AJA Commerce Academy
CA - Foundation
Test Series – Economics
Test -100 Marks

1. Marginal Revenue Product measures the increase in:
(a) Output resulting from one more unit of labour
(b) Total output resulting from one more unit of labour
(c) Revenue per unit from one more unit of output
(d) Total revenue resulting from one more unit of labour

2. Which is the other name that is given to the average revenue curve:
(a) Profit curve
(b) Demand curve
(c) Average curve
(d) Indifference curve

3. A person is obliged to choose between buying a computer and washing machine.
He buys the washing machine. The opportunity cost of buying washing machine
maybe said to be:
(a) The satisfaction obtained from its purchase
(b) The computer he had to do without
(c) The scarcity value of washing machine in money terms
(d) The average cost of both commodities

4. A downward shift in the market supply of a commodity results in which of the following changes in its equilibrium price and commodity:
(a) The price rises and the quantity falls
(b) The price falls and the quantity rises
(c) Price and quantity both rise
(d) Price and quantity both fall

5. Which of the following is used to explain the term average revenue:
(a) AR = Total units produced/total revenue
(b) AR = Total Revenue/Number of units produced
(c) AR = MR x Number of units produced
(d) AR = TR - MR

6. The relationship between elasticity of demand (e), Average Revenue (AR) and Marginal Revenue (MR) is shown by the following formula:
(a) e = AR/AR-MR
(b) e = MR/AR-MR
(c) e = TR/AR-MR
(d) e = AR/MR

7. Average Revenue means:
(a) Revenue per unit received from the sale of a given quantity of output
(b) TR - MR
(c) Total units sold x price per unit
(d) Total units sold - price of the last units

8. If AR curve is falling straight line, MR curve will lie below it in such a way that any line drawn from a point from Y-axis parallel to X-axis to meet the AR curve is intersected by the MR curve:
(a) Mid-way
(b) More than half way
(c) Less than half way

(d) Anywhere

9. Assertion (A): The rate of fall of MR curve is more than twice the rate of fall of AR curve; Reason (R): The MR & AR curves are linear and negatively sloped - Codes:

(a) Both A & R are true and R is the correct explanation of A
(b) Both A & R are true but R is not the correct explanation of A
(c) A is true but R is false
(d) A is false but R is true

10. By 'Marginal Revenue' we mean:

(a) The revenue a firm earns when it has increased its output by one unit
(b) The change in the revenue a firm earns when it increases its output by one unit
(c) The increase in costs a firm incurs when it increases its output by one unit
(d) The change in the fixed revenue, but not the variable revenue due to a one unit change in sales

11. For getting Total Revenue, the formula is:

(a) TR/q
(b) MR+q
(c) AR/q
(d) ARxq

12. State the formula to get Average Revenue:

(a) Total units/No. of Revenue
(b) Marginal Revenue X Units

(c) Total Revenue/No. of Units
(d) Total Units/No. of unit getting positive revenue

13. Which is Correct:
(a) Under monopoly, the average revenue curve and the marginal revenue curve both descend downwards from left to right
(b) Under monopoly, the average revenue curve and the marginal revenue curve both ascend upward to the right
(c) Under monopoly, the average revenue curve and the marginal revenue curve both run parallel to each other
(d) All the above statements are right

14. The best definition of Marginal firm is:
(a) The firm with the largest profit
(b) The firm with the lowest cost
(c) The firm which makes only normal profit
(d) The firm which equates its MC with AR

15. Only the part of the marginal cost curve which lies above the average variable cost from the short-run supply curve of the:
(a) Monopoly firm
(b) Competitive firm
(c) Monopolistic competitive firm
(d) Oligopoly firm

16. If the firm stops production in the short run then losses are equal to the:
(a) Fixed cost

(b) Average cost
(c) Marginal cost
(d) Variable cost

17. Prices that adjust quickly to equilibrate supply and demand:
(a) Flexible prices
(b) Stable prices
(c) Neutral prices
(d) Abnormal prices

18. Equilibrium of the firm can be achieved only when:
(a) AC = MC
(b) MC = MR
(c) MC = AVC
(d) AC = MR

19. The first order condition for profit maximisation of a firm is:
(a) The slope of the MC curve must be greater than MR curve
(b) MC must cut MR curve from below
(c) MR = MC
(d) All the above

20. The price in a perfectly competitive market is determined by:
(a) State
(b) Demand & Supply
(c) Cost of production

(d) Profit margin

21. In very short period market:
(a) Supply changes but demand remains same
(b) Supply changes but price remains same
(c) Supply remains fixed
(d) Supply and demand both changes

22. In the long run:
(a) Only demand can change
(b) Only supply can change
(c) Both demand and supply can change
(d) None of these

23. A Firm should ___________ if the total revenue from its product does not ___________ its total variable cost.
(a) Produce, equal
(b) Produce at all, equal or exceed
(c) Not Produce, equal
(d) Not Produce, equal or exceed

24. As per Behavioural Principle, which one of the following statements is Correct?
(a) If any unit of production adds more to revenue than to Cost, that cost, that unit will increase Profits.
(b) If any unit of production adds more to Cost, than to revenue, it will decrease profits.

(c) Profits will be maximum of the point where additional revenue from a unit equals to its additional cost.
(d) All of the above.

25. Equilibrium price for an industry in perfect competition is fixed through:
(a) Input and output
(b) Market demand and market supply
(c) Market demand and firms supply
(d) None of the above

26. Equilibrium price may be determined through:
(a) Only demand
(b) Only supply
(c) Both demand & supply
(d) None

27. The equilibrium is restored auto-matically through:
(a) The fundamental working of the market.
(b) Price movements eliminate shortage or Surplus.
(c) Both (a) and (b)
(d) None of these.

28. __________ is the price at which demand for a commodity is equal to its supply:
(a) Normal Price
(b) Equilibrium Price

(c) Short run Price
(d) Secular Price

29. With a given supply curve, a decrease in demand causes __________.
(a) An overall decrease in price but an increase in equilibrium quantity.
(b) An overall increase in price but a decrease in equilibrium quantity.
(c) An overall decrease in price and a decrease in equilibrium quantity.
(d) No change in overall price but a reduction in equilibrium quantity.

30. Assume that in the market for good Z there is a simultaneous increase in demand and the quantity supplied. The result will be:
(a) An increase in equilibrium price and quantity.
(b) A decrease in equilibrium price and quantity.
(c) An increase in equilibrium quantity and uncertain effect on equilibrium price.
(d) A decrease in equilibrium price and increase in equilibrium quantity.

31. An increase in supply with unchanged demand leads to:
(a) Rise in price and fall in quantity
(b) Fall in both price and quantity
(c) Rise in both price and quantity
(d) Fall in price and rise in quantity

32. Which of the following may lead to changes in demand and Supply?
(a) Income and population
(b) Tastes and Preferences
(c) Technology & Prices of Factors of Production
(d) All of the above.

33. Suppose the technology for producing personal computers improves and, at the same time, individuals discover new uses for personal computers so that there is greater utilisation of personal computers. Which of the following will happen to equilibrium price and equilibrium quantity?
(a) Price will increase; quantity cannot be determined.
(b) Price will decrease; quantity cannot be determined.
(c) Quantity will increase; price cannot be determined.
(d) Quantity will decrease; price cannot be determined.

34. It is assumed in economic theory that:
(a) Decision making within the firm is usually undertaken by managers, but never by the owners.
(b) The ultimate goal of the firm is to maximize profits, regardless of firm size or type of business organization.
(c) As the firm's size increases, so do its goals.
(d) the basic decision making unit of any firm is its owners.

35. Suppose that a sole proprietorship is earning total revenues of 11,00,000 and is incurring explicit costs of ₹ 75,000 If the owner could work for another company for ₹ 30,000 a year, we would conclude that:

(a) The firm is incurring an economic loss.
(b) Implicit costs are ₹ 25,000.
(c) The total economic costs are ₹ 1,00,000.
(d) The individual is earning an economic profit of ₹ 25,000.

36. Assume that consumers' incomes and the number of sellers in the market for good A both decrease. Based upon this information, we can conclude, with certainty, that the equilibrium:
(a) Price will increase.
(b) Price will decrease.
(c) Quantity will increase.
(d) Quantity will decrease.

37. If supply increases in a greater proportion than demand __________.
(a) The new equilibrium price and quantity will be greater than the original equilibrium price and quantity.
(b) The new equilibrium price will be greater than the original equilibrium price but equilibrium quantity will be higher.
(c) The new equilibrium price and quantity will be lower than the original equilibrium price and quantity.
(d) The new equilibrium price will be lower than the original equi-librium and the new equilibrium quantity will be higher.

38. If the price of a commodity is fixed, then with every increase in its sold quantity the total revenue will __________ and the marginal revenue will __________.
(a) Increase, also increase
(b) Increase, remain unchanged
(c) Increase, decline
(d) Remain fixed, increase

39. When demand increases and supply __________, the equilibrium price __________ but nothing certain can be said about the change in equilibrium quantity.
(a) Decreases, decreases
(b) Decreases, rises
(c) Decreases, remain constant
(d) None of the above

40. If demand increases without any corresponding increase in supply, there will be :
(a) Increase in equilibrium price
(b) Quantity sold increases
(c) Quantity purchased increases
(d) All of the above

41. Which of the following is not an essential condition of pure competition?

(a) Large number of buyers and sellers
(b) Homogeneous product
(c) Freedom of entry
(d) Absence of transport cost

42. Under which of the following forms of market structure does a firm has no control over the price of its product:
(a) Monopoly
(b) Oligopoly
(c) Monopolistic competition
(d) Perfect competition

43. Which of the following is not a condition of perfect competition?
(a) A large number of firms.
(b) Perfect mobility of factors.
(c) Informative advertising to ensure that consumers have good information.
(d) Freedom of entry and exit into and out of the market.

44. __________ is an ideal Market.
(a) Monopoly
(b) Monopolistic
(c) Perfect Competition
(d) Oligopoly

45. Which of these are characteristics of Perfect Competition.

(a) Many Sellers & Buyers
(b) Homogeneous Product
(c) Free Entry and Exit
(d) All of the above

46. Price-taking firms, i.e., firms that operate in a perfectly competitive market, are said to be “small” relative to the market. Which of the following best describes this smallness?
(a) The individual firm must have fewer than 10 employees.
(b) The individual firm faces a downward-sloping demand curve.
(c) The individual firm has assets of less than ₹ 20 lakhs.
(d) The individual firm is unable to affect market price through its output decisions.

47. The firm in a perfectly competitive market is a price-taker. This designation as a price-taker is based on the assumption that __________.
(a) The firm has some, but not complete, control over its product price.
(b) There are so many buyers and sellers in the market that any individual firm cannot affect the market.
(c) Each firm produces a homogeneous product.
(d) There is easy entry into or exit from the marketplace.

48. Demand curve is equal to M.R. curve in which market?
(a) Oligopoly
(b) Monopoly
(c) Monopolistic Competition
(d) Perfect Competition

49. A perfect market is characterised by __________.
(a) Existence of large number of buyers and sellers
(b) Homogenous products
(c) Perfect knowledge of the market
(d) All of the above

50. Agricultural goods markets depict characteristics close to:
(a) Perfect competition.
(b) Oligopoly.
(c) Monopoly.
(d) Monopolistic competition.

51. Which of the following markets would most closely satisfy the requirements for a perfectly competitive Market?
(a) Electricity
(b) Cable television
(c) Cola
(d) Milk

52. The condition for pure competition is:
(a) Large number of buyers and sellers, free entry and exit.
(b) Homogeneous product.
(c) Both (a) and (b).
(d) Large number of buyers and sellers, homogeneous product, perfect knowledge about the product.

53. Which of the following statement is correct?
(a) Price rigidity is an important feature of monopoly.
(b) Selling costs are possible under perfect competition.

(c) An industry consists of many firms.
(d) Under perfect completion factor of production do not move freely as these are legal restrictions.

54. An industry in economic termi-nology consists of a __________ number of firms.
(a) Large, independent
(b) Large, dependent
(c) Small, independent
(d) Small, dependent

55. Who sets the price of the product under perfect competition?
(a) Government
(b) Consumers
(c) Sellers
(d) Both buyers and sellers

56. Which of the following is not a characteristic of a “price-taker”?
(a) TR = P X Q
(b) AR = Price
(c) Negatively – sloped demand curve
(d) Marginal Revenue = Price

57. What is the shape of a perfectly competitive Average Revenue Curve?

(a) Parallel to X axis
(b) Parallel to Y axis
(c) Fall from left to right
(d) Rise from left to right

58. Under perfect competition a firm is the __________.
(a) price-maker and not price-taker
(b) price-taker and not price-maker
(c) neither price-maker nor price- taker
(d) none of the above

59. Which of the following is incorrect?
(a) Even monopolies can earn losses.
(b) Firms in a perfect competitive market are price takers.
(c) It is always beneficial for a firm in a perfectly competitive market to discriminate against prices.
(d) Kinked demand curve is related to an oligopolistic market.

60. The total Cost of production is ₹ 40,000 (1,000 units). If the firm is selling the product at ₹ 45 per unit, it is earning .
(a) Normal Profits @ ₹ 5 Per Unit
(b) Normal Profits @ ₹ 45 Per Unit
(c) Super normal profits @ ₹ 5 Per Unit
(d) Super Normal profits @ ₹ 45 Per Unit

61. A firm encounters its "shutdown point" when:
(a) Average total cost equals price at the profit-maximizing level of output.
(b) Average variable cost equals price at the profit-maximizing level of output.

(c) Average fixed cost equals price at the profit-maximizing level of output.
(d) Marginal cost equals price at the profit-maximizing level of output.

62. When __________, there will be a locative efficiency meaning thereby that the cost of the last unit is exactly equal to the price consumers are willing to pay for it and so that the right goods are being sold to the right people at the right price.
(a) MC = MR
(b) MC = AC
(c) MC = AR
(d) AR = MR

63. A firm will close down in the short period, if its AR is less than:
(a) AC
(b) AVC
(c) MC
(d) None of the above

64. A competitive firm in the short run incur losses. The firm continues production, if:
(a) P > AVC
(b) P = AVC
(c) P < AVC
(d) P > = AVC

65. Monopolist can determine :
(a) Price
(b) Output
(c) Either price or output
(d) None

66. Under which of the following forms of market structure does a firm has a very considerable control over the price of its product?
(a) Monopoly
(b) Monopolistic Competition
(c) Oligopoly
(d) Perfect Competition

67. Which of the following is the distinguishing characteristic of oligopolies?
(a) A standardized product
(b) The goal of profit maximization
(c) The interdependence among firms
(d) Downward-sloping demand curves faced by firms.

68. Monopoly is undesirable due to:
(a) It has prices higher than competitive firms
(b) It produces less output than competitive firms
(c) It discriminates on prices
(d) All of the above.

69. Market form in which there is only one buyer and one seller is:
(a) Oligopoly
(b) Duopoly
(c) Bilateral Monopoly
(d) Monopsony

70. Suppose that the demand curve for the XYZ Co. slopes downward and to the right. We can conclude that __________.
(a) The firm operates in a perfectly competitive market.
(b) The firm can sell all that it wants to at the established market price.
(c) The XYZ Co. is not a price-taker in the market because it must lower the price to sell additional units of output.
(d) The XYZ Co. will not be able to maximize profits because price and revenue are subject to change.

71. The MR curve cuts the horizontal line between Y axis and demand curve into:
(a) Two unequal parts
(b) Two equal parts
(c) May be equal or unequal parts
(d) None of these

72. Marginal Revenue is equal to:
(a) The change in price divided by the change in output.
(b) The change in quantity divided by the change in price.
(c) The change in P X Q due to a one unit change in output.

(d) Price, but only if the firm is a price searcher.

73. Profits of the firm will be more at:
(a) MR = MC
(b) Additional revenue from extra unit equals its additional cost
(c) Both of above
(d) None

74. Supernormal profits occur, when:
(a) Total revenue is equal to total cost
(b) Total revenue is equal to variable cost
(c) Average revenue is more than average cost
(d) Average revenue is equal to average cost

75. Price Discrimination is possible only when.
(a) Seller is alone.
(b) Goods are homogeneous.
(c) Market is controlled by the government.
(d) None of the above.

76. The Electricity Companies Sell electricity at a cheaper rate for home Consumption in rural areas than for industrial use. It is example of:
(a) Price-discrimination
(b) Price – Adjustment
(c) Price – Variability
(d) Price-biased attitude.

77. Firms in a monopolistic market are price __________:
(a) Takers

(b) Givers
(c) Makers
(d) Acceptors

78. Which of the following statements is correct?
(a) Price rigidity is an important feature of monopoly.
(b) Selling costs are possible under perfect competition.

(c) Under perfect competition factors of production do not move freely as there are legal restrictions.
(d) An industry consists of many firms.

79. Which of the following statements is incorrect?
(a) Under monopoly there is no difference between a firm and an industry.
(b) A monopolist may restrict the output and raise the price.
(c) Commodities offered for sale under a perfect competition will be heterogeneous.
(d) Product differentiation is peculiar to monopolistic competition.

80. Market which have two firms are known as :
(a) Oligopoly
(b) Duopoly
(c) Monopsony
(d) Oligopsony

81. OPEC is an example of :

(a) Monopolistic competition
(b) Monopoly
(c) Oligopoly
(d) Duopoly

82. According to Pigou, first degree price discrimination charges price to;
(a) Individual capacity
(b) Quantities sold
(c) Location
(d) None of the above

83. Entering into collusion or forming a cartel is generally considered __________.
(a) Legal
(b) Illegal
(c) Desirable
(d) Mandatory

84. An oligopolistic firm has to behave strategically when it makes a __________ about its __________.
(a) Decision, Price
(b) Price, Output
(c) Policy, Material
(d) None of these

85. Kinked demand curve hypothesis is given by:
(a) Alfred marshall
(b) A.C Pigou

(c) Sweezy
(d) Hicks & Allen

86. A firm having kinked demand curve indicates that:
(i) If the firm reduces the price, competitive firms also reduce the price.
(ii) If the firm increases the price, competitive firms also increase the price.
(iii) If the firm reduces the price, competitive firms do not reduce the price.
(iv) If the firm increases the price, competitive firms do not increase the price.

(a) Only (i) above
(b) Both (i) and (iv) above
(c) Both (ii) and (iv) above
(d) Both (ii) and (iii) above

87. The Optimum firm is:
(a) The firm with the lowest costs of production
(b) The firms with highest level of sales
(c) The best or most efficient type of firm
(d) The best known firm in the market

88. Break-even analysis is useful in:
(a) Wage planning
(b) Profit planning
(c) Interest planning
(d) Rent planning

89. The concept of time element is introduced by:
(a) Chamberlin
(b) Marshall
(c) Pigou
(d) Kaldor

90.The concept of period refers to:
(a) A specific duration of time
(b) A varying duration of time
(c) A duration of time which permits necessary adjustment
(d) A period with calculated intervals

91.The Lerner's index of Monopoly power has a value:
(a) Zero
(b) One
(c) Between zero and unity
(d) Two

92. If price elasticity of demand is 4, the degree of monopoly power, according to abba lerner is:
(a) 1/4
(b) 4
(c) 1
(d) 1 to 4

93. Pure Oligopoly is based on the —-------- products

(a) Differentiated
(b) Homogenous
(c) Unrelated
(d) None of the above

94. A situation, such that one or a few firms typically initiate price changes, and other firms in the industry follow:
(a) Cartel
(b) Shared Monopoly
(c) Price Leadership
(d) Collusion

95. “There is no general theory of oligopoly, only models of specific oligopolistic situations that provide sign posts as to types of possible behaviour” is remarked by:

(a) Kelvin Lancaster
(b) Paul M.Sweezy
(c) Hall and Hitch
(d) Andrews

96. Selling cost is inevitable under monopolistic competition:
(a) To reduce the cost of production
(b) To maximize profits
(c) To Compete successfully with rival producers
(d) To inform the quantity of the product

97. Which is a false statement under imperfect competition:

(a) Firm does not produce at its minimum average cost
(b) Price is greater than Marginal revenue
(c) Price is equal to marginal cost
(d) Society is not benefited by its action

98. Who has criticised the symmetry assumption of chamberlain's ‘Theory of Monopolistic Competition’:
(a) Alfred Marshall
(b) J.R. Hicks
(c) G.J. Stigler
(d) P.A. Samuelson

99. The economist who suggested tax and subsidy method to eliminate monopoly profits is:
(a) Walras
(b) Loric Tarshis
(c) Mrs. Joan Robinson
(d) Marshall

100. The figure shown below is associated with which of the following:
1. Competitive equilibrium
2. Monopoly equilibrium
3. Monopolistic competitive equilibrium
4. Monoponistic competitive equilibrium

Select the correct answer from the codes given below:
(a) 1 and 2
(b) 2, 3 and 4

(c) 1 only

(d) 3 and 4