbola
- (d) U shaped

68. When AC minimum in short run

- (a) $AC < MC$
- (b) $AC > MC$
- (c) $AC = MC$
- (d) Any of above is possible

69. The shape of TVC and TC are

- (a) Rectangular hyperbola
- (b) Inverse 'S' shape
- (c) Horizontal straight line
- (d) L shaped

70. The cost expressed not in terms of money but in terms of efforts of workers undergone for making the commodity

- (a) Opportunity cost
- (b) Real cost
- (c) Sacrifice cost
- (d) Implicit cost

71. The MC curve cuts the AC curve at

- (a) The maximum point
- (b) The initial Point
- (c) The minimum Point
- (d) Any point

72. The minimum point of ATC is atposition of the minimum point of AVC

- (a) Right
- (b) Left
- (c) Same
- (d) All of above can be

73. If the long run cost curve shifts down wards it is an indication of

- (a) Technological progress
- (b) Lower factor prices
- (c) Both of these
- (d) Reserve capacity

74. The U shape of the LAC reflects

- (a) Law of Variable proportions
- (b) Laws of returns to scale
- (c) Reserve capacity
- (d) None of these

75. The responsiveness of quantity demanded of one commodity to the changes in the price of another commodity is called

- (a) Price Elasticity
- (b) Income Elasticity
- (b) Cross Elasticity
- (c) Point Elasticity

76. The value of price elasticity of demand ranges from

- (a) One to zero
- (b) Zero to infinity
- (b) One to infinity
- (c) All the above

77. A production possibility curve is concave to the point of origin because of

- (a) Increasing marginal rate of transformation (MRT)
- (b) Increasing marginal opportunity cost (MOC)
- (c) Both of the above
- (d) Decreasing marginal rate of transformation

78. The deductive method is also called

- (a) Abstract (b) Analytical
 (c) priori method (d) All the above

79. An Essay on the Nature and Significance of Economic Science was written by

- (a) Adamsmith (b) Alfred marshall
 (c) Lord Robbins (d) Samuelson

80. The word 'Micro Economics and Macro Economics' were first coined by

- (a) Adamsmith (b) Ragnar Frisch
 (c) Alfred marshall (d) Lord Robbins

Answer Key

1. A	11. C	21. C	31. A	41. D	51. C	61. A	71. B
2. C	12. A	22. B	32. D	42. B	52. A	62. A	72. B
3. A	13. C	23. C	33. D	43. C	53. C	63. D	73. C
4. C	14. B	24. D	34. C	44. A	54. A	64. D	74. A
5. D	15. B	25. B	35. B	45. D	55. B	65. B	75. C
6. C	16. C	26. A	36. B	46. C	56. B	66. A	76. B
7. B	17. C	27. B	37. C	47. A	57. D	67. A	77. C
8. B	18. C	28. D	38. D	48. D	58. D	68. B	78. D
9. B	19. D	29. A	39. D	49. A	59. C	69. A	79. C
10. B	20. A	30. A	40. B	50. B	60. D	70. C	80. B

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