(TGT/PGT/LT Grade/GIC/DIET/GDC/DSSSB/RPSC/KVS/NVS/ Jharkhand/ Rajasthan/ Telangana/Odisha/Tamilnadu/West Bengal/Andhra Pradesh/ Kerala/ Tripura/Punjab/UGC NET/JRF/SET/BPSC TRE/BSSET/HTET/ Ashram Paddhati/AWES/Assistant Professor)

ECONOMICS Chapterwise Solved Papers

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CONTENT

Uttar Pradesh Secondary Education Service Selection Board
Syllabus : Economics

T.G.T

- **Economic Theory:** Economics, definition and nature, static and dynamic, analysis micro and macro, law of analysis demand and measurement of elasticity of demand, Utility analysis. Consumer's equilibrium by indifference, curve, income effect, price effect. Substitution effect revealed preferences.
  Law of variable proportions and return to scale production function, isoquant analysis, Malthus and optimal population theory.
- **Theory of price determination:** Traditional and modern perfect competition monopoly and equilibrium of the firm in monopolistic competition.
- **Central theory of distribution:-** Ricardo's modern rent theory neo- conservative theory of interest and Keyne's theory Prof. Knight's profit principle wage determination in perfect and imperfect competition. Currency and international trade. Demand of currency and supply of currency. Value of currency fisher and Cambridge university equation inflation, deflation and stagflation, current Indian monetary system, Modern trends of commercial banks, credit creation work of central bank, quantitative and qualitative methods of credit bank, quantitative and qualitative methods of credit control monetary policy in underdeveloped economy.
- **International and International Trade**: Comparative cost theory free trade and protection method. Terms and trade exchange rate purchasing power purity theory and balance of payment theory balance of trade and balance of payment causes and solution to in balance International monetary fund. International bank for reconstruction and Development. Asian Development bank, world trade organization, Revenue and employment principles private and public finance. Maximum social welfare theory voluntary. Exchange theory tax and theory of economic impact , tax and fees. Special assessment tax payable capacity, justice and taxes taxation and tax incidence, theory of taxation, objectives and principle of public expenditure, economic management public debt burden and solvency. fiscal policy. Sources of income and expenditure of central and state government traditional and Keynesian employment theory, economic systems capitalism socialism and mixed economy.
- **Indian economy and Economic Development-**Features of Indian Economic Poverty and Development. Population trend and population policy. Distribution and structure of national income land reforms small and marginal farmers. Problem and solution of agriculture. Agriculture and marketing problem of unemployment visible and disguised unemployment causes and solutions.
- **Problems of industrialization:** New industrial policy problems of cottage and small scale industries, labor problems role of labor unions role of labor unions in India industrial dispute.
- **Foreign trade in India:** Structure and modern trends, Import substitution, Economic development and Economic progress reason of low Economic development Capital formation. The stages of economic development of Rostow principles of economic development, principal of minimum effort. Plan of economic development five year plans of technology in India.

PGT

- **Higher economic theory:** Idea and type of equilibrium, theory of demand, measurement of elasticity of demand, in elasticity or in elasticity, consumer surplus, neutral curve technique. Consumer equilibrium. revealed preference theory law of origin and returns to scale. Production function - short run and long run and cobb- Douglas production function, population transition, population transition theory.
- **Theory of economic:** Perfect competition, monopoly, duopoly, oligopoly oligopoly and monopolistic competition, price determination in socialist economics.1 Distribution- Central and modern theory of distribution, principal of rent, virtual rent and opportunity cost, modern theory of wages, theory of interest, classical theory, Keynes's liquidity preference theory and liquidity trap, lonable funds theory , knight and Shakeel profit principle, production and theory 1 Keynes's employment theory, multiplier and accelerator theory, consumption and investment function, theories of business Cyell - Hatry. Hatyek and Hicks.
- **Public finance:** Principle of public finance, private and public goods, public Expenditure - objectives, principle and economic effects, Balanced and unbalanced budget, fiscal finance. Functional finance and war finance, fiscal policy in a developing economy. Public income, principal of taxation, classification of taxes, Equality in taxes. Tax burden and tax Diversion, principal of tax burden. Registered tax Diversion, Double Tax and Taxable Capacity.
- **Public debt:** Debt burden, taxes versus debt laundering trends of central and state government finances, tenth finance commission, Deficit financing.
- **Monetary Economics :** Value of money and its measurement quantity theory of money, Keynes and Cambridge fundamental equations. Keynes monetary theory- Money expansion, money push and demand push inflation, Phillips curve, comparative advantage of inflation and contraction, monetary institutions functions of central and commercial bank, credit creation methods of central bank credit control, monetary policy of Reserve Bank of India. National Agricultural and rural bank. National Industrial (long term) fund. Devaluation, over- valuation, direct and indirect methods of exchange.
- **International Economics:** Theories of international trade (Adam smith, Ricardo and Mill) Mutual Demand theory, Marshall's theory of international price, opportunity cost theory. (Haveller) General equilibrium theory (heckschar - ohlin). Leontief paradox.
- **Foreign Exchange rate:** Purchasing power parity and balance of payment theory, terms of trade free trade versus protection, tariffs, collapse. bilateral and multilateral trade General Agreement on Tariff and Trade (GATT).
  United Nations Trade and Development Conference (UNCTAD) Current Situation of Foreign Capital in India Foreign aid, International organization, I.M.F, I.B.R.D. International Development Association (IDA), Asian Development Bank European Common Market and international liquidity.
- **Economic development and Indian Economy:** Problems of economic development Stages of development. Development model Classical Harrod and Domar model. Population growth and structure in India. Population policy, new concepts of national income. Trends of national income problems of poverty and under employment, Employment policy, Energy Crisis, problems and solutions of agricultural finance. Annapurna Yojana, New industrial policy and venture of India, small and cottage industrial policy, Export promotion, social security and labour welfare, Multinational companies and Indian economic development 1 elementary statistics- meaning and importance of statistics- linear representation, measure of central tendency, mean Geostatic, standard deviation and correlation.

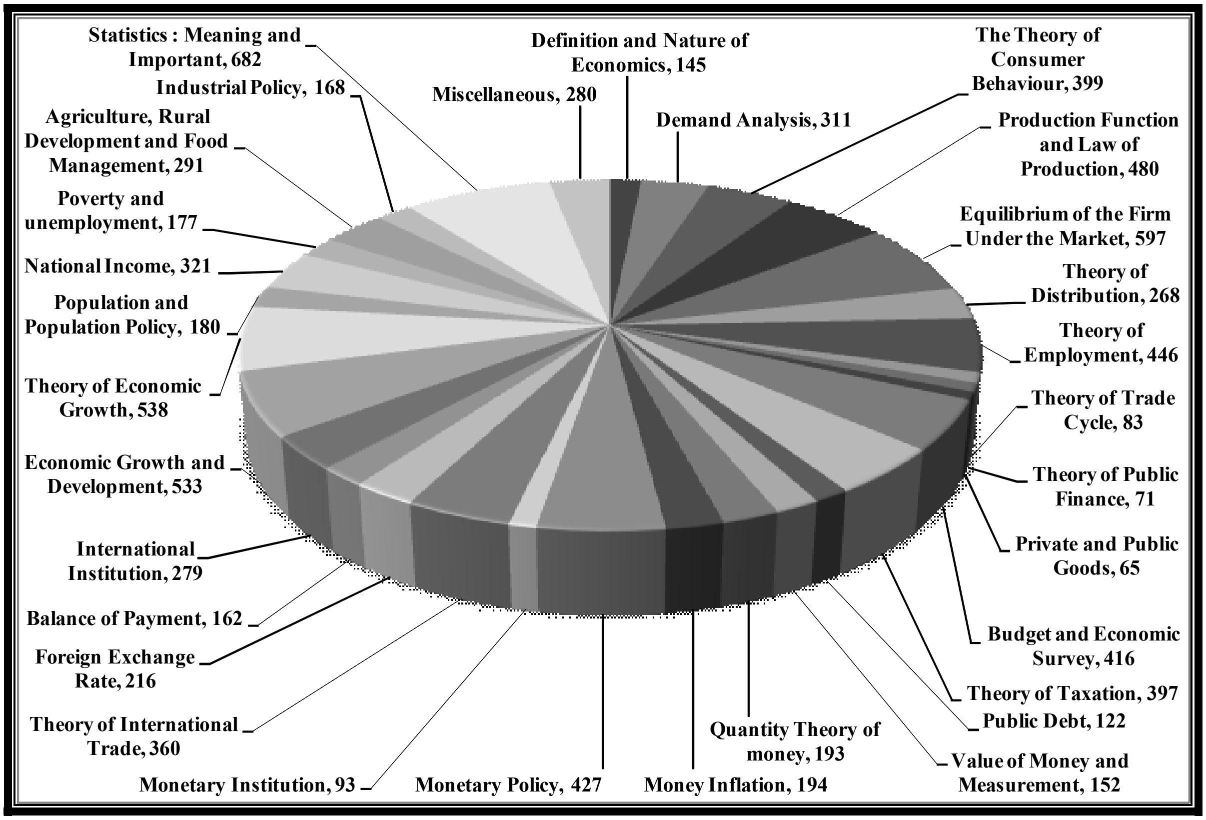
Analysis Chart of Previous Year Question Papers

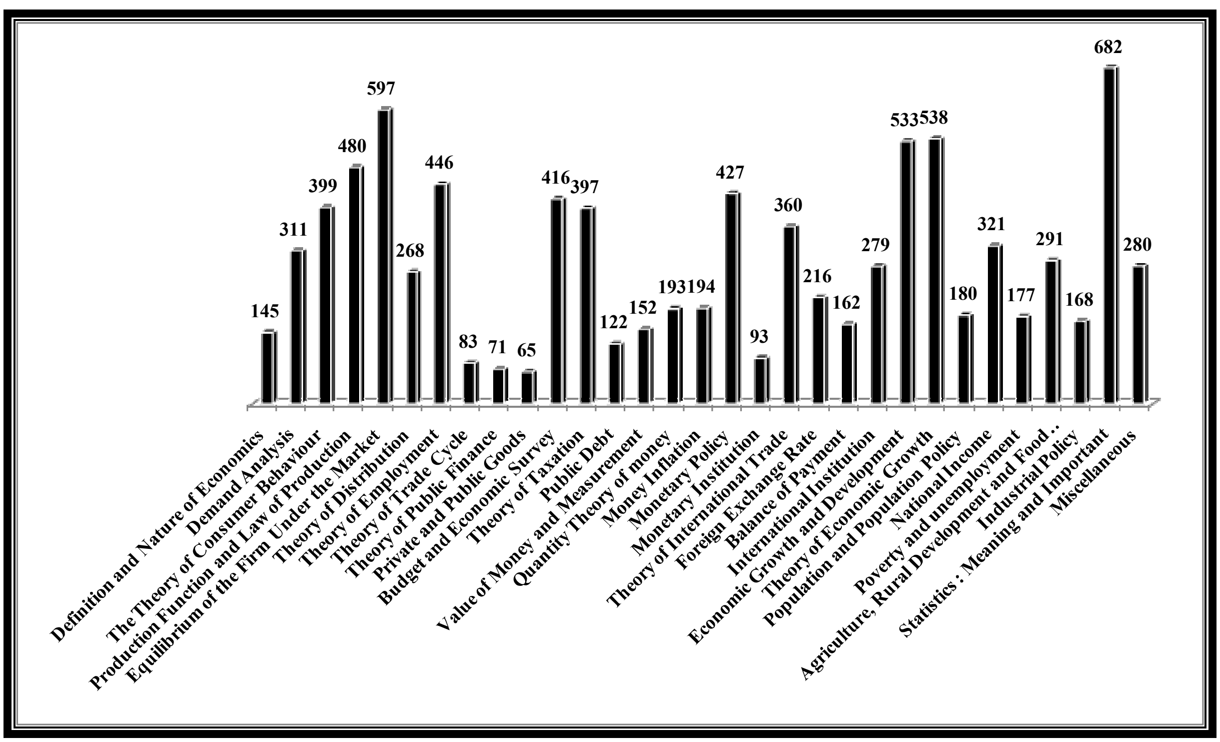
Sr. No.	Exam Name	Exam Year/Date	No. Of Question
Uttar Pradesh Secondary Education Service Selection Board (UPSESSB)			
Post Graduate Teacher Selection Exam. (PGT)			
1.	PGT, 2021	2021	125
2.	PGT, 2016	2019	125
3.	PGT, 2013	2015	125
4.	PGT, 2011	2016	125
5.	PGT, 2010	2010	125
6.	PGT, 2009	2009	125
7.	PGT, 2005	2005	125
8.	PGT, 2004	2004	125
9.	PGT, 2003	2003	85
10.	PGT, 2002	2002	85
11.	PGT, 2000	2000	100
Trained Graduate Teacher Selection Exam. (TGT)			
12.	TGT, 2021	2021	63
13.	TGT, 2016	2019	63
14.	TGT, 2013	2015	63
15.	TGT, 2011	2016	63
16.	TGT, 2010	2010	63
17.	TGT, 2009	2009	63
18.	TGT, 2005	2005	63
19.	TGT, 2004 Cancelled	2004	63
20.	TGT, 2004	2004	63
21.	TGT, 2003	2003	43
22.	TGT, 2001	2001	43
Uttar Pradesh Public Service Commission (GDC/GIC/Ashram Paddhatti/DIET/Degree College)			
23.	Government Degree College (GDC) Asst. Prof., 2021	15 March 2022	80
24.	Government Inter College (GIC) Lect., 2021	19 Sept. 2021	80
25.	Government Degree College (GDC) Asst. Prof., 2017	3 Nov. 2019	120
26.	LT Grade Exam., 2018	29 July 2018	60
Uttar Pradesh Public Service Commission			
27.	UPPCS (Pre), 1991 – 2010 (20 Question Paper)	1991 - 2010	2400
University Grant Commission National Eligibility Test (UGC NET)			
28.	UGC NET/JRF 2004-2023 (47 Question Paper)	Dec 2004-June 2023	3125
Uttar Pradesh Higher Education Service Commission (UPHESC)			
29.	Asst. Prof., 2018	2018	70
30.	Asst. Prof., 2021	2021	70
Chhattisgarh Asst. Prof. Exam.			
31.	Chhattisgarh Asst. Prof. Exam., 2014	28 Sep. 2016	100
Uttarakhand (Asst. Prof/GDC/GIC/Lect.) Exam.			
32.	Uttarakhand GDC Exam, 2017	11 Feb. 2018	100
33.	Uttarakhand GIC Lect. (Screening) Exam., 2018	2018	100
34.	Uttarakhand Lect. (Mains) Exam, 2020	2020	200

Madhya Pradesh Asst. Prof. Exam.			
35.	Madhya Pradesh Asst. Prof. Exam ,2017	2017	200
Haryana Lect. Exam.			
36.	Haryana PGT, 2020	2020	60
Kendriya Vidyalaya Sangathan			
37.	KVS PGT	2017	100
38.	KVS PGT	2018	100
Navodaya Vidyalaya Samiti			
39.	NVS PGT- Morning	16.12.2022	80
40.	NVS PGT	15.12.2022	80
Telangana			
41.	Telangana Degree College Lect. Paper-II	2017	100
42.	Telangana Jr. Lect. Paper-III	2018	100
Maharashtra			
43.	MH SET	27.12.2020	100
44.	MH SET	26.09.2021	100
West Bengal			
45.	WBPSC Assistant Prof.	2020	100
46.	WB SET-2022	2022	100
RPSC			
47.	RPSC PGT	2022	150
48.	RPSC Asst. Prof. Paper-II	2020	150
49	RPSC Asst. Prof. Paper-I	2020	150
Jharkhand			
50.	JSSC PGT	11.03.2018	150
APPSC			
51.	APPSC Degree Lecturers (Economics)	16.09.2020	150
52.	APPSC Junior Lect.	20.02.2018	150
Kerala			
53.	Kerala SET	2020	120
54.	Kerala SET	2021	120
Tripura			
55.	TRB Tripura Teacher-2019	2019	150
Odisha			
56.	Odisha SSB Lecturers	19.09.2021	100
Punjab			
57.	Punjab Lect.	2021	100
Tamilnadu			
58.	TNPSC CSSS	11.01.2022	200
DSSSB			
59.	DSSSB PGT Shift-II	17.07.2021	200
	Total Number of Questions		**11538**

Note: After detailed analysis of above question papers of different exams related to **Economics** total **11538** questions have been presented chapter wise. Questions of repeated and similar nature have been included so that technique of asking question can benefit the competitors.

Trend Analysis of Previous Year Question Papers





01

Definition and Nature of Economics

1. **In new welfare economics, capability approach is associated with the economist -**
(a) Raghu Ram Rajan (b) Arvind Pangariya
(c) Amartya Sen (d) Rajkrishna
RPSC PGT-2022

Ans. (c) : The capabilities approach in new welfare economics is associated with amartya Sen. The capability approach is an economic theory which was conceived in the 1980 as an alternative approach to welfare economics? The capability approach emphasizes what individuals can do. According to Sen, "Welfare economics deals with the basis of regulatory decisions, the foundation of evaluation and the ideological basis of policy making in economics.

2. **............... is also known as the Australian model.**
(a) SWAN (b) IS-LM
(c) Indifference curve (d) Total product curve
RPSC PGT-2022

Ans. (a) : The Solow–Swan model was an extension of the 1946 Harrod–Domar model that removed the restrictive assumption that only capital contributes to growth (as long as there is enough labor to utilize all the capital). An important contribution to the model came from work done in 1956 by Solow and Swan, who independently developed relatively simple growth models. Solow's model fits available data on US economic growth with some success. In 1987 Solow was awarded the Nobel Prize in Economics for his work. Today, economists use Solow's growth-source accounting to estimate the separate effects on economic growth of technological change, capital, and labor. The Solow model is also one of the most widely used models in economics to explain economic growth. Basically, it claims that "total factor productivity (TFP) can result in an unlimited increase in the standard of living in a country." The Solow-Swan model or exogenous growth model is an economic model of long-run economic growth.

3. **"Economics is the study of how societies use scarce resource to produce valuable commodities and distributed them among different people." This definition is given by-**
(a) Adam Smith & J.S. Mill
(b) Keynes & Lewis
(c) Marshall & Lewis
(d) Paul A. Samuelson & William, Nordhans
RPSC PGT-2022

Ans. (d) : Paul A. Samuelson and William de Nordhans defined economics in an article in 1998 as "Economics is the study of how societies produce valuable goods from scarce resources and distribute those goods among different people for consumption.

4. **The correct sequence of 5 E's in constructivist approach is -**
(a) Explore, Engage, Elaborate, Explain, Evaluation
(b) Engage, Explore, Elaborate, Explain, Evaluation
(c) Engage, Explore, Explain, Extend, Evaluate
(d) Engage, Explore, Evaluation, Explain, Elaborate
RPSC PGT-2022

Ans. (c) : Atkins and corpus's finding directly informed the creation of the 5-E model, developed by the Biological Sciences Curriculum study in 1987 is an constructional model In the constructivist approach, the sequence of Engage, Explore, Explain, Extend and Evaluate is the correct order for ensuring teaching-learning activities in a constructivist approach

5. **Welfare economics is branch of economics that used .... techniques to evaluate welfare at the aggregate level.**
(a) Macro economics
(b) Micro economics
(c) Positive economics
(d) Supply side economics
RPSC PGT-2022

Ans. (b) : Welfare economics is a field of economics that applies microeconomic techniques to evaluate the overall well-being (welfare) of a society. This evaluation is typically done at the economy-wide level, and attempts to assess the distribution of resources and opportunities among members of society.

6. **Micro dynamic method has been developed by**
(a) Frisch (b) Marshall
(c) Keynes (d) Pigou
(e) Answer not known
TNPSC CSSS-11.01.2022

Ans. (a) : Ragnor Frisch was the first economist who divided economics into static and dynamic forms in 1933 and used terns like micro economics and macro economics for this.
(i) Dynamic analysis examines the path of change in the level of income. It studies the reaction produced by a change in some variable or parameter by the method of periodic analysis.

(ii) Dynamic symmetric analysis of economies tells us that government expenditure.

The dyanamic symmetric analysis model of Economics states that there is a strong relationship between government spending and economic growth. The comulative effect of expansionary goverment spending on economic growth is positive while the cumulative effect of contractionary goverment spending has a negative impact on economic growth. There is strong evidence of the existence of an invested U-shaped relationship between government spending and economic growth is not linear but U shaped.

7. Mercantilists advocated

(a) Favorable balance of trade
(b) Government intervention is necessary
(c) Import more, Export less
(d) Unfavorable balance of trade
(e) Answer not known

TNPSC CSSS-11.01.2022

Ans. (a) : Mercantilists were proponents of an economic theory known as mercantilism', which was prominent from the 16^{th} to the 18^{th} centuries.

According to mercantilists', a nation's wealth and power were believed to be determined by its accumulation of precious metals, particularly gold and silver. To achive this, mercantilists advocated for a favorable balance of trade, meaning a country should export more goods and services than it imports. Hence, mercantilism is a form of economic nationalism that sought to increase the properity and power of a nation through restrictive trade practices.

8. Adam Smith published in his book "an Enquiry into the Nature and causes of the Wealth of Nations" in the year

(a) 1872 (b) 1776
(c) 1923 (d) 1778
(e) Answer not known

TNPSC CSSS-11.01.2022

Ans. (b) : Adam smith published in his book " An Enquiry into the nature and causes of the wealth of Nations" in the year 1776. Which described econmics as a subject of cause and effect which arms at gereralism of wealth for both social as well as economic means.

9. Which of the following is considered important by Mercantilist?

(a) Agriculture (b) Trade
(c) Industry (d) Manufacture
(e) Answer not known

TNPSC CSSS-11.01.2022

Ans. (b) : Mercantilists considered a positive balance of trade, accumulation of precious metals (especially gold and silver), and the idea that exports should exceed imports as crucial economic goals.

10. Mercantilists believed that state intervention is necessary to promote

(a) Favorable balance of trade
(b) Balance of trade
(c) Adverse Balance of trade
(d) Regulate the economy
(e) Answer not known

TNPSC CSSS-11.01.2022

Ans. (a) : It is an economic concept that emphasizes generating a country's wealth by supporting and protecting domestic industries and trade. It is a form of economic nationalism wherein the government focuses on strengthening wealth and power by promoting exports and reducing imports.

11. Keynes who was acclaimed is the first of the Cambridge Economist was enfluenced by-

(a) Robert Malthus (b) David Ricardo
(c) Karl Marx (d) Adam Smith
(e) Answer not known

TNPSC CSSS-11.01.2022

Ans. (a) : John Maynard Keynes, the renowned economist, was associated with the university of Cambridge and is considered one of the most influential economists of the 20^{th} century. He was influenced by the ideas of previous economists, including Robert Malthus. Malthus was early 19^{th} century economist who is best known for his theory of population growth and its implications for economic development.

12. The concept of "Balanced Growth" was advocated by

(a) Ragnar Nurkse (b) J.M. Keynes
(c) Adam Smith (d) Karl Marx
(e) Answer not known

TNPSC CSSS-11.01.2022

Ans. (a) : " Balanced Growth" theory is an economic theory pioneered by economist Ragnar Nurkse (1907-1950). The theory envisages that the government of any underdeveloped country needs to make large investments in several industries simultaneously. This will increase the market size, increase productivity and encourage the private sector to invest.

13. Gandhi ji pointed out that we cannot make a distinction between

(a) Economics and Ethics
(b) Economics and Business
(c) Economics and Revenue
(d) Economics and Costs
(e) Answer not known

TNPSC CSSS-11.01.2022

Ans. (a) : Gandhi ji pointed out that we cannot make a distinction between economics and ethics.

14. The idea of rational expectation was first developed by

(a) Taylor (b) Robert Lucas
(c) Johan. F. Muth (d) T.Sergent
(e) Answer not known

TNPSC CSSS-11.01.2022

Ans. (c) : The theory of rational expectation was proposed by John F. Muth in his seminal paper, " Rational expectations and the theory of price movements" published in 1961 in the journal, Econometrics. John F. Muth used the term to describe numerous scenarios in which an outcome depends partly on what people expect will happen. The ralional expectations theory is a concept and modeling technique that is widely used in macroeconomist.

15. Assertion (A) : Macro Economics deals with economic affairs in large.
Reason (R) : Macro Economics deals with the minor economic issues

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

TNPSC CSSS-11.01.2022

Ans. (c) : Macro Economics focuses on the overall performance and behavior of an economy as a whole, examining factors such as inflation. Unemployment, economic growth, and national income. It looks at the broader aggregates and trends that impact the entire economy rather than individual markets. or specific industries.

- The assertion is true but its reason is wrong hence option (C) is correct.

16. Assertion (A) : In economic proposition the ends are unlimited.
Reason (R) : The means to achieve those ends are limited.

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

TNPSC CSSS-11.01.2022

Ans. (d) : That is a key concept in economics. It refers to the idea what human wants and needs are essentially limitless, while resource is finite. This contract is known as the problem of scarcity which underlies economic decision - making.

- Hence, Both (A) and (R) are true, but (R) is not the correct explanation of (A).

17. Who is a Cambridge economist in the following?

(a) Marshall (b) Pigou
(c) Robertson (d) All of the above
(e) Answer not known

TNPSC CSSS-11.01.2022

Ans. (d) : The answer is (d) all the above. All three individuals mentioned, Marshall, Pigou, and Robertson, were notable economists associated with the University of Cambridge.

- Alfred Marshall was an influential economist and one of the founders of neoclassical economics.
- Arthur Cecil Pigou was author and a prominent economist associated with University of Cambridge.
- Dennis Robertson was a British economist who taught at the University of Cambridge.

18. In a linear programming problem basic feasible solution occurs at-
(i) Intersection of feasible constraints with the axis
(ii) Intersection of all the constraints
(iii) Intersection of two axes
(iv) In the corner of the feasible space
Choose the correct option:

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

WB SET-2022

Ans. (a) : In a linear programming problem basic feasible solution occurs at intersection of feasible constraints and with the axis and intersection of all the constraint.

- So, the correct answer is option (a) (i) and (ii).

19. An exogenous variable in one whose value is determined _________ the model.

(a) Outside
(b) inside
(c) Within
(d) Neither inside nor outside

Punjab Lect. 2021

Ans. (a) : An exogenous variable in one whose value is determined outside the model. Factors outside of the ecomomic model determined the value of exogenous variables. So exogenous model is a causal model or causal system whose value is independent from the states of other variable in the system.

For example: - Rainfall is exogenous to the causal system constituting the process of farming and crop outside.

20. Which of the following measures are used by a risk-averse person to minimize risk?

A. Diversification of resources
B. Insurance of risk event
C. Total cost of resources
D. Value of information of risk event

Choose the correct answer from the options given below :

(a) A, B and C only (b) A, B and D only
(c) A, C and D only (d) B, C and D only

NTA UGC NET/JRF June 2021/ Dec 2020

Ans. (b) : The following measures are used by a risk averse person to minimize risk–
(i) Diversification of resources
(ii) Insurance of risk event
(ii) Value of information of risk event.

21. Who said, "The problem of getting freedom from wants is regarded as an economic problem'?
(a) Adam Smith (b) J.K. Mehta
(c) Marshall (d) Robbins
UP TGT 2021

Ans. (b) : "The problem of getting freedom from wants is regarded as an economic problem", this definition is given by J.K. Mehta who is called Indian philosopher, ascetic economist expressed the definition of economics as, "Economics is a science, which studies human behaviour as a means to reach a desire less state or state of desirelessness. He said that the main aim of economics is not to increase satisfaction, but to increase, maximize real happiness, and real happiness will be achieved not by keeping desires high but" by minimizing them"

22. "Scarcity of means to satisfy ends of varying importance is an almost ubiquitous conditions of human behaviour." This concept is given by :
(a) J.M. Keynes (b) Robbins
(c) Marshall (d) Ricardo
UP TGT 2021

Ans. (b) : Lord Robbins in his famous book "An Essay on the Nature and Significance of Economic Science" (1932) gave the famous definition of economics**:** According to Robbins "Scarcity of means to satisfy ends of varying importance in an almost ubiquitous conditions of human behaviour" definition of scarcity in economics was given by the economists– Robbins, Lerner, Erikall and Wixid.

23. The Growth Centered Definition of Economics is given by :
(a) Paul A. Samuelson (b) J.M. Keynes
(c) Robbins (d) Marshall
UP TGT 2021

Ans. (a) : The growth-oriented definition of economics is given by Paul Anthony Samuelson. According to him, "Economics is the study of how people and society choose, with or without the use of money, to employ scare productive resource which could have alternative uses, to produce various commodities over time and distribute them for consumption now and in the future among various persons and groups of society."

24. "Wealth is not an end itself, it is a means to an end and the end is human welfare." This quote is given by :
(a) D. Ricardo (b) Adam Smith
(c) Marshall (d) J.B. Say
UP TGT 2021

Ans. (c) : "Wealth is not an end itself, it is a means to an end and the end is human welfare." This quote is given by the economists Marshall. The definition of welfare in economics has been given by various economists which are as follows– Alfred Marshall, Pigou, J.S. Mill, Cannon, Eli and beveridge. Altred Marshall was a pioneer of neoclassical economics.

25. The Scarcity Definition of Economics has been given by :
(a) Adam Smith (b) Robbins
(c) Pigou (d) Marshall
UP TGT 2021
Haryana PGT 2020

Ans. (b) : Different economists have given different definitions of economics from time to time and each economist has defined economics according to the situation. The scarcity definition in economics has been given by Robbins, Lerner Erikall, Wixid.

26. In economics problem of choice arises because
(a) Needs are urgent in nature
(b) Resources are given by nature
(c) Resources have alternative uses
(d) Resources are in government possession
UP PGT 2021

Ans. (c) : According to Lord Robbins, the problem of choice in economics arises when there are alternative uses of resources. The same means can be used to obtain many resources, furniture can be made from wood or a house can be built or it can be used for making food, it is clear from these characteristics of human behavior, the human needs are unlimited and of varying intensity and the means available for their satisfaction are limited. Resources are not only limited but have alternative uses.

27. Who is responsible for inductive method of studying economics?
(a) Austrian School
(b) German Historical School
(c) Classical School
(d) Russian School **UP PGT 2021**

Ans. (b) : The credit for the inductive method of studying economics is given to the historical ideology of Germany. The inductive method was introduced by the historical school of Germany as a reaction to the defects of he inductive system. It started with the publication of Rocher's famous book political Economics in 1854.
Through the method of induction, general conclusions are reached on the basis of specific truths. In this the sequence of reasoning is from specific to general. Under this method, social facts are compiled from statistics or history and statistics related to them are collected by observing events and rules are propounded through analysis. There are two forms of the arrival method- 1. Experimental method and second Statistical method. Scientific method of induction is used in physical science whereas statistical method of induction is used in economics for the study of social facts.

28. Match the List-I with List-II and select the correct answer from the code given below the lists-

List-I (Name of Book)		List-II (Author)	
(A)	An Essay on the Nature and Significance of Economic Science	**(1)**	Samuelson
(B)	An Inquiry into Nature and Causes of Wealth of Nations	**(2)**	Robbins
(C)	Principle of Economics	**(3)**	Adam Smith
(D)	Economics	**(4)**	Marshall

Code

	A	B	C	D		A	B	C	D
(a)	1	2	3	4	(b)	4	3	2	1
(c)	2	3	4	1	(d)	3	2	1	4

UPPSC GIC 2021

Ans. (c) :

Name of book		Author	
A	An essay on the nature and significance of economics science.	**2**	Robbins
B	An inquiry into nature and causes of wealth of nations	**3**	Adam Smith
C	Principle of economics.	**4**	Marshal
D	Economics	**1**	Samuelson

29. What does Marshall refers to when he states that - the additional benefit which a person derives from a given increase of his stock of a thing diminishes with every increase in stock that he already has.

(a) Law of constant marginal utility of money
(b) Law of diminishing marginal utility
(c) Cardinal measurement of utility
(d) Utilities are independent **Punjab Lect. 2021**

Ans. (b) : Marshall's statement likely refers to the law of diminishing marginal utility, a key can cept in economics. It suggests that as a person consumes more of a good or service, the additional satisfaction or benefit derived from each additional unit decrease In other words, the more you rave of something, the less valuable each additional unit becomes.

30. The concept of "invisible hand" as a metaphor is given by:

(a) Alfred Marshall (b) A.G. Pigou
(c) Adam Smith (d) L Robbins

Punjab Lect. 2021

Ans. (c) : The concept of the "invisible hand" as a metaphor in economics is attributed to Adam smith, a Scottish philosopher and economist. He introduced the term in his seminal work, "the wealth of Nations," published in 1776. The invisible hand represents the self-regulating nature of a free market, where individuals pursuing their own self-interest unintentionally contribute to the overall economic well-being.

31. Which of the following is NOT true for the concept of *Laissez-faire*?

(a) It is an economic system that argues about complete separation of government from the economic sector.
(b) It is advocated by J M Keynes
(c) It is advocated by classical economists
(d) It is popularized by Adam Smith

Punjab Lect. 2021

Ans. (b) : It is advocated by J.M. Keynes. Laissez-faire is an economic concept that advocates for minimal government intervention in the economic sector and promotes free markets and individual economic freedom. The concept of Laissez - faire is primarily associated with classical economists, including Adam smith who popularized the idea in his book" the wealth of nations.

32. "An Enquiry into the Nature and Causes of Wealth of Nations" is written by

(a) Adam Smith (b) J.M. Keynes
(c) A. Marshall (d) L. Robbins

Punjab Lect. 2021

Ans. (a) : Adam smith wrote "An enquiry into the nature and causes of the wealth of nations," It's a classic work in economics published in 1776 and is considered one of the foundational works in the field of economics. In the book, Smith explores the principles of free markets, division of labor, and the role of self-interest in promoting economic prosperity. Smith's works had a significant influence on the development of classical economics and the understanding of market forces.

33. Micro-economics study the

(a) Monetary Policies
(b) Fiscal Policy
(c) Unemployment Problems
(d) Consumer behavior **Punjab Lect. 2021**

Ans. (d) : Microeconomics studies the behavior of individual economic agents, such as household, firms, and markets, focusing on how 'they make decisions regarding resource allocation, consumption and production in a world of scarcity. It analyzes the interaction between supply and demand, Pricing of goods and services and the impact of various factors on individual decision-making within a specific economics unit.

34. Macro economics deals with ________.

(a) Aggregate economic activities
(b) Individual economic decisions
(c) Individual producer economic decisions
(d) All he above **Punjab Lect. 2021**

Ans. (a) : Macroeconomic deals with the study of the overall economy, focusing on large-scale economic factors such as national income, unemployment rates. Inflation. Growth, and government fiscal and monetary policies.

35. Which amongst the following are the major concerns of Macroeconomics?

(a) Problem of unemployment
(b) Problem of Inflation
(c) Economic Growth
(d) All the above

Punjab Lect. 2021

Ans. (d) : Macroeconomics with the study of the economy as a whole, focuses on aggregate variables such as national income, unemployment rate, inflation rate, and overall economic growth

36. The differential principle of justice requires that all economics inequalities be arranged so that they are__________.

I. Beneficial for those with minimum facilities

II. The posts and associated offices are open to all members under conditions of fair equality of opportunity.

(a) Only I (b) Neither I nor II
(c) Only II (d) Both I and II

DSSSB PGT-17.07.2021, Shift-II

Ans. (d) : The differential principle of justice requires that all economic inequalities should be open to all members under conditions of fair equality of opportunity and associated positions and offices.

37. Who has written 'the tragedy of commons?

(a) E.F. Schumacher
(b) Irving fisher
(c) Garrett Hardin
(d) Thomas Robert Malthus

DSSSB PGT-17.07.2021, Shift-II

Ans. (c) : This economic theory was first conceptualized in 1833 by British writer William Forster Lloyd. In 1968, the term "tragedy of the commons" was used for the first time by Garret Hardin in Science Magazine

38. Which method can help in obtaining a welfare improvement if externalities exist?

I.	**Regulation**
II.	**Assigning property rights and permitting bargaining**

(a) Neither I nor II (b) Only II
(c) Both I and II (d) Only I

DSSSB PGT-17.07.2021, Shift-II

Ans. (c): The methods that achieve welfare improvement when externalities are present are regulation and acceptance of property rights and allowing trade-offs and levying Pigovian Taxes.

39. Which of the following is required by the First Fundamental Theorem of Welfare Economics?

	Producers and consumers to be price takers.
II.	**That there be an efficient market for every commodity.**
III.	**That the economy operates at some point on the utility possibility curve.**

(a) I and III (b) II and III
(c) I, II and III (d) I and II

DSSSB PGT-17.07.2021, Shift-II

Ans. (c) : The essential elements for the first fundamental principle of welfare economics are written as follows.

- There should be an efficient market for every person.
- The operator of the economy is on the utility possibility curve at some point.
- Both producers and consumers should be price takers.

Welfare Economics - Welfare economics is a study that sheds light on how the allocation of resources and goods affects social welfare. That is, it is a study related to economics efficiency and income distribution.

40. Which branch of economic theory is associated with the difficulty of resources allocation?

I. Microeconomic theory

II. Macroeconomic theory

(a) Neither I nor II (b) Only II
(c) Only I (d) Both I and II

DSSSB PGT-17.07.2021, Shift-II

Ans. (c) : Microeconomics theory is related to the difficulty of allocation of resources. Microeconomics is also called 'microeconomics', under this, individual economic units are studied. Under individual economics, there is study of optional resource allocation and economic activities like study of demand and supply, problem and policies related to price determination. Major components of individual economics are:-

- Consumer behavior theory
- Producer behavior theory
- Price theory.

41. Which of the following statement is correct?

I. In positive economics we deal with scientific issues and questions

II. In normative economics, disagreements among economists can never be resolved

(a) Only II (b) Only I
(c) Neither I nor II (d) Both I and II

DSSSB PGT-17.07.2021, Shift-II

Ans. (d) : The term positive economics refers to the objective analysis in the study of economics. Most economists look at what has happened and what is currently happening in a given economy to form their basis of predictions for the future. This investigative process is positive economics. Conversely, a normative economic study bases future predictions on value judgments

Normative economics focuses on the value of economic fairness, or what the economy "should be" or "ought to be." While positive economics is based on fact and figures cannot be approved or disapproved, normative economics is based on value judgments

42. The term Macro-Economics was coined and used for the first time by-

(a) Ragnor Nurkse (b) Ragnor Frisch
(c) J.S. Mill (d) Ricardo

RPSC Asst. Prof.- 2020

Ans. (b) : Ragnar Anton Kittil Frisch was a Norwegian economist . He coined the term micro economics and macro economics .Macro economics deals the economy as a whole. In micro economics, study of economics is done from an individual point of view.

43. Market Economics rely on which of the following to allocate scarce resources?

(a) Government (b) Consumers
(c) Relative prices (d) Real interest rates

RPSC Asst. Prof.- 2020

Ans. (c) : A market economy depends on the relative prices of goods when allocating its scarce resources. Scarce goods and services are allocated in a market economy through the influence of prices on production and consumption decisions, changes in supply or demand cause changes in relative prices, on the basis of which buyers and sellers adjust their buying and selling decisions.

44. Almost all of the countries of the present World have adopted the system of

(a) Market economy (b) Command economy
(c) Mixed economy (d) None of the above

TRB Tripura Teacher-2019

Ans. (c) : A mixed economy is an economic system that combines elements of both a market economy and a planned or command economy. In a mixed economy the government and the private sector both play significant roles in the allocation of resources and the production of goods and services.

While it is true many countries around the world have adopted mixed economies to varying degrees, it is important to note that the specific characteristics and degree of government intervention can vary widely between countries.

45. Basic questions in Economics as a subject Centre around-

(a) Income (b) Expenditure
(c) Equity (d) None of the above

TRB Tripura Teacher-2019

Ans. (d) : Economics as a subject focuses on various areas such as supply and demand, market structures, investment, consumption etc. but main question in economics as a subject resource allocation. Economics examines how limited resources are allocated to meet unlimited wants and needs. It asks question about what to produce, how to produce, and for whom to produce.

So we can say the basic question of economics as a subject is 'Scarcity and Choice'.

46. Unit prices of land, labour and capital are Studied in

(a) Macroeconomics
(b) Microeconomics
(c) Both macroeconomics and Microeconomics
(d) None of the above

TRB Tripura Teacher-2019

Ans. (b) : Economics, specifically in the context of microeconomics, addresses the study of unit prices of land, labor and capital. This is often explored through concepts like factor pricing or the theory of factor markets. The prices for these factors of production-land labor and capital-determine how resources are allocated in the production process. Understanding these unit prices is crucial for analyzing economic efficiency, income distribution and overall market dynamics.

47. Expenditure on education by the central and state governments, as percentage to GDP of India, in the year 2015-16 was:

(a) 2.4% (b) 1.1%
(c) 5.8% (d) 2.2%

Telangana Degree College Lect. 2017, Paper-II

Ans. (a): According to Economic Survey it is 2.4% in the year 2015-2016, in 2014-15 it was 2.8% and in the year 2012-2013 it was 3.1%. So the right answer is 2.4% of GDP in 2015-2016.

According to the provisional estimates released by the National Statistical Office (NSO), the Indian economy has fully recovered from the pre-pandemic impact real GDP level of 2019-20 in 2021-22. Real GDP growth in 2021-22 is 8.7 per cent, 1.5 per cent higher than real GDP in 2019-20.

48. According to the Classical development theorists, the key to progress is.........

(a) Labour
(b) Technology
(c) Laissez faire
(d) Capital accumulation

MH SET- 26.09.2021

Ans. (c) : According to classical development theorists, the key to progress is often seen as economic development and industrialization, with a focus on factors like capital accumulation, technology and efficient production methods. Thinkers like Adam smith and Karl Marx, albeit with different perspectives, emphasized the role of economic factors in societal progress. But, According to Adam smith invisible hand of the market would lead to economic growth and prosperity so we can say option c will be right answer for this given question.

49. **Macro-economics is a study of economics that deals with:**
(a) Firms and households only
(b) Firms, households, government and external sector
(c) Demand for a specific product
(d) Balance of payments

MH SET- 26.09.2021

Ans. (b) : Macroeconomics is the branch of economics that focuses on the overall performance and behavior of an economy. It examines factors such as national income, unemployment, inflation, economic growth, and the interaction between different economic sectors.

50. **Third fundamental theorem of welfare economics assumes that there are no:**
(a) Economies of scale
(b) Externalities
(c) Diseconomies of scale
(d) Economies of scope

MH SET- 26.09.2021

Ans. (b) : The third fundamental theorem of welfare economics, also known as the "second welfare theorem, "assumes the absence of externalities and certain market imperfections. It does not assume the absence of economics of scale, diseconomies of scale or economies of scope.
- **Absence of Externalities -** The theorem assumes that there are no external costs or benefits associated with economics activities.

51. **Lifetime welfare of an individual............**
(a) Can be quantified only in some cases
(b) Can be quantified
(c) Cannot be quantified
(d) Cannot be imagined **MH SET-27.12.2020**

Ans. (c): The lifetime welfare of an individual is indeed challenging to quantity precisely given its multifaceted nature and subjective elements. While certain aspects such as income and health, can be measured more objectively, factors vary from person to person. Attempts to quantity overall lifetime welfare often involve using composite indicators, but the true depth of personal well-being remains complex and nuanced.

52. **The first fundamental theorem of welfare economics assumes the supply of:**
(a) Inferior goods (b) Public goods
(c) Common goods (d) Geffen goods

MH SET-27.12.2020

Ans. (c) : The first theorem established that a competitive equilibrium is for the common good. To establish the first Theorem, we need to sketch a general equilibrium model of an economy. Assume all individuals and firms in the economy are price takers: none is enough, or motivated enough, to act like a monopolist.

What Is the First and Second Welfare Theorem?
Welfare economics is associated with two main theorems. The first is that competitive markets yield Pareto efficient outcomes. The second is that social welfare can be maximized at equilibrium with a suitable level of redistribution

What Are the Assumptions of Welfare Economics?
Welfare economics seeks to evaluate how economic policies affect the well-being of the community. As a consequence, it is generally based on a lot of assumptions that include, above all, taking individual preferences as a given.

53. **Menu cost or sticky prices are associated with:**
(a) New Classical economics
(b) Real Business cycle
(c) New Keynesian economics
(d) Supply side economics

UGC NTA NET/JRF-08.10.2022
Kerala Set-2020

Ans. (c) : The concept of menu costs or sticky prices is often associated with new Keynesian economics. In new Keynesian models, the assumption is that prices and wages are not perfectly flexible in the short run, and there are costs associated with adjusting them. This can lead to situations where prices do not immediately respond to changes in supply and demand, contributing to short - term fluctuations in the economy. The concept of menu costs was first proposed by Israeli economists Eytan Sheshinski and Yoram Weiss in their 1977 paper “Inflation and Costs of Price Adjustment”.
The term "shoe leather costs" was coined by economist Philip Cagan in his 1956 paper "The Monetary Dynamics of Inflation." Cagan argued that inflation causes people to reduce their holdings of cash because cash loses value over time.

54. **Consider following the economists with their contributions to the macroeconomic schools.**

List-I		List-II	
A.	**Milton Friedman**	**1.**	**Austrian school**
B.	**Robert Mundell**	**2.**	**Keynesian**
C.	**Mrs. Joan Robbinson**	**3.**	**Monetarism**
D.	**Carl Menger**	**4.**	**Supply side economics.**

(a) A-3, B-4, C-2, D-1 (b) A-2, B-3, C-1, D-4
(c) A-3, B-2, C-4, D-1 (d) A-4, B-3, C-2, D-1

Kerala Set-2020

Ans. (a) : The correctly matched is option (a)

List - I		List - II	
A	Milton Friedman	3.	Monetarism
B	Robert Mundel	4.	Supply side economics
C	Mrs. Joan Robinson	2.	Keynesian
D.	Carl menger	1	Austrian school.

55. In Marshallian Utility Analysis, the price of a commodity is determined by _______ utility.

(a) Initial (b) Total
(c) marginal (d) equi-marginal

APPSC Degree College Lect.16.09.2020

Ans. (c) : In marshallian utility analysis, the price of a commodity is influenced by its utility. The relationship lies in the principle that consumers will continue to purchase goods until (additional satisfaction) equals the price they are willing to pay. This equilibrium point helps determine the price at which the commodity is exchanged in the market.

56. In Marxian framework, which one of the following four social systems is different from others in the tenet that the class that controls the factors of production also controls the society?

(a) Primitive communism
(b) Ancient slave stage
(c) Feudalism
(d) Capitalism

APPSC Jr. Lect.-20.02.2018

Ans. (d): In the Marxian framework, the social system that is different from the others in the tenet that the class that controls the factors of production also controls the society is "Capitalism." In capitalism, Marx argued that the bourgeoisie, or the capitalist class, controls the means of production, such as factories and businesses, and as a result, they also control the broader society. The other social systems, such as feudalism, slavery, and socialism (in its ideal form, according to Marx), do not necessarily have this same relationship between the ownership of the means of production and control over society as is the case in capitalism.

57. Which of the following is considered to be a revolution in macroeconomic theory?

(a) Mercantilist Approach
(b) Classical Economics
(c) Keynesian Economics
(d) Monetarist Approach

APPSC Jr. Lect.-20.02.2018

Ans. (c) : The term "revolution" in macroeconomics theory is often associated with the shift from classical to Keynesian economics during the 20^{th} century. The Keynesian revolution, led by John Maynard Keynes, introduced new concepts like aggregate demand and emphasized the role of government intervention in stabilizing the economy. The keynesian economics supports the view that employment is a function of demand not supply.

58. According to the Capability approach to development

(a) Human beings are means to an end and the end is income generation
(b) Income is a means to an end in human welfare
(c) Human beings and income are both means and the end is utility maximization
(d) Higher price leads to rise in income and

WBPSC Asst. Prof. 2020

Ans. (a) : In the Capability Approach Human beings are considered as ends in themselves, not just as means to income generation or achieve economic or utility goals. The focus is on enhancing people's well-being, capabilities, and freedoms. Development is about expanding the choices and opportunities that individuals have to lead lives they value.

59. Who wrote 'Nature and Causes of Wealth of Nations'?

(a) Adam Smith (b) Alfred Marshall
(c) L. Robbins (d) P. Samuelson

KVS PGT-2017

Ans. (a) : The classical economist Adam smith, who gave a systematic form to the concept of non-intervention is considered the father of economics. The book 'An inquiry into the nature and causes of the wealth of nations was published in 1776 by Adam smith.

60. The main problem of Economics is

(a) Over Production (b) Unemployment
(c) Choice making (d) Poverty

UKPSC Lecturer (Mains) 2020

Ans. (c) : According to Robbins, The main problem of economics is found to be the problem of selection or choice. The ends are of various importance, the necessary consequence of which is that the problem of choice arises, that is, the problem of selecting the experiments in which the scarce sources are used. He proposed a scientifically positive definition on ecomomics where he emphasized on makinmg choices by the study of human behavour from various alternative uses of the scaree resources in order to maximize the satisfaction of the unlimited wants.

61. Microeconomics is concerned with–

(a) Theory of inflation
(b) Theory of economics development
(c) Theory of consumption function
(d) Commodity pricing theory

MP Assistant Professor– 2017

Ans. (d) : The term micro and macro economics was first used by Ragnar Frisch. According to Boulding, ‘‘micro economics studies specific firms, households, individual prices, wages, incomes, individual industries and specific goods. Thus microeconomics studies various units of the economy in the form of pieces’’. Microeconomics deals with the price mechanism of individual commodities which are determined by market forces of demands supply

62. Which of the following variables is not considered as a flow variable in economics analysis?

(a) Supply and demand
(b) Savings and investments
(c) Money supply and public debt
(d) Export and import

UGC NET- III Paper Jan., 2017

Ans. (c) In economics, the stock and flow variables are used to explain economic models. Stock refers to the accumulated quantity of a commodity at a specified point of time. On the other hand, the quantity of current production of a commodity moves through a market, then it is called flow. Stock and flow concepts are used more in macroeconomics or income production and employment theory. Money is a stock while expenditure is a flow of money. Money is a stock and income is a flow. Government debt is a stock but government deficit is a flow. Some macro future variables such as imports, exports, wages, income tax payments, social security, profits and dividends are flow variables only.

63. The main feature of a mixed economy is–
(a) Co-existence of public sector and private sector.
(b) Use of market mechanism in the private sector.
(c) Use of economics planning
(d) All of the above **UP TGT-2011, 2005**

UPPCS-1992

Ans. (a) : The main feature of a mixed economy is the co-existence of public sector and the private sector. Indian economy is a mixed economy. It has been shaped by the development of a large public sector after independence.

64. Macroeconomics is related to–
(a) Whole economy
(b) Only a specific sector
(c) Activities of banks
(d) None of these

UP TGT-2009

Ans.(a). Macro economics is also called collective economics or theory of income and employment or simply income analysis. Macro economics is the study of averages relating to the economy, such as total employment, unemployment, national output, total investment, consumption, total savings, aggregate supply, aggregate demand and the general price level, wage level, interest rates, cost structure. Thus it studies the causes of unemployment and the various determinants of employment. In the field of business cycles, it relates to the effect of investors on total output, total income and employment. In the monetary area, it studies the effect of the total quantity of money on the general price level. It Studies the problems of international trade, payments and foreign aid. And lastly it studies those factors which hinder the development and those which bring the economy on the path of economic development.

65. Competition of something leads to realization -
(a) Actual production of the commodity
(b) Total existing stock of the commodity
(c) Stock available for sale
(d) Quantity of the item offered for sale on the original particular per unit of time

UP TGT-2005

Ans. (d): When a producer brings and sells a commodity in the market at a specified time, it is called supply and when a producer is ready to sell a commodity by bringing it to the market at a specified time and at a specified price, it is called a supply price. Generally the supply curve of a commodity is upward sloping to the right because in a given period of time more quantity of the commodity is produced and sold at a higher price because the producer is willing to sell more and more of the commodity at a higher price. Another important fact is that the marginal cost of producing additional units of output is increasing and the supply curve is upward sloping due to the possibility of maximum profit. And it is generally believed that the marginal cost of any firm is its supply curve above average variable cost.

66. Which of the following is not under the physical definition of economics?
(a) Definition of Adam smith
(b) Marshall's definition
(c) Robbins definition
(d) None of these **UP TGT-2009**

Ans. (c) There are two views for the definition of economics– (i) physical (ii). Scarcity of resources. Adam Smith, Marshall, Mill and Pigou come under the physical definition in question. Where as the definition given by Robbins is related to scarcity of resources.

67. Capitalism lacks -
(a) Government control
(b) Non-government possesion
(c) Right of succession
(d) All of the above **UP TGT-2004 (निरस्त)**

Ans. (a) Capitalist system refers to the method of conducting economic activities under which there is individual ownership of the means of production and freedom to use them for personal gain. It also determines which items should be produced by means, in what quantity and what should be the method of production for maximum satisfaction of their needs? When it is decided independently on the basis of individual market mechanism (powers of demand and supply) and not under any central planning, then it is called capitalist system. In this system, there is no ownership of the state on the means of production, nor does the state interfere in the operation of economic activities. In the capitalist economic system, the consumer is called the king.

68. In a socialist society
(a) Price Mechanism
(b) Planning
(c) Committee government control
(d) All of the above **UP TGT-2004 (निरस्त)**

Ans. (b): Among the main features of socialism, all the means of production are collectively under the control of the state, this system is not driven by the motivation of profit but by the spirit of service, the work of production is on the basis of a central planning, the national Efforts are made to distribute the produced wealth on the basis of equality. According to Pigou, "It is impossible to conceive of socialism in any form other than centralized planning." Schumpeter described four qualities of the socialist system - **1.** More productivity is determined only in the management of the state. **2.** Greater economic welfare due to less inequality. **3.** Absence of monopolistic practices. **4.** Absence of business cycles.

69. Which of the following in considered as money in the economy?
(a) Sun rays
(b) Mother's Motherhood
(c) Shadow of a tree
(d) Jewelery **UP TGT-2004 (Cancelled)**

Ans.(d) : Jewelery has an economic aspect, so it is considered money in economy whereas sun rays, mother's motherhood and shadow of a tree have no economic aspect hence it cannot be considered as wealth in economy.

70. A theory is
(a) A recognition
(b) An 'if-then' substitution
(c) A hypothesis
(d) A Authentic hypothesis **UP TGT-2003**
UPPCS-1997

Ans. (d): Among the various constructed hypotheses, preference should be given to hypothesis which is capable of predicting what is going to happen? and so that it can be concluded that it has been done in the past.

71. A close economy is one where
(a) Only export takes place
(b) Money supply is completely controlled.
(c) Cos management is going on
(d) Neither exporting nor importing
UP PGT-2013

Ans. (d): An economy that is self-dependent, in which neither imports nor exports take place, is called closed economy. This economy is the opposite of an open economy. A closed economy therfore refers to a country that produces all of its own goods and services and doesnot participate in International Trade.
Close Economy- Y = C+I+G
Open Economy- Y=C+I+G+(X-M)

72. Definition of needlessness of economics is related to
(a) J.K. Mehta (b) Robbins
(c) Marshall (d) Keynes
UP PGT-2013
UP PGT-2004

Ans. (a) : Prof. J.K. Mehta advocated a theory of economics completely different from the opinion of western economists and which is completely Indian. According to him "Economics is a science that studies human behavior as a means of reaching a wishless sate or a state of desirelessness."

73. Economics which collects all the relevant facts related to a particular subject together is called–
(a) Applied Economics
(b) Theoretical Economics
(c) Descriptive Economics
(d) Analytical Economics **UP PGT-2009**

Ans. (d) : Under analytical economics, specific aspects related to a particular subject are studied. Under this emphasis is laid on logical actions.

74. In which economy consumer is called emperor
(a) Communist Economy
(b) Socialist Economy
(c) Capitalist Economy
(d) Mixed Economy **UP PGT-2009**

Ans. (c) Capitalist system refers to the method of conducting economic activities under which there is individual ownership of the means of production and freedom to use them for personal gain. It also decides which items should be produced by means, in what quantity and what should be the method of production for maximum satisfaction of their needs? When it is decided independently on the basis of individual market mechanism (powers of demand and supply) and not under any central planning, then it is called capitalist system. In this system, there is no ownership of the state on the means of production, nor does the state interfere in the operation of economic activities. In the capitalist economic system, the consumer is called the king.

75. "Lack of money is not as terrible for the public as lack of work." Whose statement is this?
(a) Sardar Patel (b) Jawaharlal Nehru
(c) Mahatma Gandhi (d) Vinoba Bhave
UP PGT-2005

Ans. (c) : This statement was given by Mahatma Gandhi in wealth without work from seven deadly sins, which means that without doing anything, he wants to make wealth, for this he manipulates thing and people for this own meaning. Today making wealth without hard work has become a business. To take advantage of the various schemes of the government, the enjoys he benefit of the citizenship of the country without paying tax, paying a fair share of his financial burden and without taking the risk of any kind of responsibility.

76. Which economist used terms like 'micro and macro economics for the first time?

(a) Milton Friedman (b) Ragnar Frisch
(c) J.M. Keynes (d) A.C. Pigou

UP PGT-2005

Ans. (b) : Ragnar Frisch used the words micro and macro for the first time. Microeconomics and macroeconomics are two approaches to economics problems and analysis. The former is concerned with the individual economics units while the latter is concerned with the study of the economy as a whole.

77. Match correct–

Author		**Thought**	
A	David Ricardo	**1**	Supply generates its own demand
B	Alfred Marshal l	**2**	Interest is the rewards for giving up liquidity for a certain amount of time.
C	J.M. Keynes	**3**	Rent is that part of the produce of the land which is given to the barons for the original and indestructible qualities of the land.
D	J.B. Say	**4**	In this way it (economics) is the subject of study of money on he one hand and more importantly he subject of study of human beings on the other hands.

(a) A : 1, B : 2, C : 3
(b) A : 3, B : 4, D : 1, C : 2
(c) C : 1, A : 2, B : 3
(d) D : 1, A : 2, C : 3

UPPCS Economics-1997

Ans. (b):

Author		**Thought**	
A	David Ricardo	**3**	Rent is that part of the produce of the land which is given to the barons for the original and indestructible qualities of the land.
B	Alfred Marshall	**4**	In this way it (economics) is the subject of study of money on he one hand and more importantly he subject of study of human beings on the other hands.
C	J.M. Keynes	**2**	Interest is the rewards for giving up liquidity for a certain amount of time.
D	J.B. Say	**1**	Supply generates its own demand

78. Use of the term 'Ceteris paribus' in economic theory informs

(a) Demand and supply are equal
(b) Other things being equal
(c) The condition of full employment is found
(d) Cost and revenue are constant

UPPCS Economics-2010

Ans. (b): The meaning of 'Ceteris Paribus' in economic theory is– other things remains the same/equal.
Its main prerequisites areas follows:

- Consumption of the commodity should continue in continuous order.
- The units of consumption should be of suitable size .
- The units of the commodity must be identical
- The prices of substitute goods should be stable.
- The income and consumption propensity of the consumer should be constant.
- There is no change in the mental state of the consumer.

79. The effectiveness by which the available profitable market opportunities are fully exploited is called

(a) X-Efficiency
(b) Y-Efficiency
(c) The effect of the low
(d) Relative price effect

UPPCS Economics-2006

Ans. (b) H. Leibenstein has proposed X and Y types of efficiency. Y efficiency refers to the efficiency with which existing profitable market opportunities can be effectively exploited. Or get the most out of market opportunities.

80. Which one of the following is not an ethical economist?

(a) Paul Samuelson (b) A. Marshall
(c) A.C. Pigou (d) J.S. Mill

UPPCS Economics-2006

Ans. (d): J.S.Mill is not an ethical Economist. J.S. Mill is a Moral Economic theory. The ethical theory of John Stuart Mills is most extensively articulated in his classical text 'Utilitariauism'. Whose, goal is to justify utilitarianian principle as the fondation of morals

81. Which of the following curves are generally U shaped?

(1) Average cost curve
(2) Average variable cost curve
(3) Marginal cost curve
(4) Average fixed cost curve

Code

(a) 1 and 3 (b) 1, 3 and 4
(c) 1, 2 and 3 (d) All of the above

UPPCS Economics-1998

Ans. (c) : The following are a U-shaped curve–
(1) Average cost curve
(2) Average variable cost curve
(3) Marginal cost curve

The shape of these curves signifies that at easly units of production, these cost are high, later reduce when production increases and again rise with more production of subseqent units.

82. Microeconomics studies how an independent entrepreneur determines the economy:-
(a) Price of goods
(b) Prices of services
(c) Value of economic resources
(d) All of the above

UPPCS Economics-1998

Ans. (d): Microeconomic studies show that a free-spirited/individual entrepreneur economy determines–
(1) Price of goods
(2) Price of services
(3) Value of economic resources.

83. Which of the following sectors has the highest labor product ratio in India in recent years?
(a) Agriculture (b) Industry
(c) Construction (d) Services

UPPCS Economics-1998

Ans. (a). In the year 2021, 43.96 percent of the country's total labor force is engaged in the agriculture sector, 25.34 percent in the industry sector and 30.7 percent in the service sector.

84. Which sector contributes he most to savings in India?
(a) Public sector
(b) Private organized sector
(c) Domestic sector
(d) Administrative area

UPPCS Economics-1997

Ans. (c) According to RBI, there are three main sources of savings in the Indian economy- 1. Domestic Sector 2. Private Sector and 3. Public Sector. The household sector has the largest share in the total savings of the country. The household savings sector includes households, non-profit institutions such as colleges, hospitals and non-corporate business units, etc. Household savings sector is divided into three parts- 1. Physical assets (house, machinery, furniture, real estate) 2. Financial assets (currency, bank deposits, debentures, shares, mutual funds, national savings certificates, insurance funds, pension funds) 3. Household unaccounted savings (gold, silver, and similar durables) are equal.

85. Economics is a method rather than a theory; who expressed this view
(a) Haam (b) Hicks
(c) Keynes (d) Mill

Ans. (c) Keynes expressed the view that "Economics is a method rather than a theory"

86. Which sector of the Indian economy has grown relatively more in recent years?
(a) In tertiary sector (b) In primary sector
(c) In secondary sector (d) In public sector

UPPCS Economics-1996

Ans. (a) In the last few years, the rate of growth of service sector in the Indian economy has been higher than that of agriculture and industry sector. According to the Economic Survey 2022-23, the growth rate of agriculture sector and industry sector was 5.5 percent and -1.4 percent respectively in the year 2019-20 as compared to 6.3 percent growth rate of service sector while the growth rate of the economy as a whole (at constant price)) was 3.7 percent. Similarly, in the year 2021-22, the growth rate of service sector was 8.4 percent, the growth rate of agriculture sector was 3.0 and the growth rate of industry sector was 10.4 percent and the growth rate of the country's economy as a whole was 7.0 percent.

87. Joint Sector in the Indian economy means–
(a) Government's share of more than 60
(b) An enterprise jointly owned by the private sector and public sector
(c) Any commodity produced by both the public government sector
(d) Any commodity produced by both the public and sector

UPPCS Economics-1996

Ans. (b) In July 1967, Suvimal Dutt Committee was formed in relation to licensing, which is known as "Industrial Licensing Policy and Inquiry Committee". In its report in 1969, the committee propounded the concept of joint sector, which was accepted in principle by the government. Thus joint sector is that type of organization in which public and private sector co-exist as cooperative partners. Although the beginning of this type of resolution had started with the industrial policy of 1956. The total equity owned by the government and financial institutions in the joint sector cannot exceed 50% and the private investor cannot hold more than 25% of the paid-up capital without the permission of the Government of India. Some prominent examples of Joint Sector in India are Shell, Maruti Udyog Limited etc.

88. The author of 'An inquiry into the nature and causes of the wealth of nations' was
(a) Ricardo (b) Mill
(c) Robertson (d) Adam smith

UPPCS Economics-1991

Ans. (d): Adam smith is the author of 'An inquiry into the nature and causes of the wealth of nations.'

89. Basic economic activity is
(a) Business activity (b) Traffic
(c) Consumption (d) Agriculture

UPPCS Economics-1991

Ans. (c) In economics the word "consumption" is taken in a much wider and wider sense. The meaning of consumption in economics is taken from that action by which the consumer gets direct satisfaction of a particular need, which is the beginning and end of all economic activities. According to Professor Meyers, "The direct and final use of goods or services to satisfy the needs of independent individuals is called consumption." The main essential elements of consumption are as follows- First, the utility of the commodity must be destroyed in consumption. Second, along with the loss of utility, it is necessary to satisfy human needs. Third, goods and services must have an end use. Fourthly, the utility of objects is destroyed in consumption, the object is not destroyed.

90. Which is not a means of production?

(a) Business (b) Currency
(c) Labour (d) Raw material

UPPCS Economics-1991

Ans. (b): The means of production are as follows.
1. Enterprise/Business
2. Labour
3. Raw material
4. Land
Where as money is not a means of production but a medium.

91. Which feature is not related to Indian economy–

(a) Unbalanced business pattern/structure
(b) Efficient and honest administration
(c) Massive pressure of population
(d) Dependence on foreign aid

UPPCS Economics-1991

Ans. –(b): The following characteristics are related to the Indian Economy-
- Unbalanced business structure
- Massive pressure of population
- Dependency of foreign aid
- Low per capita income
- Problem of unemployment

Where as efficient and honest administration is not related to the Indian economy.

92. Who propounded the idea "Economics remains neutral between the ends"?

(a) Kaldor (b) Pigou
(c) Robbins (d) Samuelson

UP PGT-2005

Ans. (c): Robbins propounded that an economist or economics is neutral with respect to ends. The avenues for achieving only the given ends can be economical and uneconomical. According to him the ends is predetermined, the duty of the economist is to uses the rare resources properly.

93. Economics primarily studies–

(a) Person (b) Society
(c) Nation (d) Money

UP TGT-2004

Ans. (d): Ancient economists defined economics as the science of wealth. According to Adam Smith, "Economics deals with the discovery of the nature and causes of the wealth of nations". According to Say, "Economics is that science which deals with money or wealth." J.S. According to Mill, "Economics is the science of money in relation to man".

94. Explaining economics who said that it is a study of mankind in the ordinary business of life?

(a) Adam Smith (b) Karl Marx
(c) J.S. Mill (d) Marshall

UP TGT-2004 (Cancelled)

Ans. (d): Marshall defined economics and said that economics studies man on the one hand and on the other hand it is even more important a part of the study of man.

95 Economics is the science of choice. this statement is.

(a) Marshall (b) Robbins
(c) Adam Smith (d) J.K. Mehta

UP TGT-2010

Ans. (b): According to Robbins, "Economics is the science of choice" The famous British economist Lord Robbins defined economics in his book 'Nature and significance of economics science' which has been considered right and correct for a long time. Has defined economics as "Economics is the science which studies human behaviour as a relationship between ends and scarce" means which have alternative uses".

96. For which definition of economics has been criticized as 'disgusting science'?–

(a) Economics is the study of welfare
(b) Economics is the study of limitation
(c) Economics is the study of growth
(d) Economics is the study of wealth

UP TGT-2013

Ans. (d): Due to this approach of money, the definition of economics, reflected as a very one sided, unilateral and classical economists have forgotten that money is means, not an end. The end is the man and his satisfaction. In this way, while criticizing Adam Smith's definition of economics, Carlyle called it "abominable science", while Ruskin criticized it as "the science of livelihood" and Maris as the "science of Kuber".

97. Trade is the engine of economic growth is propounded by

(a) J.S. Mill
(b) Adam smith
(c) Louis
(d) Alfred Marshall/Adam smith **UP TGT-2013**

Ans. (d): The theory of business is the engine of economic growth has been propounded by Adam Smith. In this he has tried to show that the countries which do more business have higher growth rate. The direct relation of business is connected with the industry and people get employment from the industry.

98. "Theory of wantlessness" was propounded by–

(a) J.K. Mehta (b) Sameulson
(c) J.R. Hicks (d) A.C. Pigou

UP TGT-2011

Ans. (a): The Principle of wantlessness was propounded by prof. J.K. Mehta in 1973. According to Prof. Mehta Economics is a science which studies human behavior as a means to reach a 'wishless state' or a 'state of wantlessness'

99. Who is called the father of economics?

(a) Marshall (b) Robbins
(c) Adam Smith (d) None of these

UP TGT-2011

Ans. (c) : Adam Smith is called the father of economics. He called economics the 'Science of Money'. Adam smith named his famous book, 'An inquiry into the nature and causes of wealth of nations;' and said that the subject matter of economics is to investigate the nature and causes of wealth of nations.

100. In a cyclical model, the real variable is–

(a) Only resources that are used.
(b) Money that flows from the instrument market to the domestic sector
(c) Only the goods and services that are produced
(d) Both the goods and services produced and the resources that are used

Uttarakhand GIC- 2018, Set-A

Ans. (d) : A cyclical model consists of three sectors: households, firms and industry sector and the government. The domestic sector provides resources to the firm and the firm provide goods and services produced.

101. At the time of independence, India had chosen–

(a) Capitalist Economy
(b) Communist Economy
(c) Mixed Economy
(d) Liberal Economy
(e) Feudal Economy

Chattishgarh Assistant Prof. 2014

Ans. (c) : At the time of independence, India had chosen a mixed economy. In this, both the market system and the government/public sector coexist. under a mixed economy, the market produces those goods and services in which it is efficient and capable while the government/public sector produces those goods and services which the market fails to produce like infrastructure (roads, dams, railways etc.)

(i) (Perception of Equilibrium)

102. Which of the following is/are correct about Walrasian demand function?

A. The Walrasian demand function X (P, W) is homogenous of degree zero if X (αP, αW) = X (P, W) for any P, W and $\alpha > 0$.

B. The Walrasian demand function X (P, W) is homogenous of degree on if X (αP, αW) = αX (P, W) for any P, W and $\alpha > 0$

C. The Walrasian demand function X (P, W) satisfies Walrus'' law if for every P >> 0 and W > 0, we have P.X = W for all X $\in$ X (P, W).

D. Walras'' law says consumer fully expends his wealth.

E. If price and wealth both change in same proportion, then individual consumption choice does not change.

Choose the correct answer from the option given below:

(a) A, B, C, D only (b) B, C, D, E only
(c) A, B, C, E only (d) A, C, D, E only

UGC NTA NET/JRF-20.06.2023, Shift-I

Ans. (d) : Walrasian demand function has the following properties.

- If the utility function is continuous and the preferences satisfy LNS on the consumption set x = $R_{1,}$ then the Woleaian demand x satisfies (P.W.)
- It x (αP, αW) for some P.W and $\alpha > 0$ then the walraian demand function x (P.W.) is homogeneous of degree zero.
- If for every P >> 0 and w > 0 we has P.x = w for all x $\in$ x (P.W.)
- Walrus' law states that the consumer spends his wealth" completely.
- It both price and wealth change in the same proportion then there is no change in individual consumption choice.

103. The total revenue R and total cost C function of a firm are given by R = 30Q – Q^2, C = 20 + 4Q. Where Q is output find the equilibrium output of the firm

(a) 4 (b) 13
(c) 15 (d) 10

UGC NTA NET/JRF-08.10.2022

Ans. (b) : Given that : -

$R = 30Q - Q^2$
$C = 20Q + 4Q^2$

$\because \quad \pi = R - C$

$\pi = 30Q - Q^2 - (20 + 4Q)$

$\pi = 30Q - Q^2 - 20 + 4Q$

$$\pi \max \rightarrow \frac{d\pi}{dQ} = 0$$

$30 - 2Q - 4 = 0$

$2Q = 26$

$$Q = \frac{26}{2}$$

$Q = 13$

104. Which of the following conditions are satisfied for a rationale firm to achieve its equilibrium by maximizing Q = f(L, K) subject to C = wL + rK.

(A) $\dfrac{\frac{\partial Q}{\partial L}}{\frac{\partial Q}{\partial K}} = \dfrac{w}{r}$

(B) $\dfrac{\partial^2 Q}{\partial L^2} > 0, \dfrac{\partial^2 Q}{\partial K^2} > 0$

(C) $\dfrac{\partial^2 Q}{\partial L^2} < 0$ And $\dfrac{\partial^2 Q}{\partial K^2} > 0$

(D) $\dfrac{\partial^2 Q}{\partial L^2} < 0$ And $\dfrac{\partial^2 Q}{\partial K^2} < 0$

(E) $\left(\dfrac{\partial^2 Q}{\partial L^2}\right)\left(\dfrac{\partial^2 Q}{\partial K^2}\right) > \left(\dfrac{\partial^2 Q}{\partial L \partial K}\right)^2$

Choose the correct answer from the options given below:

(a) A, B and E only (b) A, D and E only
(c) A and E only (d) A and B only

UGC NTA NET/JRF-08.10.2022

Ans. (b) : When the loss of maximization of Q = f (L,K) is C = wL+rK then the equilibrium will be achieved by the firm.

The first condition for maximization of a firm is that its partial derivatives should be equal to zero. the partial differential of the above function with respect to L, K and λ is –

$$\frac{\partial Q}{\partial L} = \frac{\partial Q}{\partial L} = \lambda = (-W) = 0 ....(i)$$

$$\frac{\partial Q}{\partial k} = \frac{\partial Q}{\partial k} = \lambda(-r) = 0 ....(ii)$$

$$\frac{\partial Q}{\partial \lambda} = C - wL - rk = 0 ....(iii)$$

Solving the first two equation for λ we get -

$$\frac{\partial Q}{\partial L} = \lambda w \text{ or } \lambda = \frac{\partial Q/\partial L}{w} = \frac{MP_L}{w}$$

$$\frac{\partial Q}{\partial k} = \lambda \text{ and } \lambda = \frac{\partial Q/\partial k}{r} = \frac{mPk}{r}$$

Two expressions should be similar, such as

$$\frac{\partial Q/\partial L}{w} = \frac{\partial Q/\partial k}{r} \text{ or } \boxed{\frac{MP_L}{MP_K} = \frac{\partial Q/\partial L}{\partial Q/\partial k} = \frac{w}{r}}$$

The firm is in equilibrium when it equals the ratio of marginal productivity of factors to their prices.

The second order conditions for the equilibrium of the firm require that the slope of the marginal product curves of the two factors be negative.

Slope of MP_L curve = $\dfrac{\partial^2 Q}{\partial L^2}$

Slope of MP_k curve = $\dfrac{\partial^2 Q}{\partial K^2}$

The second order condition is -

$$\boxed{\frac{\partial^2 Q}{\partial L^2} < 0 \text{ and } \frac{\partial^2 Q}{\partial K^2} < 0} \text{ and}$$

$$\boxed{\left(\frac{\partial^2 Q}{\partial L^2}\right)\left(\frac{\partial^2 Q}{\partial k^2}\right) > \left(\frac{\partial^2 Q}{\partial L \partial k}\right)^2}$$

These conditions are sufficient to establish convexity of isoquants. Hence, conditions for options (A), (D) and (E) are fulfilled.

105. Which of the following conditions prevail in the long run equilibrium of industry for achieving optional resource allocation?

A. The output is produced at the minimum feasible cost

B Consumers pays the minimum possible price which just covers the marginal cost of the producer

C. Plants are used at full capacity in long run

D. Firms earn supernormal profits

E. Perfect competitive firms and price mechanism operates

Choose the correct answer from the options given below:

(a) A, B, C and E only (b) C, D and E only
(c) B, D and E only (d) A, B and E only

UGC NTA NET/JRF-08.10.2022

Ans. (a) : The industry will be in a state of equilibrium when the demand and supply of the industry are equal to each other and the tendency of contraction or expansion in the total production of the industry completely ends. The following conditions prevail to ultimately achieve optimum resource coverage in industry equilibrium.

- The product is produced at the lowest feasible cost.
- The consumer pays the lowest possible price which includes the marginal cost quantity of the product.
- The establishment earns much higher profit than usual.
- Ultimately the full capacity of the plants is utilized.
- Optimum resorce allocation requirs the existence of perfectionely competitive firms and effective price mechanism.

106. Which of the following are assumptions of ordinal utility analysis?

A. **Consumers are consistent in their preferences**
B. **Consumer can measure the total utility received from any given basket of goods**
C. **Consumer preferences follow transitivity**
D. **Consumers are non-satiated with respect to goods they confront**
E. **Consumers are irrational**

Choose the correct answer from the options given below:

(a) B, C, D only (b) C, D, E only
(c) A, C, D only (d) A, B, C only

UGC NTA NET/JRF-08.10.2022

Ans. (c) : Following are the concepts in the context of comparative utility analysis:
- Consumers remain consistent in their preference.
- Consumers follow preference transitivity from group to group.
- Consumers are satisfied with the goods available.
- Consumers are rational.
- Supporters of ordinal utility are pareto, Allen, hicks, Samuelsson etc.
- Utility is a psychological and subjective consideration.

107. Keynes, Fundamental Psychological law relates to

(a) Demand and Supply
(b) Income and Consumption
(c) Savings and Investment
(d) Input and Output
(e) Answer not known

TNPSC CSSS-11.01.2022

Ans. (b) : Keynes fundamental Psychological law is often associated with his theory of consumption. It states that as income increase, consumption also increases but at a diminishing rate. This means that as people earn more, they tend to save a portion of the additional income rather than spending it all, reflecting a non-linear relationship between income and consumption.

108. General Economic Equilibrium is NOT related to which one of the following problems?

(a) Existence problem
(b) Moral Hazard problem
(c) Stability problem
(d) Uniqueness problem

NTA UGC NET/JRF Dec 2020/June 2021

Ans. (b) : An economy can be in general equilibrium only when all consumers, all firms, all industries and all goods and services are in equilibrium simultaneously and are linked through commodity and factor prices. According to Stigler "General equilibrium is found when all prices are in equilibrium, each consumer spends his given income in such a way that he gets maximum satisfaction." Price and output equilibrium among all firms in each industry and the demand and supply of the means of production are equal at the equilibrium price." General economic equilibrium is related to the following problems:
Existence problem
Stability problem
Singleness problem/ uniqueness problem

109. Equilibrium is a condition, where

(a) A consumer gets maximum satisfaction
(b) A producer gets maximum profit
(c) A firm gets maximum output
(d) All of the above

UP PGT 2021

Ans. (d) : Equilibrium is a condition, where the following events occurs–
A consumer gets maximum satisfaction.
A producer gets maximum profit
A firm gets maximum output

110. Which of them is not a type of equilibrium?

(a) Probable (b) Stable
(c) Unstable (d) Neutral

UP PGT 2021

Ans. (a) : There are three types of equilibrium, stable, unstable, neutral. A unit or economy will be in a stable state at that time, when due to any reason the state of the system is disturbed, such forces automatically become active, due to which the initial state of the system is achieved. Unstable equilibrium will happen when due to any reason, when the equilibrium is disturbed, such forces become active, which continuously move away from the original state of the equilibrium, in this way, once unbalanced, the original state of the equilibrium cannot be regained and neutral equilibrium. The condition will be at that time, when once the condition of the equilibrium is broken, the condition of the old equilibrium is not achieved, but the new equilibrium reaches the same level and stabilizes.

111. Concept of 'equilibrium' in Economics has its origin in

(a) Politics (b) Statistics
(c) Mechanics (d) None of the above

TRB Tripura Teacher-2019

Ans. (c) : The concept of "equilibrium" in economics has its origin in option (c) mechanics. The tern "equilibrium" was borrowed from physics, specifically Newtonian mechanics, and applied to economics to describe a state in which economics forces balance each other and there is no tendency for change.

112. If demand function is 150 – 50P and supply function is 25 + 25P, then what would be the equilibrium price?

(a) 3.5 (b) 1.7
(c) 4.7 (d) 2.5

MH SET- 26.09.2021

Ans. (b) : The demand function is given as:

$Q^d = 150 - 50P$

The supply function is given as:

$Q^s = 25 + 25P$

At equilibrium, the quantity demand (Q^d) must be equal to the quantity supplied (Q^s).

Therefore, we can equate the two equations.

$$150 - 50P = 25 + 25P$$
$$150 - 25 = 25P + 50P$$
$$125 = 75P$$
$$P = \frac{125}{75} = 1.66$$

Therefore, the equilibrium price is equivalent to the optimum nearest the nearest value 1.70.

113. The general equilibrium model was developed by :

(a) Kaldor-Hicks (b) Alfred Marshall
(c) Adam Smith (d) Leon Walrus'

MH SET- 26.09.2021

Ans. (d) : The general equilibrium model was developed by Leon walrus', a French economist in the late 19th century. Walrus' formulated the general equilibrium theory in his book "Elements of pure economics," published in 1874. Walrus' general equilibrium model has since been further developed and refined by subsequent economists.

114. Which one of the following is not a static property of a general equilibrium state?

(a) Efficient allocation of resources among firms
(b) Equilibrium of consumption
(c) Efficient combination of products
(d) Efficient distribution of profits

MH SET- 26.09.2021

Ans. (d): Efficient distribution of profits because it does not directly relate to the defining properties of a general equilibrium state in economic theory.

115. Which of the following is not one of the problems discussed in connection to general equilibrium analysis?

(a) Existence of equilibrium
(b) Achievement of equilibrium
(c) Uniqueness of equilibrium
(d) Stability of equilibrium

APPSC Jr. Lect.-20.02.2018

Ans. (b) : Achievement of equilibrium is not typically considered one of the problems discussed in connection to general equilibrium analysis. General equilibrium analysis primarily focuses on issues related to the existence, uniqueness, and stability of equilibrium. The concept of equilibrium itself assumes that, once achieved, it represents a state of balance in the economic system, and the primary focus of analysis is on the other aspects mentioned in the options (a), (c), and (d).

116. Which of the following is a correct statement in connection to households as one of the sectors in the circular flow of income?

(a) Households supply the factors of production
(b) One household implies one family
(c) Households undertake investment activities in the economy
(d) Households represent the deficit sector of the economy

APPSC Jr. Lect.-20.02.2018

Ans. (a) : Households supply the factors of production is the correct statement in connection to households as one of the sectors in the circular flow of income. Households are the source of factors of production such as labor, capital, land, and entrepreneurship. They provide these factors to businesses and receive income in return, which is a fundamental aspect of the circular flow of income in an economy.

117. Which of the following is not considered as one of the four sectors of the economy in the context of circular flow of money?

(a) Government (b) Firms
(c) Foreign sector (d) Financial sector

APPSC Jr. Lect.-20.02.2018

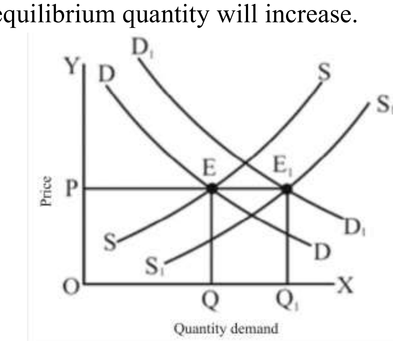
Ans. (d) : The financial sector, which includes banks, financial institutions, and markets, plays a crucial role in facilitating the flow of money and financial services within the economy but is not usually considered one of the primary sectors in the circular flow model. So, the correct answer is: (d) financial sector.

118. When both demand and supply increases in the same proportion, then equilibrium price will

(a) Rise
(b) Fall
(c) Remain the same
(d) Will rise initially and then fall

KVS PGT-2017

Ans. (c) : When demand and supply increase in equal proportions, the equilibrium price will remain constant, but the equilibrium quantity will increase.

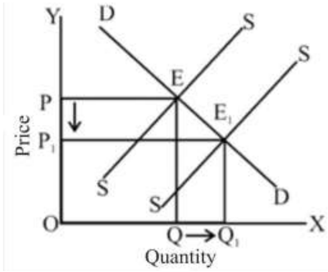


119. When supply increases and there is no sift in demand, then equilibrium price —— and equilibrium quantity ——.

(a) Falls, rises (b) Rises, falls
(c) Rises, rises (d) Falls, falls

KVS PGT-2017

Ans. (a) : When supply increase and demand remains unchanged, the equilibrium price will decrease and the equilibrium quantity will increase.



120. Which one of the following is not an assumption of the theory of comparative advantage?
(a) Labour Theory of Value
(b) Free trade
(c) Law of increasing returns in production
(d) Zero transport cost **KVS PGT-2017**

Ans. (c) : David Ricardo in his famous book 'The principle of political economy and Taxation' gave the theory of comparative advantage whose beliefs are as follows:-
(i) Based on labor value theory.
(ii) Free trade
(iii) All units of labor are equal and labour is the only factor of production.
(v) There is perfect competition in the goods market and the factor market.
(vi) The law of 'equal returns' applies to production and not the law of increasing returns.

121. The equilibrium is unstable and undeterminate under :
(a) Edgeworth's duopoly model
(b) Chamberlin's oligopoly model
(c) Bertrand's model
(d) Pareto model **UKPSC Lecturer (Mains) 2020**

Ans. (a) : As per Edgeworth's model of duoply equilibrium is unstables indeterminate since price and outpt are never determined. According to Edgeworth, every duopolistic thinks that even it whatever price he sets, his opponent will not change his price. Taking this belief and the example of the mineral wells of Cournot, Edgeworth suggested that no definite balance could be established in the duopolistic model.

122. Which statement is true regarding economic equilibrium?
(a) Absence of movement
(b) Absence of the rate of change in movement
(c) Both of (a) and (b)
(d) Zero conjectural variation

UKPSC Lecturer (Mains) 2020

Ans. (b) : Equity in economics does not means that there should be no movement in the state of equilibrium, but there should be no change in the rate of motion According to Prof. Mehta, position or equilibrium in economics indicates the absence of change of motion, whereas in physics it indicates the absence of motion itself

123. If S, D and P are the supply demand and price of the commodity then the nature of equilibrium in the model given below will be.
$S_t = f_1 (P_t)$
$D_t = f_2 (P_t)$
$S_t = D_t$
(a) Partial equilibrium
(b) Static equilibrium
(c) Partial and static equilibrium
(d) Dynamic equilibrium

UPPSC GDC– 2019
UPPSC-2002, 2008

Ans. (c) : The nature of equilibrium in the above model will be partial and static equilibrium.

124. Equilibrium in stable equilibrium
(a) Returns to original equilibrium
(b) Move away from the original equilibrium
(c) May or may not return to original equilibrium
(d) All are false

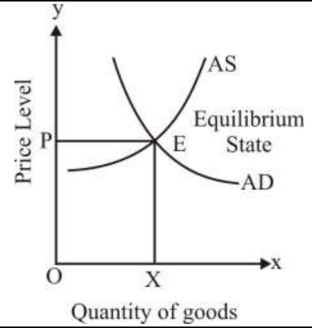
MP Assistant Professor– 2017

Ans. (a) : In a state of stable equilibrium, the equilibrium returns to the original equilibrium. A unit or economy will be in stable equilibrium at that time whereas when the balance is disturbed or imbalanced due to any reason, such power automatically become active so that the initial state of equilibrium is attained or there is a tendency to attain it.

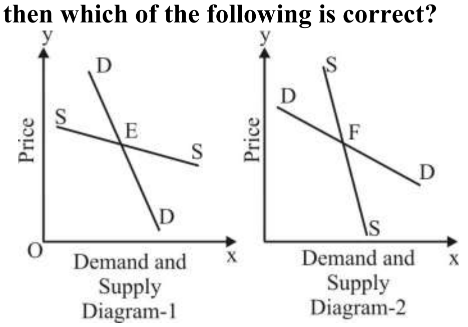
125. General equilibrium analysis determines–
(a) Prices and quantities in all markets simultaneously
(b) View prices and quantities in all markets simultaneously and clearly takes the feedback into account
(c) Feedback effects
(d) Price in all markets

UGC-NTA June-2019

Ans. (b) : The general equilibrium analysis was formulated by Prof. Leon walrus which has the following characteristics:
1. Under general equilibrium analysis, equilibrium is explained in the whole economy simultaneously.
2. It is based on the concept of perfect competition.
3. It is based on 2×2×2 model i.e. on two goods tow labour and two capital.
4. Visualizer Price and Volume feedback across all markets simultaneously and clearly.
5. In the state of equiliburium the number of unknown variable and the number of known equations remain the same.



126. In the given diagrams 1 and 2, the demand curve DD and the supply curve SS are shown. Points E and F represent equilibrium points, then which of the following is correct?



(a) Both E and F are points of stable equilibrium.
(b) Both E and F are points of temporary equilibrium.
(c) Equilibrium is permanent at point E and temporary at point F
(d) Equilibrium at point E is temporary and at point F is permanent

UGC NET- III Paper Nov., 2017

Ans. (d) : In the given diagram 1 and 2 the demand curve DD and supply curve SS are shown. If points E and F are shown as equilibrium points, the equilibrium at point E is temporary and at point F is permanent

127. Which of the following is not a problem related to general equilibrium analysis?

(a) Existence problem (b) Specific problem
(c) Stability problem (d) All of the above

UGC NET- III Paper Nov., 2017

Ans. (b) : Under general equilibrium analysis, all the prices are considered to be variable and the equilibrium is analysed to determine the equilibrium is all markets simultaneously. Infact, when we look at the important economics system, there is a large degree of interrelationship and interdependence between the different markets of goods and resources and there are a large number of decision making agents such as consumers, producers, workers and owner of resources. All these workers are selfish and behave to maximize their goals, consumers maximize their utility and producers maximize their profits when the prices and quantity of all goods and factors are assumed to be variable, and when all the interrelationships and interdependencies are taken into account then this can be done only through a detailed analysis. Following are the problems related to general equilibrium analysis–
(1) Existence problem
(2) Uniqueness problem
(3) stability problem.

128. Which of the following statements are correct about the arrow–debreu model of general equilibrium

(a) Goods are identified where they are to be given
(b) Goods are identified when they are to be delivered
(c) Both (a) and (b)
(d) None of the above

UGC NET- III Paper July, 2016

Ans. (a) The Arrow - debreu model of general equilibrium states that goods are indentified where they are given. a set of prices such that aggregate supplies will equal aggregate demands for every commodity in the economy.

129. What is used in Walras general equilibrium?

(a) Equation system
(b) Simultaneous linear equation
(c) Simultaneous equation system
(d) Linear equation system

UGC NET- III Paper June, 2015
UP Assistant professor-2018
UPPGT-2003

Ans : (c) Leon Walras (1834-1910) was the first economist who incorporated neoclassical theory into it, to establish formal general equilibrium. Walras tried to demonstrate how the economy with many commodities fits together and reaches a state of equilibrium. For this purpose, Walras developed a system of Simultaneous equations to describe a model of economic equilibrium.

130. General equilibrium refers to the situation in which all economic units maximize their objective functions and at the same time all prices remains in equilibrium and equilibrium is reached in all markets. This statements is:

(a) Correct (b) Not correct
(c) Completely correct (d) None of the above

UGC NET- III Paper Dec., 2012

Ans : (a) General equilibrium refers to the situation in which all economic units maximize their objective function and at the same time all prices remains in equilibrium and equilibrium is reached in all markets. This statement is correct.

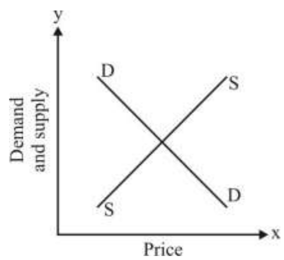
131. According to the Cobweb model, under what condition will the state of stable equilibrium be attained?

(a) Excess demand and elasticity of demand = Elasticity of supply

(b) Excess demand and elasticity of demand > Elasticity of supply
(c) Excess supply and elasticity of demand = Elasticity of supply
(d) Excess supply and elasticity of demand > elasticity of supply **UP PGT-2009**

Ans. (b) : The classical Cobweb model requires elasticity of demand to be greater than that of supply. the cobweb model is also known as dyanamic stability with lagged adjustment. It is the simplest model of economic dyanamics. When equlibrium reached overtime between demand, supply and price is investigated. wherever demand or supply changes equilibrium.

132. Market equilibrium is shown in the diagram below–



(a) A Marshall (b) J. R. Hicks
(c) Edge worth (d) L. Walras

UPPCS Economics-2008

Ans. (d): Walras model of general equilibrium is stable in nature. In this all prices are found in equilibrium state. Every consumer uses his income in such a way that he gets maximum satisfaction. In every industry, all production units are in equilibrium at all prices and quantities produced, and the demand and supply of productive factors are found to be equal to each other at equilibrium prices. The principle of general equilibrium is the theory of the interrelationship of all parts of the economy.

133. The first scientific analysis of general equilibrium theory was submitted–

(a) K.E. Boulding (b) Vilfredo pareto
(c) Leon walras (d) J.L. Hanson

MP Assistant Professor– 2017

Ans. (c) : The first scientific analysis of general equilibrium theory was Leon walras.

134. Which of the following economist is known as the founder of partial equilibrium analysis?

(a) J.S. Mill (b) Alfred Marshall
(c) A.C. Pigou (d) J.M. Keynes

UPPCS Economics-2005

Ans. (b): $D_x = F(P_x)$ Ceteris Paribus
Alfred Marshall is the founder of partial equilibrium analysis. Partial equilibrium technique is used to analyse the market of any one commodity. That is, the relationship of partial equilibrium is related to an individual or a specific.
Partial equilibrium method is used to study the changes in demand as a result of changes in the price of a commodity. For e.g. Marshall aggregate demand curve, in the form of equation
$D_x = F(P_x)$ ceteris paribus.

135. The suffixes of general equilibrium and partial equilibrium are related to–

(a) Ricardo and Walras (b) Walras and Marshall
(c) Arrow and Debreu (d) Key and Hanson

UPPCS Economics-2002, 2000

Ans. (b): An economy can be in general equilibrium only when all consumers, all firms, all industries, and all factor services are in equilibrium simultaneously and are interconnected through commodity and factor prices. While according to Stigler "Partial equilibrium which is based only on limited data a perfect example is the analysis of the price of one commodity while the prices of all other goods are held constant" General equilibrium is related to Walras while partial equilibrium is related to Marshall. According to Walras, when the market moves out of equilibrium, the market can be brought back to equilibrium by adjusting prices, while according to Marshall, quantity is adjusted to bring the market back to equilibrium.

136. Keynes approach in presenting income theory:-

(a) Was static
(b) Was comparative static
(c) Dynamic in the sense of Hicks
(d) Dynamic in the sense of Harrod. Dynamic in the sense of Harrod.

UPPCS Economics-1998

Ans. (b): Keynes approach in presenting the income theory was comparatively static. According to the keynes income approach. the equilibrium levels of national income and employment are determined by the interaction of aggregate demand curve (AD) and aggregate supply curve (AS)

137. Balanced development means–

(a) Growth takes place equally in different sectors of the economy
(b) Have the same growth rate in different sectors of the economy.
(c) There is an equal increase in the resources allocated to different sectors of the economy
(d) Development of different areas at the same rate **UPPCS Economics-1996**

Ans. (a): Balanced growth implies equitable growth in different sectors of the economy. The following are the economists who support balanced development-
Adam Smith, Nurkse, Freed rich list, Rodaun, Lewis, Switowski, Allen young and Lewinstein, etc.

138. According to Pigou an example of stable equilibrium is–

(a) Laid egg (b) Single end egg
(c) Heavy ship (d) All of the above

UP PGT-2000

Ans. (c): According to Prof. Pigou, an economic unit is in a state of stable condition, whereas if a disturbance occurs, immediately such forces are activated which restore the Initial state. A heavy bottomed ship lying on the surface of the sea remains in a stable position. An egg lying on its side is in a neutral state, and an egg standing on its end will be in an unstable state.

139. In economics, the concept of equity firm has been propounded

(a) Marshall (b) Pigou
(c) Hicks (d) Robinson

UPPCS Economics-1992

Ans. (b): Prof. Pigou criticized Marshall's "representative firm" and gave the concept of "equilibrium firm". According to Pigou, if an industry is in a state of equity, it may happen that some firms in the industry are expanding and some firms are contracting. The combined effect of this process of expansion and contraction should be equal and the output of the industry should remain unchanged. In this way, in the situation of the organization of the industry, a firm can be such that it is also in the situation of the organization, in which there is neither expansion nor contraction. Pigou called this type of firm an equity firm. Criticizing Pigou, Prof. J.K. Mehta introduced the concept of optimum or optimum firm.

140. Equilibrium means

(a) Is form a state of change lessness
(b) The situation when the consumer gets maximum unity
(c) The situation when production takes place at minimum cost
(d) All of the above **UP PGT-2002**

Ans. (d): In economics, equilibrium position means such a motion in which there is no change in the rate. Any individual, firm, group or organization is said to be in a equilibrium position when under the given circumstances, it attains such a position from which the attainment of a better position is not possible by any change or reorganization.

141. Compare the Marshall and Walras and marks the appropriate statement

(a) What Marshall considers to be a stable balance, Walras calls it an unstable equilibrium
(b) Marshall and Walras analysed on different basis
(c) Marshall's analysis is scientific and Walras is unscientific
(d) Walras analysis is scientific and Marshall is unscientific **UP PGT-2003**

Ans. (a): According to Marshall, when the demand price is equal to the supply price, then there is no tendency to increase or decrease in the new quantity of output, it is in a state of equilibrium, such equilibrium is stable. But the conditions of stable equilibrium are reversed in the view of the Walras. This is because Marshall's term of stability are based on the assumption of price while that of the Walras is based on the assumption of dependent.

142. Which of the following Equation is Known as 'Walras Law

(a) $\sum_{i=1}^{n} P_1 S_i \equiv \sum_{i=1}^{n} P_1 D_i$ (b) $ADF = ASF$
(c) Y=C+I+G (d) S=1 **UP PGT-2003**

Ans. (a) : $\sum_{i=1}^{n} P_1 S_i \equiv \sum_{i=1}^{n} P_1 D_i$

This equation is called Walras law in which P = Price, S = Supply, D = Demand.
Walras used a system of simultaneous equation to describe the interactions of individual buyers and sellers in all markets and stated that the prices and quantities of all related goods and factors could be determined simultaneously by them.

143. The point of intersection of the demand and supply curves determines

(a) Only price equilibrium
(b) Only demand equilibrium
(c) Only Supply equilibrium
(d) Equilibrium price, demand and supply of all

UP PGT-2005

Ans. (d): Equilibrium price and quantity which is determined by the interaction of demand and supply function. It is a static analysis of pricing because here all the variables like quantity supplied, quantity demanded and price which are related to the same point of time.

144. Partial equilibrium approach is called

(a) Malthusian approach (b) Marshallian approach
(c) Leon Walras approach (d) Stigler approach

UP PGT-2009

Ans. (b): Alfred Marshall is credited with presenting the partial balance technique in its present form. To analyze the market of any one commodity, we use partial equilibrium techniques.

145. If the slope of the demand curve is less than the slope of the supply curve, then the nature of equilibrium will be–

(a) Permanent (b) Temporary
(c) Static (d) Dynamic

UP PGT-2011

Ans. (d) : The Cobweb theorem is dyanmic model. cobweb model, depends on the stability the demand and supply lines. The center convergence/convergent cobweb occurs when the slope of the supply line is greater than the slope of the demand line. This means that the response of producers to changes in price is relatively less than that of consumer, that is, the fluctuations in price and output gets weaker and weaker, and finally the state of equilibrium is attained.

02.

Demand Analysis

1. **The theory of demand for money has been derived from -**
   (a) Equation of exchange (b) Demand deposits
   (c) Equation multiplier (d) Investment demand

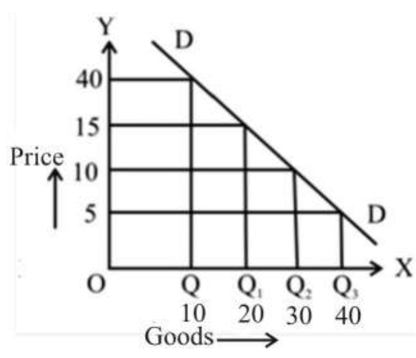
RPSC PGT-2022

Ans. (a) : The theory of demand for money is derived from the equation of exchange. Money is demanded because it acts as a medium of exchange. Therefore at any one time, the demand for money depends on the amount of exchange taking place in the society. The quantity of exchange depends on two things-
(I) Business deals (Y).
(ii) Price level (P)
Price level (P) is the average price of each unit of 'Y' at a given time. Hence, demand for money = price level X trade transaction.

2. **Desire to have a commodity backed by willingness and ability to purchase that commodity at given price at a point of time is-**
   (a) Supply (b) Utility
   (c) Demand (d) Elasticity

RPSC PGT-2022

Ans. (c) The desire to buy a commodity at a given price at a given time and the willingness and ability to pay its price is called demand. According to the law of demand, as price increases demand decreases and vice versa.



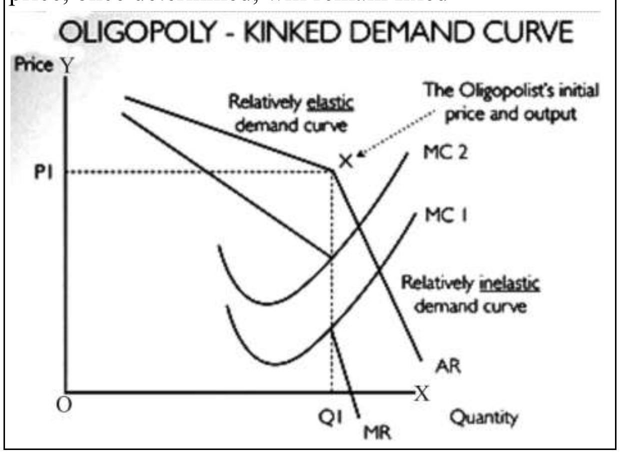
In the diagram, the demand curve is DD, when the price is OP (20) then the quantity demanded is OQ (10) when the price decreases to OP (20) the quantity demanded increases to OQ_1(40).

3. **A point of 'Kink' on the Kinked demand curve indicates**
   (A) Price rigidity
   (B) Quantity rigidity
   (C) Price flexibility
   (D) Quantity flexibility

Select correct answer
(a) (A) and (B) are correct
(b) (B) and (C) are correct
(c) (C) and (D) are correct
(d) (A) and (D) are correct

NVS PGT-15.12.2022

Ans. (a) : A Kinked Demand Curve is Characteristic of an Oligopoly market. A kinked demand indicates price and output rigidity. The demand is more elastic above the kink and less elastic below it. It does not explain which kinks out of many kinks will be the equilibrium. Thus, it is not a theory of pricing but explains that the price, once determined, will remain fixed



4. **Assertion (A) : Effective demand can be increased by more equitable distribution of wealth.**
   Reason (R) : Effective demand for investment is more complex and more unstable than effective demand for consumption.
   Select the correct answer :
   Select the correct answer
   (a) Both (A) and (R) are correct and (R) is not the correct explanation of (A)
   (b) Both (A) and (R) are correct and (R) is the correct explanation of (A)
   (c) (A) is correct but (R) is incorrect
   (d) (A) is incorrect but (R) is correct

NVS PGT-15.12.2022

Ans. (a) : Keynes used the term 'effective demand' to denote the total demand for goods and services at various levels of employment. Different levels of employment represent different levels of aggregate demand. But there can be a level of employment where aggregate demand equals aggregate supply. Effective demand determines the level of employment in the economy. The main determinants of effective demand and the level of employment are consumption and investment. Effective demand for investment is more complex and more unstable than effective demand for consumption. Effective demand can be increased by more equitable distribution of wealth.

5. Who among the following developed the 'Wage goods model' of planning ?
(a) R. Nurkse
(b) P.C. Mahalanobis
(c) C.N. Vakil and P.R. Brahmanand
(d) A.K. Sen

NVS PGT-15.12.2022

Ans. (c) : The 'Wage goods model' of development was developed by C.N. Vakil and Professor P.R. Brahmanand. Professors adapted and modified classical theory of growth of income and employment in the context of today's developing countries characterised by disguised unemployment. As in their old work 'Planning for on Expanding economy' written in 1956, Vakil and Brahmanand, - and attribute the prevailing poverty and reemployment to the existence of wage–goods gap.

6. According to Keynes, the Aggregate Supply Curve during depression
(a) Tilts upward to right
(b) Is horizontal line
(c) Is vertical line
(d) Tilts downward to right

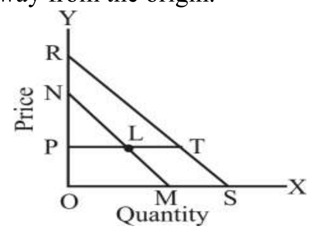
NVS PGT-15.12.2022

Ans. (b) : The origin of the Keynesian (AS) curve can be discribed to the great depression, when actual output in most economics was very low compared to potential output. In that environment, Keynesian suggested that output can be increased without only rise in prices by putting idle capital and labor to work. The key point is that in the short run the price level is unaffected by current levels of GDP. Hence, we will see that in the short run, the as curve is horizontal It is also known as the 'Keynesian, supply curve'.

7. Which among the following statements is incorrect ?
(a) If two demand curves are linear and parallel to each other, then, at a particular price, the coefficient of elasticity would be same on different demand curves
(b) On a linear demand curve, all the five forms of elasticity can be depicted
(c) If two demand curves are linear and intersecting each other, then coefficient of elasticity would be same on different demand curves at the point of intersection
(d) The price elasticity of demand is expressed in terms of relative not absolute changes in price and quantity demanded

NVS PGT-15.12.2022

Ans. (a) : On parallel demand curves, for a given price of a goods, the price elasticity of demand will decrease if we move away from the origin.



8. In case of Giffen goods, the demand curve will be:
(a) Upward sloping to right
(b) Downward sloping to right
(c) Horizontal line
(d) Backward falling to left

NVS PGT-15.12.2022

Ans. (a) : The demand curve for a Giffen goods is upward-sloping to right. As the price of the Giffen goods increases, the quantity demanded also increases, define the usual law of demand. Most demands for goods decrease when prices go up. The Tern Giffen goods was created by economist scot Giffen during the poor time of the Victorian Era when he noticed that people were buying basic food even it prices kept going up. The Giffen good graph looks different than most demand curves on the supply and demand graph.

Demand Curve For Giffen Goods

9. Which of the following is/are correct?
A. In Keynesian theory, higher the level of effective demand, greater is the volume of employment.
B. The classical economists believe that effective demand is always large enough to ensure full employment
(a) Both are correct.
(b) Both are incorrect.
(c) (A) is correct but (B) is incorrect.
(d) (A) is incorrect but (B) is correct.

NVS PGT-16.12.2022, Morning

Ans. (a) : In Keynes theory, the amount of employment will be greater at a higher level of effective demand, and traditional economists believed that effective demand is always high enough to maintain full employment, hence both statements are correct.

10. **(A) The quantity demanded is a decreasing function of price in the static model.**
(B) The quantity supplied is an increasing function of price but if price does not exceed a minimum, then is no supply
(C) Quantity demanded and quantity supplied on stock variables
(D) The market is in equilibrium when excess demanded is zero
(a) (A) is True but (B), (C) and (D) are false
(b) (B), (C), (D) are true but (A) is false
(c) All are false
(d) All are true
(e) Answer not known

TNPSC CSSS-11.01.2022

Ans. (d) : The quantity demanded is a decreasing function of price in the static model.
• The quantity supplied is on increasing function of price put it price does not exceed a minimum, the is no supply,
• The market is in equilibrium when excess demanded is zero.
• All these statement are correct hence option (d) is correct.

11. **Adam Smith published in his book "an Enquiry into the Nature and causes of the Wealth of Nations" in the year**
(a) 1872 (b) 1776
(c) 1923 (d) 1778
(e) Answer not known

TNPSC CSSS-11.01.2022

Ans. (b) : Adam smith published in his book "An Enquiry into the Nature and causes of the wealth of Nations" in the year 1776. The book tells us the reasons and methods of how countries across the world accumulated wealth.

12. **Which of the following is considered important by Mercantilist?**
(a) Agriculture (b) Trade
(c) Industry (d) Manufacture
(e) Answer not known

TNPSC CSSS-11.01.2022

Ans. (b) : Trade was indeed considered important by mercantilists, but with a focus as achieving a favorable balance of trade. They believed that a nation should export more than it imports to accumulate wealth in the form of precious metals. This emphasis on trade as a means to boost a nation's economic strength was a key aspect of Mercantilist philosophy.

13. **The non-parametric test assumes that the samples are**
(a) Independent (b) Dependent
(c) Same Mean (d) Equal
(e) Answer not known

TNPSC CSSS-11.01.2022

Ans. (b) : The non parametric test assumes that the samples are independently from the some underlying distribution. It applies generally to comparing two unpaired groups. It assumes that each data within a group.

14. **"Labour is paid in wages its own value". Who said this statement?**
(a) Malthus (b) Karl Marx
(c) Adam Smith (d) Schumpeter
(e) Answer not known

TNPSC CSSS-11.01.2022

Ans. (b) : The statement "Labour is paid in wages its own value" is attributed to Karl Marx, a philosopher, economist, and political theorist who was influential in the development of socialist and communist theory This idea is rooted in Marx's labour theory of value, which suggests that the value of a Commodity is determined by the amount of socially necessary labour time required to produce it.

15. **Keynes was most concerned with the following concepts :**
(a) Cost Push Inflation
(b) Demand pull inflation
(c) Structural Inflation
(d) Stagflation
(e) Answer not known

TNPSC CSSS-11.01.2022

Ans. (b) : Keynes was most concerned with demand pull inflation occurs when aggregate demand for goods and services exceeds aggregate supply. It happen when the overall demand in an economy outpaces its productive capacity. Keynes was particularly focused on demand management, policies, such as fiscal and monetary measures, to address economic issues, including demand, pull inflation.

16. **Choose the correct answer:**
(a) In the neo-classical theory, rate of interest is determined by the marginal product of capital and rate of saving.
(b) In the neo-classical theory, rate of interest is determined by demand and supply of loanable funds.
(c) In the modern theory, rate of interest is determined by the demand and supply of time deposits.
(d) In the classical theory, rate of interest is determined by demand and supply of loanable funds.

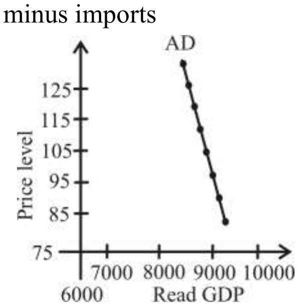
WB SET-2022

Ans. (b) : In the neo-classical theory, rate of interest is determined by demand and supply of loan able funds. It was developed by Swedish economists like wicksell, Bertil, Ohlin, Viner, Gunnar Myrdal and others.
• The rate of interest is also determined by the equlibrium between demand for and supply of loanable founds in the credit market.

17. **Aggregate Demand Curve is:**
(a) The total quantity of raw materials offered for sale at different prices
(b) The total quantity of intermediate goods offered for sale at different prices
(c) The total quantity of intermediate and final goods offered for sale at different prices
(d) The total quantity of final goods and services offered for sale at different prices

Punjab Lect. 2021

Ans. (d) : Aggregate demand curve is the total quantity of final goods and services offered for sale at different price.
• Aggregate demand includes all four components of demand
• Consumption
• Investment
• Government spending
• Net exports minus imports



18. **Law of Demand depicts the relation between ________.**
(a) Price of a commodity and income of the consumer
(b) Price and Quantity of a commodity
(c) Quantity demanded of a commodity and Income of the consumer
(d) Quantity demanded and Money supply

Punjab Lect. 2021

Ans. (b) : Law of Demand depicts the relation between price and quantity of a commodity.
• The law of demand states that all, also being equal, as the price of a goods or service decrease, the quantity demanded for that goods or service increase, and vice versa.
• Changes in price can be reflected in movement along a demand curve, but by themselves, they do not increase or decrease demand.

19. **A change in the price of one commodity that causes a change in the demand for another depicts:**
(a) Price elasticity of demand
(b) Income elasticity of demand
(c) Cross elasticity of demand
(d) Substitution elasticity

Punjab Lect. 2021

Ans. (c) : The relationship a change in the price of one commodity that causes a change in the demand for another depicts cross elasticity of demand. It measures how the quantity demanded of one goods responds to a change in price of on other goods.

20. **Which amongst the following are the causes of CHANGE in Demand?**
(a) Change in real income
(b) Redistribution of income
(c) Climate or weather changes
(d) All the above

Punjab Lect. 2021

Ans. (d) : The cause of change in demand include:
(a) Change in real income:- When consumers experience a change in their real income, it can affect their purchasing power and, subsequently, their demand for goods and services.
Redistribution of income:- Changes in the distribution of income within a society can also impact demand. It income is redistributed from higher- income individuals to lower– income individuals, the lower income group may have on increased demand for certain goods and services.
Climate or weather changes:– Changes in climate or weather pattern can have a significant impact on demand for certain goods and services.

21. **Which of the following is wrong?**
(a) Demand curve always slopes downwards, irrespective of the commodity.
(b) Downward slopping demand curve follows laws of Diminishing marginal utility
(c) Demand means that how much a person will be willing to buy of a commodity at a certain price in set of possible prices during some specified period of time.
(d) All the above

Punjab Lect. 2021

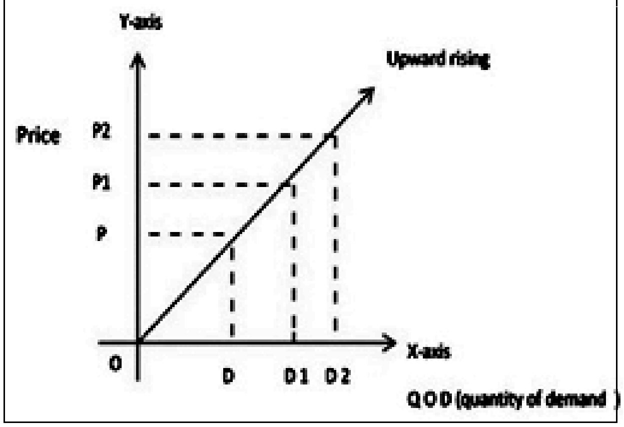
Ans. (a) : The incorrect statement is option (a) . In Economics, the law of Demand is true to the lines for most cases. Demand curve always slopes downwards. However, some significant exceptions are there. For instance, even if the Price for Cigarettes goes up, its Demand won't decrease. The exceptions to the law of demand typically suit the Giffen commodities, Veblen, and essential goods..

22. **Giffen Paradox holds**
(a) when the demand curve sloped downward
(b) when the demand curve is rising
(c) when the demand curve is horizontal
(d) when the demand curve is vertical

Punjab Lect. 2021

Ans. (b) : Giffen Paradox holds when the demand curve is rising.

Demand Curve For Giffen Goods



23. Giffen goods are

(a) these are the goods that people consume more of as the price rises and vice versa
(b) these are also ordinary goods
(c) these are the goods that people consume less of as the price rises and vice versa
(d) these are the goods that people are indifferent to with the change in prices

Punjab Lect. 2021

Ans. (a) : Giffen goods are these are the goods that people consume more of as the price rises and vice versa. This idea is based on the assumption that the income effect demines the substitution effect in certain circumstances, particularly for inferior goods. However, it's worth nothing that the empirical evidence supporting the Giffen Paradox is limited, and it remains a somewhat debated and theoretical concept in economic discussions.

24. Which of the following is not a shift factor of demand curve?

(a) Price of substitutes
(b) Price of the commodity under observation
(c) Income of consumer
(d) Tastes and preferences of consumer

Telangana Degree College Lect. 2017, Paper-II

Ans. (b) : Factors that can shift the demand curve for goods and services, causing a different quantity to be demanded at any given price, include changes in tastes, population, income, prices of substitute or complement goods, and expectations about future conditions and prices. If Price of the commodity under observation changes quantity demanded will change along the same demand curve rather causing shift to it.

25. Other things remaining constant, if there is a successful advertisement campaign for a commodity, the demand curve for the same shall ....

(a) Shift to the left
(b) Shift to the right
(c) Become positively stopping
(d) Become parallel to 'Y' axis

MH SET- 26.09.2021

Ans. (b) : When an effective advertisement campaign is conducted, it increases consumer awareness and creates positive perceptions about the commodity, leading to an increase in demand. This shift in demand is represented by a rightward shift of the demand curve .The shift indicates that consumers are now willing to buy more of the commodity at each price level compared to before the advertising campaign.

26. Economic rent is the payment to a factor whose supply is :

(a) Completely inelastic (b) Completely elastic
(c) Unitary elastic (d) Less elastic

MH SET- 26.09.2021

Ans. (a) : Economic rent is the payment received by a factor of production, such as land, labour, or capital, that is in limited supply, It is the difference between the earnings of a factor of production and its opportunity cost, which is the return it could earn in its next best alternative use.
When the supply of a factor of production is completely inelastic, it means that the quantity supplied cannot be increased regardless of the price. Therefore, economic rent is associated with factors of production with completely inelastic supply.

27. Choose the correct option regarding the following statements (i) and (ii).

(i) An increase in the income beyond certain limit leads to increase in consumption of necessary goods.
(ii) As per the law of demand, price and demand for commodity change in the same direction.

(a) Both the statements are correct
(b) Statement (i) is correct and statement (ii) is incorrect
(c) Both the statements are incorrect
(d) Statement (i) is incorrect and statement (ii) is correct

MH SET- 26.09.2021

Ans. (c) : The Law of Demand states that when the price of a product increases, its demand decreases and vice versa, keeping all other factors constant.
An increase in the income beyond certain limit leads to increase in consumption of luxury goods not normal goods.

28. Generally the slope of demand curve is being :

(a) Upward from left to right
(b) Downward from left to right
(c) Parallel to x-axis
(d) Parallel to y-axis

UP TGT 2021

Ans. (b) : The law of demand expresses the relationship between the quantity demand of a commodity and its prices. According to the law of demand, the quantity demanded decreases with an increase in the price and increases with a fall/decrease in the price. Thus, this law expresses a inverse relationship between price and demand. The demand curve slopes downwards from left to right. The reason for the downwards movement of the demand curve from left to right is due to 'Diminishing marginal utility'.

29. Law of demand is based on :
(a) A qualitative statement
(b) A quantitative statement
(c) Both of above
(d) None of above

UP TGT 2021

Ans. (a) : The law of demand is based on the qualitative statement. the law of demand states the inverse relationship between the price and demand of a commodity. But this relation is not expressed in a definite form that is, this relation can be both proportional or non proportional. Infact, the law of demand simply expresses the direction of change in demand as a result of a change in the price of a commodity.

30. The 'law of demand' says
(a) Demand increases with increase in price
(b) Demand decreases with increase in price
(c) Price increases with increases in demand
(d) Demand increases with increase in supply

UP PGT 2021, UP PGT 2013

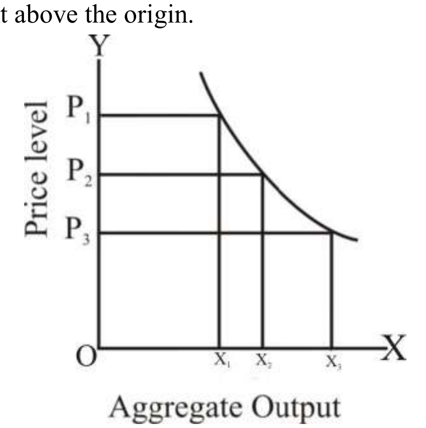
Ans. (b) : According to the law of demand "other things being constant (ceteris paribus) there is an inverse relationship between the price of a commodity and its quantity of demand"

$$P \propto \frac{1}{D}$$

31. Aggregate Demand (AD) curve starts from
(a) The origin
(b) Point below the origin
(c) Point above the origin
(d) None of these

UP PGT 2021

Ans. (c) : Aggregate Demand (AD) curve starts from the point above the origin.



32. Which of the following is true about inferior goods demand curve?
(a) Ordinary demand curve is steeper than compensated demand curve.
(b) Ordinary demand curve is flatter than compensated demand curve.
(c) Ordinary demand curve is parallel to the compensated demand curve.
(d) Ordinary demand curve is perpendicular to the compensated demand curve.

Haryana PGT 2020

Ans. (a) : The ordinary/normal demand curve with respect to the demand curve for a inferior goods is of a steeper slop than the compensatory demand curve. In economies, an inferior goods is a goods whose demand decreases when consumer income rises.
e.g- Millets

33. Which of the following is not held constant when a demand schedule is drawn up?
(a) The price of complementory goods
(b) The price of substitutes goods
(c) Consumer's income
(d) That goods's price

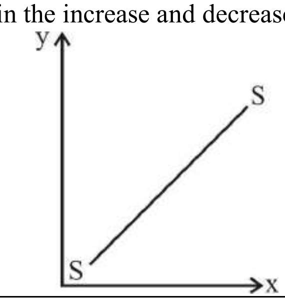
Haryana PGT 2020

Ans. (d) : Demand schedule is a schedule which gives the quantity demanded of that commodity at a given price at a particular point of time. It can be divided into two parts–individual demand schedule and market demand schedule. Individual demand schedule provides information about a particular person, how much quantity of that commodity he will buy at a given price with respect to a particular time. Whereas market demand schedule is the schedule of quantities purchased by all consumers at all possible prices at a given point in time. While preparing the demand schedule for a goods, factors other than the price of that goods such as the price of the complementary goods, the price of the substitute goods, income of the consumer, etc, it kept stable.

34. The slope of the normal supply curve is______
(a) Positive (b) Negative
(c) Zero (d) Infinite

UP LT Grade -2018

Ans. (a) : Supply refers to the quantity of a commodity which a seller is ready to sell at a certain price and at a given time. The expansion and contraction of supply take place on the same supply curve whereas the supply curves shifts in the increase and decrease of supply.



35. Demand Function is the univariate of price–

(a) Increasing Function
(b) Decreasing Function
(c) Neither increasing nor Decreasing Function
(d) Stable function

UP LT Grade -2018

Ans. (b) : An equation expressing the functional relationship between the demand for a commodity and the factors affecting it is called the demand function.

$$\boxed{D_x = f(P_x, P_0, y, T)}$$

The demand function is a unidirectional decreasing function of price, because there is an inverse relationship between the demand and price of a commodity.

36. What does the demand table show?

(a) Functional relation between quantity demanded and price.
(b) Functional relation between quantity demanded and supplied.
(c) Table display of quantities of demand at different time points.
(d) Table showing the quantity demanded at different places.

MP Assistant Professor– 2017

Ans. (a) : Demand Schedule shows the functional relationship between quantity demand of a commodity and its price.

37. Which of the following is related to proportional changes in quantity demanded?

(a) $\frac{q}{\Delta q}$ (b) $\frac{\Delta q}{q}$
(c) $q_1 - q_2$ (d) $q_1 + q_2$

MP Assistant Professor– 2017

Ans. (b) :

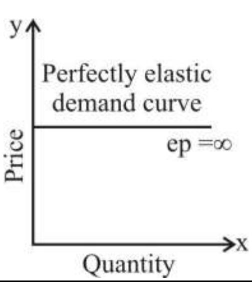
Proportional change in quantity demanded $\frac{\Delta q}{q}$

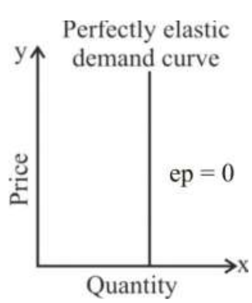
38. What will be the elasticity of demand (ep) when the demand line is a straight line parallel to the x–axis:-

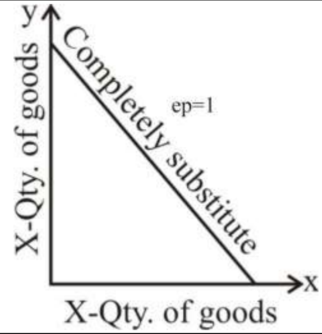
(a) ep = 0 (b) ep = ∞
(c) ep = 1 (d) ep >1

MP Assistant Professor– 2017

Ans. (b): When the demand line is a straight line parallel to the x-axis, the elasticity of demand will be infinite (ep = ∞).







39. According to the law of demand, the demand curve for a commodity will be-

(a) Displaced to the left when there is an increase in the price of the commodity.
(b) Displaced to the right when there is an increase in the price of the commodity
(c) Down word slope
(d) Upwards slope

MP Assistant Professor– 2017

Ans. (c) : According to the law of demand, the demand curve for a commodity will be downward slopping. Because, according to the law of demand, there is an inversely proportional relationship between demand and price. That is, when the price of a commodity increases the demand will increases and when the price of a commodity increases, the demand will decrease. In this way the demand curve obtained for the commodity is downward sloping.

40. If the total revenue increases when the price falls, what will the demand curve be like?

(a) Elastic (b) Unit Elastic
(c) Inelastic (d) None of the above

Uttarakhand Assistant Prof. (GDC)- 2017

Ans. (a) : If the total revenue increases when the price false, then the demand curve will be elastic because the demand for the goods is increasing when the price falls.

41. Movement in the supply curve due to the following reason–

(a) Technology
(b) Instrument prices
(c) Price of that commodity
(d) All of these

Uttarakhand Assistant Prof. (GDC)- 2017

Ans. (c) The commission has considered option (c) to be the correct option for this question. whereas the correct answer would be (d). Because the change in the price of the moving goods in the supply curve is also caused by technological advancements, product diversity, industry trends and sizes, government policies and non-economic factors (such as labour strikes, floods, drughts, wars, epidemics etc).

42. Which of the following correctly describes the inverse demand function?

(a) $p = f^{-1}$ (D) (b) D= f(p)

(c) D =$f\left(\frac{1}{p}\right)$ (d) p =$f\left(D, \frac{1}{y}\right)$

Where,
P = price, D = Demand and Y = increase

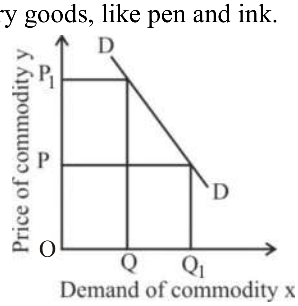
UGC NET- II Paper July, 2018

Ans. (a) :
Demand Function ⇒ D = f(p).
∴ Inverse Demand Function ⇒ $p = f^{-1}$ (D).

43. Suppose people like their hamburgers with onions, if the supply of hamburgers decreases, so which of the following will have the highest potential in the demand for onions?
(a) Will remain unchanged as hamburger and onion are different commodities.
(b) Will increase because hamburger and onion are substitutes
(c) Will increase because hamburger and onion are complementary to each other.
(d) Will Decrease be cause hamburger and onion are complementary to each other.

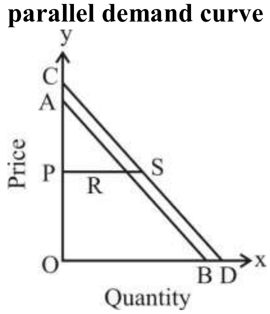
UGC NET- II Paper Nov., 2017

Ans. (d) : Suppose people like their hamburgers with onions, if the supply of hamburgers decreases, the demand for onions will decrease, because hamburgers and onions are complementary to each other when two goods are in demand simultaneously for the fulfillment of a purpose, the y are called complementary goods.
In other words, when a decrease in the price of a commodity leads to an increase in the demand for another commodity, then such goods are called complementary goods, like pen and ink.



It is clear from the diagram that when the price of y-goods decreases from OP_1 to OP, then the demand for x–goods increases from OQ to OQ_1.

44. Consider the following diagram with two parallel demand curve lines AB and CD:-



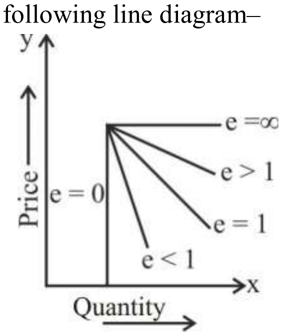
(a) Same at points R and S
(b) Greater at point R than at point S
(c) Less at point R than at point S.
(d) Infinite at point R and S.

UGC NET- II Paper Nov., 2017
UPPSC GDC 2019

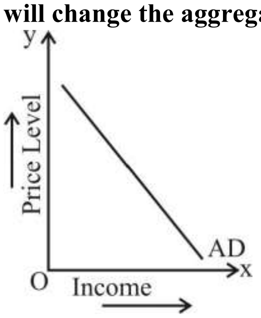
Ans. (b) Price elasticity of demand is the measure of the relative response to a quantity demanded of a commodity as a result of a relative change in the price of a commodity, i.e, it shows the ratio or rate of changes between the demand for the commodity and the price of the commodity.

$$\boxed{ep = \frac{\Delta q}{\Delta p} \times \frac{p}{q}}$$

There are five types of 'price elasticity' of demand. If the demand line is flat then the price elasticity of demand will be high and if the line is more slopping then the price elasticity of demand will be low. As is clear from the following line diagram–



45. In the given diagram, which of the following will change the aggregate demand curve AD?



(a) Trade effect (b) Liquidity effect
(c) Asset effect (d) All of the above

UGC NET- III Paper Jan., 2017

Ans. (d) In the given diagram the following effect will change the aggregate demand curve AD–
1. Trade effect
2. Liquidity effect
3. Asset effect

46. The demand for rare pointing, rare stamps etc can be explained by which of the following effects
(a) Snob effect (b) Bandwagon effect
(c) Veblen effect (d) All of the above

UGC NET- III Paper Jan., 2017

Ans. (a) The demand for rare pointing, rare stamps, etc can be explained the Snob effect. When the price of a commodity falls, some people of the community bring an increase in the demand due to falls in the price but some people reduce the demand for that commodity even after a fall in the price to keep yourself away from the common people, otherwise it is called Snob effect.

47. Why does the demand curve have a negative slope?

I. Due to income effect only

II. Due to substitution effect only

Answer from the code given below–

(a) Both I and II (b) Only I
(c) Only II (d) None is I and II

UGC NET- III Paper Jan., 2017

Ans. (a) The negative slope in the demand curve is due to the substitution effect. Substitution effect refers to the change in the quantity demanded of y-goods due to a relative change in the price of x-goods while the actual income of the consumer has been kept as before. The substitution effect will always load to an increase in the demand for the goods due to decrease in price. Hence the substitution effect will always be negative.

Two types of assumption have been presented in the context of substitution effect–

(1) Hicks substitution effect.

(2) Slutsky substitution effect.

The difference between these two perceptions of substitution effect depends on this. The change in the real income of the consumer resulting from the change in the price of the commodity should be destroyed by increasing or decreasing his monetary income so that the actual income of the consumer has been kept as before. In hicks concept, actual income refers to the consumer's satisfaction whereas Slutsky concept, actual income refers to the consumer purchasing power.

48. Which one of the fallowing economists who wrote.

(a) Henson (b) Phillips
(c) Ursula (d) J.R. Hicks

UGC NET- II Paper June, 2015

Ans : (d) J.R. Hicks was a British economist who wrote the book "value and capital" in 1939.

49. The Demand for food items in income inelastic. By whom of the following has this theory been propounded?

(a) Giffen paradox (b) Engel's law
(c) Gossen's law (d) Ricardo law

UGC NET- III Paper Dec., 2014

Ans : (b) The German statistician Engel established an inverse relationship between the household income level and the ratio of income to expenditure on food. In which the demand income of food items was inelastic, due to which the share of food production in the total industrial production would fall, and as a result income would rise.

50. Identify the sequence of evolution of demand theory–

(a) Marshall's theory of demand
(b) Preference curve
(c) Self published preference theory
(d) Slow preference order theory of demand.

(a) a, c, d, b (b) d, b, a, c
(c) a, c, b, d (d) a, b, c, d

UGC NET- II Paper Dec., 2012

Ans. (d) Following is the sequence of evolution of demand theory–

(1) Marshall's theory of demand
(2) Preference curve
(3) Self published preference theory
(4) Slow preference order theory of demand

51. Match the items in List I with those in list: II- Select the correct answer from the codes given below

List-I		List-II	
A	Enumerative utility theory of demand	**1**	Hicks
B	Revealed preference theory of demand	**2**	Alfred Marshall
C	Neutrality preference theory of demand.	**3**	John von Neuman and Morgenstern
D	Utility Index theory under uncertainty.	**4**	Samuelson

	I	II	III	IV
(a)	2	1	3	4
(b)	4	3	2	1
(c)	2	4	1	3
(d)	4	1	3	2

UGC NET- III Paper June, 2012

Ans : (c) The correct sequence is as follows–

Enumerative utility
(A) theory of demand. - (2) Alfred Marshall
(B) Revealed preference theory of demand - (4) Samuelson
(C) Neutrality preference theory of demand. - (1) Hicks
(D) Utility index theory Neumann under, uncertainty - (3) John von and Morgenstern

52. The firm's demand for labour is a derived demand because it is dependent on:

(a) Demand for goods and services that labour helps in producing.
(b) The degree of substitution between labor and other factors of production.
(c) Elasticity of demand for labour.
(d) Demand for other factors of production.

UGC NET- II Paper Dec. 2009

Ans. (a) : The firm's demand for labour is a derived demand, because the demand for labour depends on the demand for the goods and services that labour helps to produce.

53. Arrange the emergence of the following theories on the basis of time in the development of demand theory.

(i) Manifest preference
(ii) Neuman morgenstern utility theory.
(iii) Ordinal utility
(iv) Measurable utility

Code :

	(a)	(b)	(c)	(d)
(a)	(iii)	(i)	(iv)	(ii)
(b)	(iv)	(iii)	(ii)	(i)
(c)	(i)	(ii)	(iii)	(iv)
(d)	(iv)	(iii)	(i)	(ii)

UGC NET- II Paper Dec.2004

Ans. : (d) The rise of theories in the development of demand theory has been arranged on the basis of time as follows–

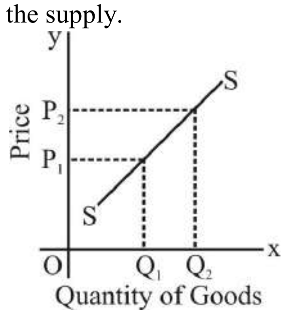
(iv) Measurable utility - Marshall
(iii) Ordinal utility - Hicks and Allen
(ii) Manifest preference - Samuelson
(i) Neumann Morgenstern utility theory - Neumann and Morgenstern

54. If the slope of the supply curve is positive the increase in the price of the commodity will result in the supply

(a) Increases
(b) Decreases
(c) Remains constant
(d) Increasing, decreasing and remains constant

UP PGT-2004

Ans. (a) : If the slope of the supply curve is positive, the increase in the price of the commodity results in an increase in the supply.



55. Which of the following statement is true?

(a) If the demand for the commodity is high, the demand for the factor resource will be less.
(b) If the demand for the commodity is high then the demand for the factor resource will also be high.
(c) If the demand for goods is less, then the demand for the factor resource will be high
(d) None of the above **UP PGT-2000**

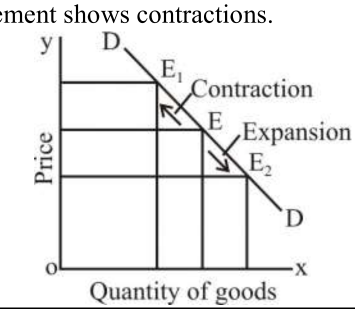
Ans. (b) : Demand for factor resources is not direct demand because demand is for goods and resources are needed to produce those goods. Therefore, if the demand for goods increases, then the demand for those factor resources also increases with the help of which those goods are produced.

56. Contraction of demand occurs when ________.

(a) The number of consumers decreases.
(b) The price of the concerned commodity rises.
(c) The prices of other related goods rises.
(d) The income of the consumers decreases.

UPPCS Economics-2009

Ans. (b) : Other things being equal, when demand increases due to fall in price, then it is called expansion of demand. And when demand falls due to increase in price, it is called contraction of demand. thus, a downward right movement on the demand curve indicates an expansion in demand and an upwards left movement shows contractions.

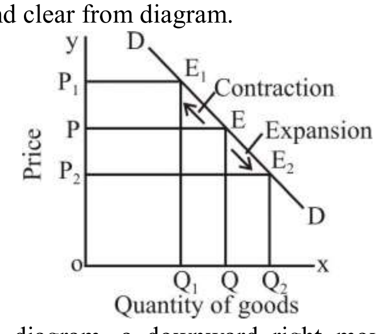


57. Other things being constant, when the price of a commodity rises, its demand will increase:-

(a) Contraction (b) Expansion
(c) Increase (d) None of these

UPPCS Economics-1994
Uttarakhand GIC -2018 Set- A

Ans. (a) : Other thing being constant, when the price of a commodity rises, there will be a contraction in its demand and inversely, when demand increase due to a fall in the price, it is called the like, expansion of demand clear from diagram.



In the diagram, a downward right movement on the demand curve shows on expansion in demand and an upwards left movement shows contraction.

58. Assertion (A): The normal demand function of a commodity is falling from left to right.
Reason (R): Income effect can be positive or negative due to price change

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

UPPCS Economics-2006

Ans. (b) : Both (A) and (R) are correct and (R) is not the correct explanation of (A).

59. Derived demand means–
(a) Higher demand due to inflation.
(b) Aggregate demand for goods.
(c) Higher demand due to higher income.
(d) Demand for means/ factor of production.

UPPCS Economics-2004, 2005

Ans. (d) : Derived demand means the demand for the factors production, that is, the demand for the factors of production is derived demand which depends on their marginal productivity.

60. Due to which one of the following changes the demand curve does not shift?
(a) Price of the commodity
(b) Income of the consumer
(c) Price of substitutes
(d) Price of supplements

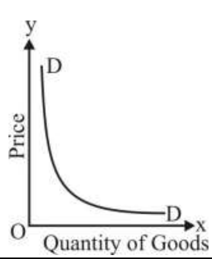
UPPCS Economics-2004, 2006

Ans. (a) : The demand curve does not shift due to change in the price of the commodity while other will shift due to change.

61. If the demand curve is a hyperbola, then every point on the curve will display from left to right.
(a) Decreasing total expenditure
(b) Increasing total expenditure
(c) Constant total expenditure
(d) Increasing total revenue

UPPCS Economics-2002

Ans. (c) : If the shape of the demand curve is a hyperbola, then this curve will fall from left to right and this curve will show a constant total expenditure at each point.



62. Which of the following will be a linear demand function:
(a) $p.q = 100$ (b) $q = 50.p^{-1}$
(c) $q = 5p - 2p^2$ (d) $q = 4p$

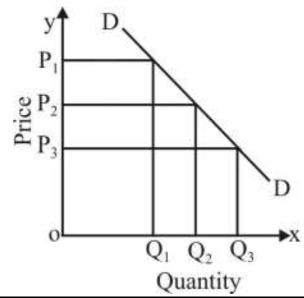
UPPCS Economics-2001

Ans. (d) : $q = 4p$ will be a linear demand function.

63. Popularized the form in which the demand curve is used in modern economics books.
(a) Cournot (b) Marshall
(c) Walras (d) Menger

UPPCS Economics-2001

Ans. (b) : The form in which the demand curve is used in modern economics books has been popularized by Marshall. According to Marshalls law of demand, if other things remain the same, then as the price of a commodity falls, the demand, for that commodity will increase and on the contrary, an increase in the price will bring down the demand. Thus, according to the law of demand, there is an inverse relationship between the demand for a commodity and its price. A curve showing the inverse relationship between demand and price is called a demand curve. the demand curve will be sloping down to the right at the its slope will be negative.



64. Which of the following is a dynamic demand function–
(a) $D_t = a + bp_t$ (b) $D_t = a + bp_{t-1}$
(c) $D_t = a + b\Delta p_t$ (d) $D_{t-1} = a + b_{t-1}$

UPPCS Economics-1999

Ans. (b) : $D_t = a + b.P_{t-1}$ is a 'dynamic demand' function. According to the Ragnar Frisch, any system is said to the dynamic if its behavior in time interval is determined by those variables which are related to different time points and if the related variables are not related to different time points then the analysis will be static.

65. What is true about the normal demand function–
(a) They are homogeneous functions of zero order to income and prices.
(b) These are homogeneous functions first order of income and prices.
(c) These are homogeneous functions of one order against income and of zero order against prices.
(d) These are homogeneous functions of zero order against income and of order of one against prices.

UPPCS Economics-1997

Ans. (d) : The demand for any goods depends upon the price of the commodity (P), income of the consumer (y), price of other goods (P_0), interest and fashion (T), wealth (w), etc. the functional relation found between them is called demand functions.

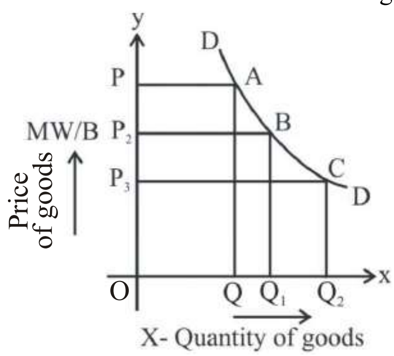
$$\boxed{D_X = F(P_X, y, P_0, T, w)}$$

66. **Generally Demand line–**
(a) Moves up from left to right
(b) Sloping down from left to right
(c) Is a hyperbola
(d) None of the above

UPPCS Economics-1997

Ans. (b) : Generally the demand line is falling from left to right. The following reasons for the falls of the demand curve from top to bottom are due to:

(1). Law of diminishing marginal utility:- Due to this, the demand curve is declining to the right. According to the diminishing marginal utility law, as a consumer buys more quantity of a commodity, the utility available to him will decrease as is clear from the diagram–

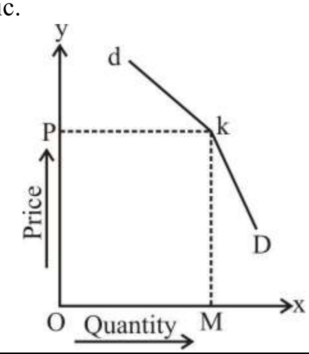


(2). Law of equi-marginal utility– This also causes the demand curve to fall to the lower right. According to Marshall, the Consumer will be in a state of maximum satisfaction.
Where, this case MU_x must fall with the fall of P_x in case MUm remains constant, and MU_x will fall only when x is used in greater quantities.

67. **Which of the following is an exponent of the Kinked demand curve hypothesis?**
(a) Kurnow (b) Edge worth
(c) Sweezy (d) Chamberlin

UPPCS Economics-1997

Ans. (c) : The exponent of the Kinked demand curve hypothesis is Paul.M. Sweezy. According to the Kinked demand curve theory, the demand curve that the oligopolist faces 'Kink' at the prevailing price level. Because that part of the demand curve which is above the prevailing price is level highly elastic and segment of he demand curve the below, the prevailing price level is in elastic.



In the figure, A Kinked demand curve dD with a Kink at point k. The prevailing price level is OP and the firm is producing and selling the output OM. Now the upper segment dk of the demand curve dD is relatively elastic, and the lower segment kD is relatively inelastic. this difference in elasticity is due to the particular competitive reaction pattern assumed by the Kinked demand theory.

68. **Oligopoly under Kinked demand curve model:**
(a) Accept interdependence
(b) Do not commit fraud
(c) Try to keep prices stable
(d) Does all of the above

UPPCS Economics-1996

Ans. (d) : The oligopoly does the following work under the Kinked demand curve model–
(1) Accept Interdependence
(2) Do not commit fraud
(3) Try to keep prices stable.

69. **Demand pull inflation is not generated due to which of the following reasons?**
(a) Increase in government expenditure
(b) Increase in money supply
(c) Budget deficit.
(d) Higher tax rate

UPPCS Economics-1997

Ans. (d) : Demand pull inflation refers to the rise in prices due to rapidly increasing demand for goods and services.
Demand - pull inflation is crated due to the following reasons:-
(1) Increase in government expenditure.
(2) Increase in money supply
(3) Budget deficit
While higher tax rates do not cause the demand pull inflation ineffect prevents inflation.

70. **If the demand function P.q. = 60 is given where p denotes price and q denotes quantity, then the elasticity of demand at price p = 6 will be______.**
(a) 0 (b) –1
(c) + 1 (d) – α

UPPCS Economics-1997

Ans. (c) : Elasticity of demand $ep = -\frac{dq}{dp}.\frac{p}{q}$

According to the question,
P.q. = 60

$$q = \frac{60}{P}$$

$$q = \frac{60}{6} = 10, P = 6$$

$$ep = \frac{dq}{dp}.\frac{p}{q}$$

$$q = \frac{60}{P} \text{ or } 60P^{-1}$$

$$\frac{dq}{dp} = -60P^{-2} = \frac{-60}{P^2}$$

$$ep = -\left[-\frac{60}{6^2}.\frac{6}{10}\right]$$

$$ep = 1$$

71. When the price of the substituted commodity falls, so will the demand for the goods–

(a) Increases (b) Fall

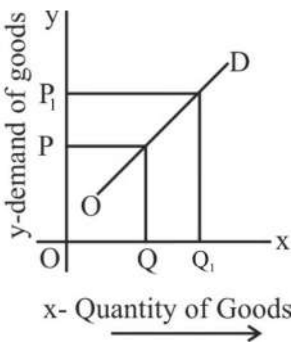
(c) Will remains unchanged

(d) Any of the above

UPPCS Economics-1996

Ans. (b) : When the price of the substituted commodity falls then the demand for the goods will fall. Such a substitute would be in the case of the commodity.

Decrease in the price of one commodity reduces the demand for another goods, then such goods are called substitute goods such as tea and coffee.



72. Which of the following is not true for Kinked demand–

(a) It is a continuous curve.

(b) It falls from left to right

(c) It explains the inertia of prices in the market

(d) It explains the behavior of monopolistic firms.

UPPCS Economics-1996

Ans. (a) : The following statement is true for kinked demand–

(1) It is a continuous curve.

(2) It falls from left to right

(3) It explains the inertia of prices in the market. Therefore, the Kinked demand principle does not explanations the behavior of monopolistic firms, rather it explains the behavior of oligopolistic firms.

73. The price elasticity of demand is the same at different points of the demand curve when, the demand curve–

(a) Is a straight line

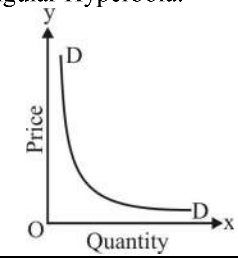
(b) There is a downward curve

(c) A rectangular hyperbola is a curve.

(d) Is shaped like a circle.

UPPCS Economics-1995

Ans. (c) : The price elasticity of demand is the same at different points on the demand curve. When the demand curve is a rectangular Hyperbola.



74. Change in demand means

(a) Increase or decrease in demand due to change in the price of a commodity.

(b) Increase or decrease in demand due to a change in the price of a substitute goods.

(c) Increase or decrease in demand due to a change in the price of a complementary goods.

(d) Shift of demand curve

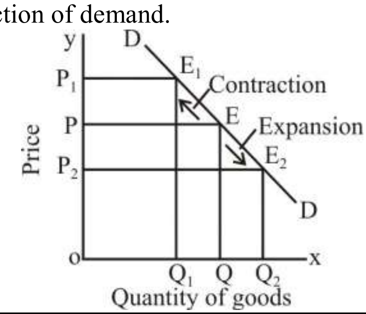
UPPCS Economics-1995

Ans. (d) : Change in demand means a change in the position of the demand curve. Change in demand takes place in two ways–

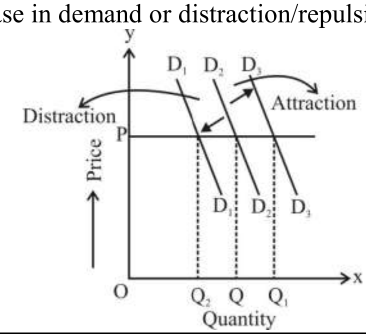
(1) Expansion or contraction in demand.

(2) Increase or attraction/eminence of demand and decrease or repulsion/ distraction of demand.

(1) Expansion or contraction in demand– When demand increase due to falls in price, keeping other assumptions same, it is called expansion of demand and when demand falls due to increase in price, it is called contraction of demand.

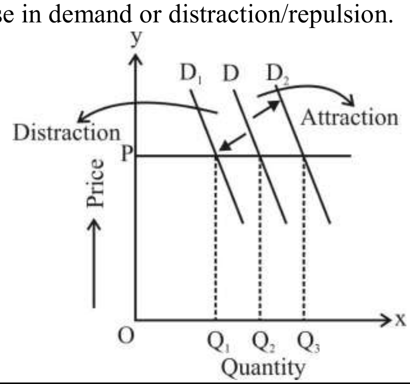


(2) Increase in demand (attraction) and decrease in demand (Distraction)– If the demand becomes relatively higher at the same price, due to change in other determinants of demand then it is called demand increase (attraction) and conversely, when the demand at the same prices becomes less than before, it is called decrease in demand or distraction/repulsion.



75. Change in demand without change in price is called–
(a) Increase in demand
(b) Decrease in demand
(c) Demand contraction
(d) Demand expansion
UPPCS Economics-1993

Ans. (a, b**) :** If the demand becomes relatively higher at the same price, due to change in other determinants of demand then it is called demand increase (attraction/traction) and inversely, when the demand at the same prices becomes less than before, it is called decrease in demand or distraction/repulsion.



76. The Sensitivity to change in demand due to change in price–
(a) Measured by the law of demand.
(b) Measured by the law of supply
(c) Equilibrium is measured by price
(d) Elasticity of demand is measured by
UPPCS Economics-1994

Ans. (d**) :** The sensitivity of a change in demand to a change in price is measured by the elasticity of demand. In other words, elasticity of demand is the measure of the relative response to the quantity demanded of a commodity as a result of a relative change in the price of a commodity.

$$ep = \frac{\Delta q}{\Delta P} \times \frac{P}{q}$$

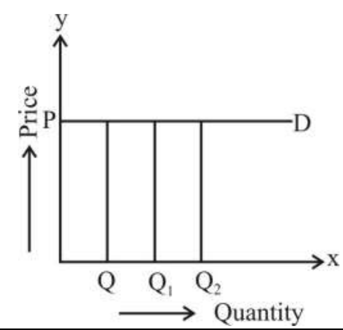
Elasticity of demand can be divided into 5 parts on the basis of the relativity of change in demand of the commodity as a result of change in price of the commodity–
(1) Perfectly elastic demand ($ep = \infty$)
(2) Elastic demand ($ep > 1$)
(3) Criticism or unit elasticity of demand ($ep = 1$)
(4) Inelastic demand ($ep < 1$)
(5) Perfectly inelastic demand ($ep = 0$)

77. Other things being equal, if a family's income increases, then its demand for a commodity increases. This increased demand can be represented by–
(a) A change in any direction up the demand curve
(b) On the right side of the demand curve
(c) On the left side of the demand curve
(d) Shifting of the demand curve to the right
UPPCS Economics-1994

Ans. (d**) :** Other things being equal, if the income of a family increases. This increased demand can be represented as:-
(1) Change in any direction up the demand curve.
(2) With the movement on the right side of the demand curve.
(3) With the movement on the left side of the demand curve.

78. Horizontal demand curve means that the demand is–
(a) Highly elastic (b) Perfectly elastic
(c) Perfectly inelastic (d) Generally elastic
UPPCS Economics-1994

Ans. (b**) :** Horizontal demand curve means that demand is perfectly elastic when here is a small increase in the price of a commodity, the demand for that goods becomes zero and a small decrease beings an infinite increase in its demand, hen it is called perfecly elastic demand.



79. The cross elasticity is equal to-
(a) $\frac{\Delta q}{\Delta p} \times \frac{q_1 + q_2}{p_1 + p_2}$ (b) $-\frac{\Delta q}{\Delta p} \times \frac{q_1 + q_2}{p_1 + p_2}$
(c) $-\frac{\Delta p}{\Delta q} \times \frac{q_1 + q_2}{p_1 + p_2}$ (d) $\frac{\Delta q}{\Delta p} \times \frac{q_1 - q_2}{p_1 - p_2}$
UPPCS Economics-1993

Ans. (*) : Cross elasticity of demand is the measure of the relative change in the quantity demand of a given commodity as a result of a change in the price of a related commodity.

$$e_{AB} = \frac{\text{Proportional change in the demand for a commodity A}}{\text{Proportional change in the price of a commodity B}}$$

$$e_{AB} = \frac{\Delta q_A}{q_A} \div \frac{\Delta P_B}{P_B}$$

$$e_{AB} = \frac{\Delta q_A}{\Delta P_B} \times \frac{P_B}{q_A}$$

If both the goods 'A' and 'B' are interchangeable, then the cross elasticity of demand will be positive. If both the goods 'A' and 'B' are complementary to each other, then the cross elasticity of demand will be negative.

80. The law of demand is based on–

(a) Marginal utility (b) Production theory
(c) Distribution theory (d) None of the above

UPPCS Economics-1993

Ans. (a) : The law of demand is based on the law of marginal utility. The increase or decrease in total utility due to consumption of the additional unit of a commodity is called marginal utility–

$$\boxed{MU = TU_n - TU_{n-1}}$$

81. The income elasticity of demand is equal to–

(a) Proportional change in price/ proportional change in income
(b) Proportional change in price/ proportional change in demand
(c) Proportional change in demand/proportional change in income.
(d) None of the above

UPPCS Economics-1991

Ans. (a) : As a result of change in income of a consumer the measure or capacity of a relative change in demand for a commodity is the income elasticity of demand, if the price of the commodity remains unchanged.

$$ey = \frac{\text{Proportional change in demand of a commodity}}{\text{Proportional change in income of the consumer}}$$

$$ey = \frac{\Delta q}{\Delta y}.\frac{q}{y}$$

Generally the income elasticity of demand of a commodity is positive.

82. The demand curve slopes to the right because–

(a) Marginal utility is constant.
(b) Diminishing marginal utility
(c) Marginal utility is zero
(d) Marginal utility is increase

UPPCS Economics-1991, UPTGT 2010

Ans. (b) : The demand curve is slopping to the right because marginal utility is diminishing. Under the law of diminishing marginal utility, as we increase the quantity of a commodity, the marginal utility derived from then decreases.

83. Which one of the following elements is not constant while drawing the demand curve for an individual–

(a) Monetary income of the individual
(b) Price of the commodity
(c) Prices of other goods
(d) Individual's desire

UPPCS Economics-1991

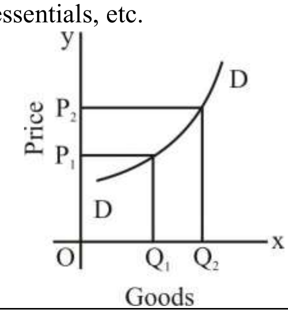
Ans. (b) : The price of the commodity remains constant while drawing the demand curve for an individual.

84. The demand curve with an exception is one whose slope is–

(a) Rising to the right
(b) Falling to the right
(c) Rising to the left
(d) Horizontal from the x-axis

UP PGT-2000, 2002

Ans. (a) : An exception demand curve is one whose slope is upwards to the right. In this situation the price demand relationship is positive. Such a situation can be seen in relation to Giffen Goods, prestige goods, subsistence essentials, etc.



85. Demand curve shows–

(a) The inverse relationship between cost of production and demand for a goods.
(b) The inverse relationship between price of a commodity and demand for a goods.
(c) Direct relationship between the price of the commodity and he demand for the commodity.
(d) Inverse relationship to a change in the quantity demanded.

UP PGT-2002

Ans. (**b**) : The nature of the demand curve of a commodity slopes downwards from left to right and it expresses he inverse relationship between the price of a commodity and the quantity demanded of that commodity. Therefore, due to increase in the price of a commodity, the demand of that commodity will decrease.

86. An individual demand curve is based on the assumption that all the elements remains constant except the following elements

(a) On he income of he consumer.
(b) At the cost of related goods
(c) At the cost of the commodity
(d) On he interest of the consumer.

UP PGT-2002

Ans. (c) : The factors affecting the demand for a goods are price of the commodity (P), income of the consumer (y), Interest (T) and price of other goods (P_0) then the demand function will be – D = f (P, y, T, P_0). If consumer's income (y) interest (T) and price of other goods (P_0), is assumed to be constant because from the practical point of view the above factors do not change in the very short run, then the demand function will be – D = f(P).

87. If two goods are complementary, an increase in the price of one goods will result in–

(a) The demand curve of the second goods will shift upwards.
(b) The price of he second goods will increase.
(c) The demand curve of the second goods will shift downwards.
(d) There will be no effect on the demand curve of the second goods.

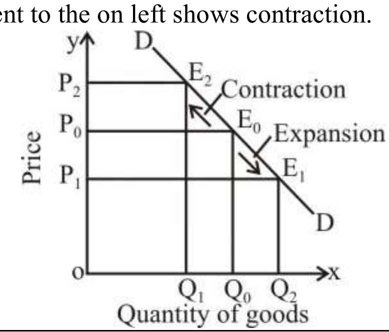
UP PGT-2002

Ans. (c) : When a decrease in the price of one goods leads to an increase in the demand of another goods, then such goods are called complementary goods like pen and ink. An inverse relationship is found between the demand and price of such goods.

88. Other things being equal, the change in demand as a result of a decrease in price is called–
(a) Increase in demand
(b) Decrease in demand
(c) Contraction in demand
(d) Expansion in demand

UP PGT-2002

Ans. (d) Other assumptions remaining the same, when demand increases due to fall in price, it is called expansion of demand, and when demand decreases due to increase in price, it is called contraction of demand. In this way, the action of moving on different points of the same demand curve shows expansion or contraction in demand curve shows expansion or contraction in demand. The movement on the right on the demand curve shows expansion in demand and the movement to the on left shows contraction.



89. Skewed demand refers to a change in the demand for a commodity due to the following reasons:-
(a) Difference in utility of another goods
(b) Change in he price of another goods.
(c) Change in the nature of another goods.
(d) Change in the size of another goods.

UP PGT-2002

Ans. (b) : The Functional relation ($D_x = f(P_0)$) between the demand and prices of goods other than that goods is called cross demand or slant demand. There are two types of cross demand – (1) If a decrease in the price of one commodity leads o a decrease in the demand for another commodity, then such commodities will be called mutual substitutes. (2) When decrease in the price of a commodity leads to an increase in the demand of another goods, then such goods are called complementary goods.

90. Which of the following model in individualistic?
(a) $K = \frac{1}{1-MPC}$ (b) $Y = C + I + G$
(c) $P = \frac{MV + M_1V_1}{T}$ (d) $D_x = f(P_x)$

UP PGT-2003

Ans. (d) : In microeconomics, problems related to different units of economics (firm, industry, individual etc.) like problem of pricing of goods, problem of rationalization in firm, problem of fixation of wages in firm, etc. In the above question, $D_x = f(P_x)$ shows the relationship between the demand of a commodity and the price of a commodity.

91. What is the importance of he concept of demand?
(a) Place (b) Time
(c) Price (d) All three

UP PGT-2003

Ans. (d) : In he given time a consumer buys different quantities of a commodity in the market, at a given price. So it is called demand for that, commodity Marshall was the first economics who expressed the view that both demand and supply are important in he process of price determination.

92. In demand function is D = 400 – 2p, the Rs. 50 per unit, the quantity demanded at price will be–
(a) 350 units (b) 300 units
(c) 200 units (d) 250 units

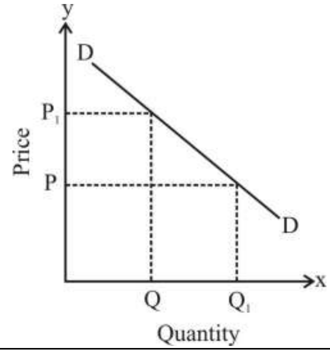
UP PGT-2004

Ans. (b) :
$D = 400 - 2P$
$\Rightarrow 400 - 2 \times 50$ (Assuming P)
$\Rightarrow 400 - 100$
$\Rightarrow 300$

93. The slope of normal demand function is –
(a) Positive (b) Negative
(c) Zero (d) Infinity

UP PGT-2004, 2005

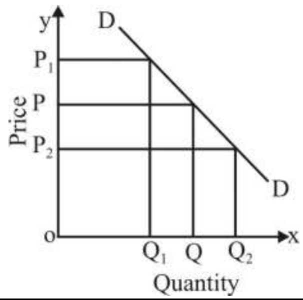
Ans. (b) : The normal demand function has a negative slope which shows the inverse functional relationship between the price of a commodity and the demand, that is, when the price of a commodity is high then, less quantity of the goods is demanded and vice versa, when the price is less then more quantity of the goods is demanded.



94. A normal demand function of price is–
(a) One direction increasing function
(b) On direction decreasing diminishing function
(c) Jumping function (d) Constant function

UP PGT-2004

Ans. (b) : There is an inverse relationship between the price and demand of a commodity. This means that when the price of a commodity is high, then less quantity of the commodity is demanded, and on the contrary, when the price of a commodity is less, then more quantity of the commodity is demanded. This is called the law of demand.



95. He demand curve is a unidirectional function of price–
(a) Diminishing/decreasing
(b) Increment/increasing
(c) Decreasing and increasing
(d) Increasing and decreasing

UP PGT-2005

Ans. (a) : If the other factors affecting demand remains constant (income interest of the consumer and price of other commodity) then the demand of the commodity will be a function of the price of the commodity only. The general equation of demand function is D = a – bp i.e. the curve of the demand function will be of negative slope.

96. For the Demand Function $x = \frac{400}{p}$, the price p = 20 units. The estimated demand will be –
(a) 25 unit (b) 20 unit
(c) 30 unit (d) 15 unit

UP PGT-2005

Ans. (b) :

Demand Function $x = \frac{400}{p}$

$\Rightarrow \frac{400}{20} (\text{Assuming } p)$

$\Rightarrow 20$

97. The law of demand is –
(a) An indicative description
(b) A descriptive description
(c) A selective description
(d) A qualitative description

UP PGT-2005

Ans. (d) : the law of demand makes it clear that the price of a commodity changes, the demand changes, i.e., the quantity demanded increases with a fall in the price and decreases with an increase in the price. thus the 'law of demand' expresses the inverse relationship between price and demand. It is clear from this that the law of demand is a qualitative statement and not a quantitative statement whereas the elasticity of demand is a numerical description.

98. Demand can be defined as –
(a) Willingness to purchase.
(b) Readiness to purchase
(c) Purchasing power
(d) Willingness and readiness to buy with sufficient purchasing power

UP PGT-2005

Ans. (d) : In order to be called demand, it is necessary to have the following elements– (a) To have a desire to obtain a thing (b) to have he means necessary to obtain it (c). Readiness to spend these means on the purchase of that thing (d). Relation of desire of a commodity of a particular price (e). Relation of demand of a particular time.

99. Which of the following would not in it self shift in the demand curve for the output?
(a) Change in consumer preference.
(b) Change in consumer income.
(c) Change in price of output.
(d) Change in prices of related products.

UP PGT-2005

Ans. (c) : If due to change in other determinants of demand, the demand becomes relatively higher or lower at the same price then it is called increase in demand (expansion) decrease in demand (contraction) respectively. The reason for the expansion and contraction of demand is increase or decrease in the output of consumer's income and accumulated wealth, change in taste, fashion, and costume, unequal distribution in income and wealth, increase or decrease in the number of consumers in the market, future expectation of change in the price of a commodity, change in the price of substitute and complementary goods, industrial development, etc.

100. The market demand curve of a commodity is –
(a) Arithmetic average of individual demands.
(b) Harmonic average of individual demands.
(c) Horizontal average of individual demands.
(d) Vertical average of individual demands.

UP PGT-2009

Ans. (c) : The quantity of a commodity a person is willing to buy at a particular price in a particular period of time is called individual demand for that commodity. The market demand curve will be the horizontal sum of the individual demand curves.

101. **Utility is a psychological consideration, so it has–**
(a) Cardinal measurement can be measured
(b) Cardinal measurement reading cannot be done
(c) Ordinal measurement cannot be done
(d) Comparative measure can be done with computational measure. **UP PGT-2013**

Ans. (b) : Economists like Pareto, Allen, Hicks and Samuelson says that utility is a psychological and subjective idea, it can be felt and cannot be measured on any objective basis.

102. **Which of the following is the correct statement-**
(a) Increase in income leads to increase in demand
(b) Increase in income leads to expansion in demand
(c) There is no change in demand
(d) None of the above

UP PGT-2011

Ans. (a) : Income demand curve shows the relationship between income and different quantities of goods. There are two types of goods normal type and inferior type. In the context of goods (ordinary/normal) goods, its demand increases with increase in income and in the context of inferior goods, their demand decreases instead of increasing with increase in income

103. **Consider the following factors /statements**
(i) The income effect and the substitution effect together increase the consumer's ability and willingness to buy more of a commodity whose price has fallen
(ii) Increase in production of the commodity.
(iii) Law of diminishing marginal utility.
Out of these, due to which the demand curve tends to move down, they include
(a) (ii) and (iii) (b) (i) and (iii)
(c) (i) and (iii) (d) (i), (ii) and (iii)

UP TGT-2001

Ans. (b) : The demand curve is downward sloping due to the law of diminishing marginal utility. According to this law, when a consumer buys more units of a commodity, the marginal utility of that commodity decreases.

104. **Expresses the demand for a commodity–**
(a) Desire of commodity
(b) Need of the commodity
(c) The quantity demanded of that goods
(d) The quantity demanded of the commodity at a specified time period

UP TGT-2005

Ans. (d) : A consumer buys different quantities of a commodity in he market at a given time and at a given price, it is called demand for that commodity. It is necessary to mention the price along with the demand.

105. **Movement on the same demand curve**
(a) Is called increase or decrease in demand
(b) Assumes demand to be constant.
(c) Expansion or contraction in demand
(d) None of these

UP TGT-2009

Ans. (c) : When the demand for a commodity increases/decreases, due to decrease/increase in its price, it is called expansion/contraction in demand.

106. **Which of the following is not a cause of upwards sloping demand curve or 'exceptional demand curve'.**
(a) To buy more quantity of the commodity at higher prices for fear of further increase in prices.
(b) Purchasing more quantity at higher prices motivated by prestige.
(c) Buying more quantity when the price rises due to ignorance.
(d) Buying more quantity due to increase in demand.

UP TGT-2010

Ans. (d) : Against the law of demand, the demand curve rises due to apprehension of increase in consumer price, prestige and ignorance, etc.

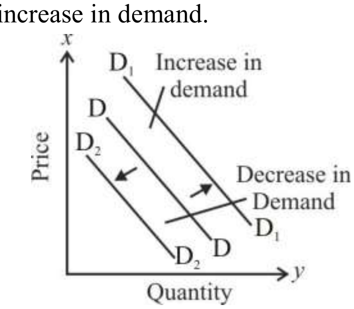
107. **It is not a factor determining demand–**
(a) Income of the individual
(b) Price of the commodity
(c) Cost of the goods
(d) Wealth **UP TGT-2013**

Ans. (c) : Individual's income, price and wealth of the commodity are the factors that determine the demand. Because when a person's income is high, he will buy more goods and if it is less he will demand less. Similarly, when the price of the commodity is low, the demand is high and when the price is high, the demand is low. In this, the cost of the commodity does not affect the demand.

108. **If the demand curve were to bend to the right, it would show–**
(a) Increase in demand (b) Decrease in demand
(c) Increase in supply (d) Decrease in supply

UP TGT-2011

Ans. (a) : If the demand curve shift to the right, it is called an increase in demand.



109. Access to the broadcast signal from a radio station is :
(a) A private good, but the station itself is a public good
(b) A public good, but the station itself is a private good
(c) Both the radio station and broadcast signal are private goods
(d) Both the radio station and broadcast signal are public goods

MH SET-27.12.2020

Ans. (b) : Access to the broadcast signal from a radio station is often considered a public good because it's non-excludable (difficult to prevent people from accessing) and non-rivalrous (one pertains use doesn't diminish another's). However, the stations production and operation can be treated as a private good, as it involves resources and is subject to exclusive ownership and control.

110. The aggregate supply (AS) curve and aggregate demand (AD) curve in a realistic Keynesian world are :
(a) AS : fully horizontal; AD : downward sloping
(b) AS : horizontal only fill the employment level; AD : downward sloping
(c) AS : vertical, AD : upward sloping
(d) AS : horizontal; AD : vertical

MH SET-27.12.2020

Ans. (b) : In a realistic Keynesian world, the aggregate supply (AS) curve is often considered to be horizontal or nearly so in the short run. This indicates that, at least in the short term, an increase in aggregate demand (AD) would primarily lead to an increase in output rather than price. This is due to the assumption that there is significant underutilized capacity and unemployed resources in the economy.

111. If MR is Rs.50 and price elasticity of demand is 2, find AR :
(a) 50 (b) 40
(c) 80 (d) 100

Kerala Set-2020

Ans. (d) : Given,
(MR) Marginal revenue = Rs. 50
$\frac{1}{n_d}$ elasticity of demand = 2
Average revenue = ?
From the formula:-
$$MR = AR\left[1-\frac{1}{n_d}\right]$$
So $$50 = AR\left[1-\frac{1}{2}\right]$$
$$AR = 50\times 2 = 100$$
$$\boxed{AR = 100}$$

112. Indirect demand is also known as:
(a) Producers' demand
(b) Consumers' demand
(c) Autonomous demand
(d) Non-durable demand

Kerala Set-2020

Ans. (a) : The Indirect demand is also known as producer's goods demand. The demand for goods which are needed in order to produce finished good is called indirect demand. Indirect demand is also called as derived demand.
Example:- Demand to land labour, capital etc. is derived demand.

113. Which of the following can most typically have positive, negative and zero values?
(a) Cross elasticity of demand
(b) Price elasticity of demand
(c) Advertisement elasticity of demand
(d) Price elasticity of supply

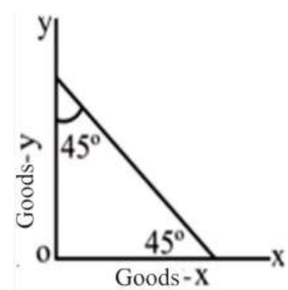
APPSC Jr. Lect.-20.02.2018

Ans. (a) : The cross elasticity of demand is an economic concept that measures the responsiveness in the quantity demanded of one good when the price for another one changes.
The cross elasticity of demand for substitute goods is always positive because the demand for one good increases when the price for the substitute good increases.
Alternatively, the cross elasticity of demand for complementary goods is negative.
When dealing with unrelated goods, there is generally no cross-elasticity of demand.

114. When MRS is constant, X and Y are:
(a) Not related (b) Perfect substitutes
(c) Perfect complements (d) Inferior goods

KVS PGT-2018

Ans. (b) Marginal rate of substitution (MRS) is the amount of a good that a consumer is wiling to consume in comparison to another good, as long as the new good is equally satisfactory.
$$MRS_{xy} = \frac{dx}{dy}$$
When goods X and Y are perfect substitutes the MRS will be constant, sine the lines are parallel and MRS = 1, that is, the slope makes on angle of 45º with each axis.



115. If there is 20 percent increase in the price of a commodity; given the price elasticity of supply equal to 1.5. How much will b the percent change in supply?

(a) 30 percent increase
(b) Cannot be calculated
(c) 30 percent decrease
(d) 15 percent increase

KVS PGT-2018

Ans. (a) : Given, proportional change in price = 20%
price elasticity of supply = 1.5
Proportional change in supply of the commodity = ?
Formula,

$$e_s = \frac{\text{Proportional change in supply of a good.}}{\text{Proportianal change in Price}}$$

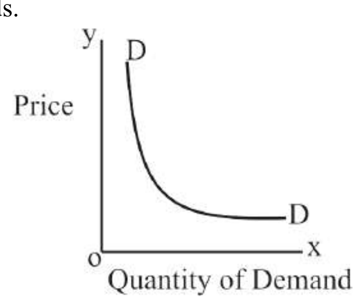
Proportional change in supply of the goods = 20×1.5 = 30%
Hence, the quantity supplied will increase by 30%.

116. The cause of downward sloping of ordinary demand curve is:

(a) Income effect
(b) Both income and substitution effect
(c) Substitution effect
(d) Neither income nor substitution

KVS PGT-2018

Ans. (b) : Demand for a good is the quantity that consumers are willing and able to surcharges at various prices in a given period of time. The law of demand is based on the law of diminishing marginal utility. The following are the reasons for the demand curve falling down words.



- The demand curve becomes downward sloping due to more we or abandonment of the good by the consumer due to price effect.
- The income effect of change in the price of ordinary goods is positive. For this reason the demand curve slopes downward.
- The demand curve is downward, sloping due to the substitution effect caused by a change in the price of a goods.

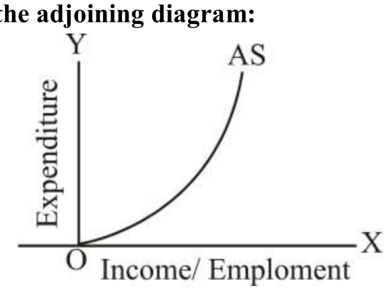
117. Choose the correct answer: The aggregate demand curve is downward sloping because of

(a) Wealth effect and interest rate effect of a change in aggregate price level.
(b) Only wealth effect of a change in aggregate price level.
(c) Only interest rate effect of a change in aggregate price level.
(d) Equal wealth effect and interest rate effect of a change in aggregate price level.

WBPSC Asst. Prof. 2020

Ans. (a) : Aggregate demand, or AD, refers to the amount of total spending on domestic goods and services in an economy. Aggregate demand includes all four components of demand:
Consumption
Investment
Government spending
Net exports=exports – imports
AD= C+I+G+Xn
The wealth effect holds that as the price level increases, the buying power of savings that people have stored up in bank accounts and other assets will diminish, eaten away to some extent by inflation. Because a rise in the price level reduces people's wealth, consumption spending will fall as the price level rises.
The interest rate effect explains that as outputs rise, the same purchases will take more money or credit to accomplish. This additional demand for money and credit will push interest rates higher. In turn, higher interest rates will reduce borrowing by businesses for investment purposes and reduce borrowing by households for homes and cars—thus reducing both consumption and investment spending.

118. Consider the aggregate supply function given in the adjoining diagram:

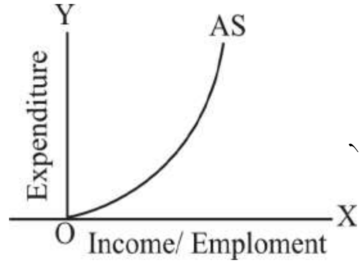


Which one of the following is true for the slope of the aggregate supply function AS?

(a) It is increasing at an increasing rate
(b) It is decreasing at an increasing rate
(c) It is increasing at a constant rate
(d) None- of these is correct.

KVS PGT-2017

Ans. (a) : The statement revealing various aggregate supply prices at different levels of, employment is called aggregate supply function. In the diagram, income and employment are shown an the horizontal axis and expenditure on the vertical axis. Where the slope of 'AS aggregate supply function' is increasing at on increasing rate'.

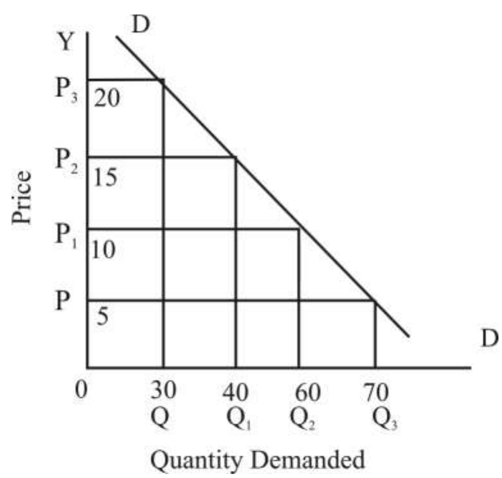


119. Law of Demand is functionally shown as :

(a) $D_x = f(P_z)$, ceteris paribus
(b) $D_x = f(Y)$, ceteris paribus
(c) $D_x = f(P_x)$, ceteris paribus
(d) $D_x = f(T)$, ceteris paribus

KVS PGT-2017

Ans. (c) : According to Marshal, other things being equal, "the quantity demanded increases with a fall in price and decreases with a rise in price" This, this law expresses the inverse relationship between price and demand. This, according to Marshal, the quantity demanded of a commodity inverse function relationship is found between the quantity supplied (Dx) and the price of the commodity (P_x).
Dx = F(Px), other things remaining the same.

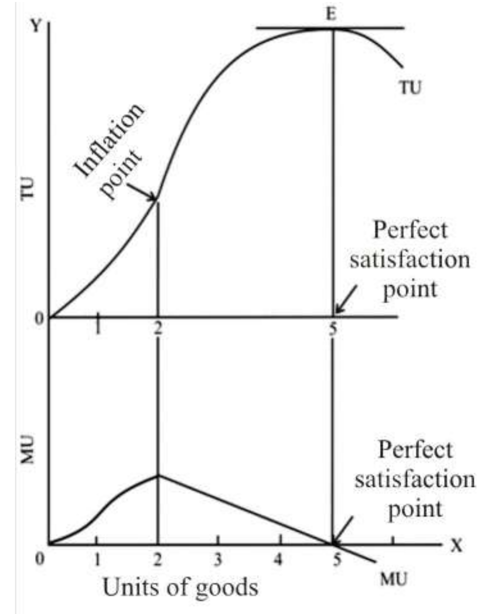


120. Marginal utility of a commodity becomes negative when total utility of the commodity is

(a) Rising (b) Constant
(c) Zero (d) Falling

KVS PGT-2017

Ans. (d) : If we think about total utility and marginal utility, we will final that TU increases gradually. The tendency to decrease in this starts after the ideal state of satisfaction. But TU is not negative. On the other hand, MU gradually decreases with the process of consumption and at the ideal level of satisfaction, MU becomes zero. MU can be zero or even negative. It is clear from the figure that, when TU is maximum then MU becomes minimum and when TU starts decreasing after the ideal level) then MU. becomes negative.

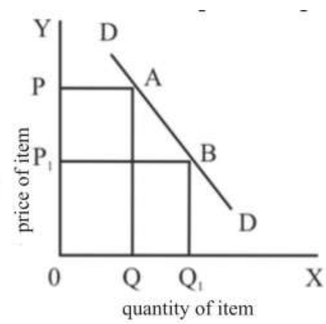


121. When percentage change in quantity demanded is less than the percentage change in price, demand curve is

(a) Flatter (b) Steeper
(c) Vertical (d) Horizontal

KVS PGT-2017

Ans. (b) : When the proportional increase in quantity demanded is less than the proportional increase in price, the demand curve will be more upward sloping or steeper.

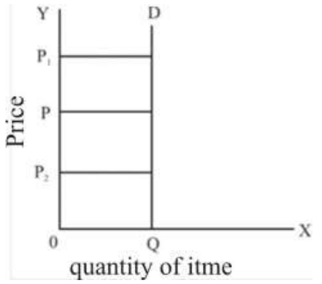


122. Price elasticity of demand is zero in case of

(a) Essentials goods
(b) Luxuries goods
(c) Necessities goods
(d) Normal goods

KVS PGT-2017

Ans. (a) : Price elasticity of demand is zero for essential goods.
Perfectly inelastic demand ($e_p = 0$) – If the demand a commodity remains the same even after a change in its price and there is no change in it, its demand will be said to be completely inelastic. There is no example of this in practical life, the demand for some things which are essential for life may be inelastic, yet their demand will not be completely inelastic.



123. The absolute value of the elasticity of demand ranges from

(a) Minus infinity to plus infinity
(b) Zero to infinity
(c) One to infinity
(d) Zero to one **KVS PGT-2017**

Ans. (b) : The absolute range of elasticity of demand ranged from zero to infinity. Following are the categories of elasticity of demand–

(1) Perfectly inelastic demand or zero elasticity of demand, (e_p= o)
(2) Infinite elasticity of demand, ($e_p= \infty$)
(3) Unit elasticity, (e_p=1)
(4) Elasticity of demand greater than unit, (e_p> 1)
(5) Elastic demand less than unit, (e_p<1).

124. Suppose total revenue is rising at a constant rate more and more units of a commodity are sold, marginal revenue would be

(a) Greater than average revenue
(b) Less than average revenue
(c) Equal to average revenue.
(d) Negative. **KVS PGT-2017**

Ans. (c) : When more units of a good are being sold and total revenue (TR) is increasing at a uniform rate, then marginal revenue(MR)will be equal to average revenue (AR). Because in perfect competition the overage revenue (AR) curve of the firm will be a horizontal straight line parallel to the x-axis. This means that whatever quantity of goods is produced, it can be sold at the same price prevailing in the market. The reason for this is that when the price does not fall by selling additional units of the commodity, the total income will increase equal to the price of the commodity because in this case there will be no loss on the first units selling the additional units.

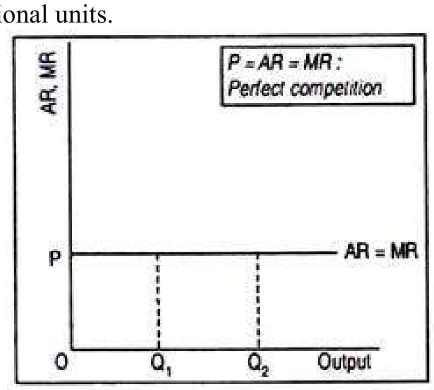


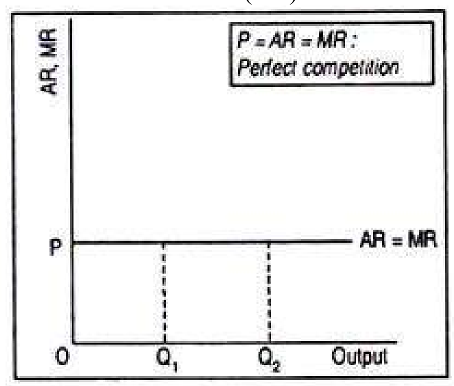
Fig. 3.34: AR = MR : Perfect Competition

125. When AR is constant , it is equal to

(a) TR (b) AC
(c) MR (d) MC

KVS PGT-2017

Ans. (c) : If the price or average revenue (AR) remains constant when additional units of the product are sold, then marginal revenue (MR) will be equal to average revenue (AR).



AR= MR: Perfect Competition

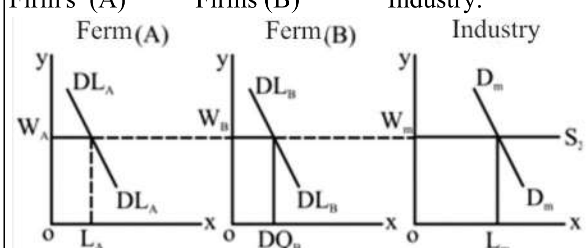
126. The industry demand curve for labour is the-

(a) Horizontal sum of individual firm labour demand curves.
(b) Vertical sum of individual firm demand curves.
(c) Representative firm's demand curve multiplied by the number of firms.
(d) None of these

RPSC Asst. Prof.- 2020

Ans. (a) : The demand of labor curve is a function of wages which is downward sloping. Market demand for labor or industry demand is the horizontal sum of all firm's demand for labor.

Firm's (A) Firms (B) Industry.



127. The Bandwagon effect corresponds best to which of the following?

(a) Real Economies
(b) Technical Economies
(c) Negative Network externality
(d) Positive Network externality

RPSC Asst. Prof.- 2020

Ans. (d) : A positive network externality is then obtained, when the quantity of a good demanded by consumers increases due to increase in purchases by other consumers. The best example of a positive network externality is the Bandwagon effect.

(i) Elasticity of Demand

128. The demand function for good A is given by $Q_A = 100 - 2P_A + 0.2\ Y + 0.3\ P_B$. Find the income elasticities of demand $P_A = 6, Y = 500, P_B = 10$

(a) 0.06 (b) 0.02
(c) 0.52 (d) – 0.06

UGC NTA NET/JRF-02.03.2023, Shift-II

Ans.(c): Given,
$Q_A = 100 - 2P_A + 0.2Y + 0.3P_B$
$P_A = 6, Y = 500, P_B = 10$
differentiate the above equation (Q_A)
So,
$$\frac{dQ_A}{dY} = 0.2$$
$Q_A = 100 - 2 \times 6 + 0.2 \times 500 + 0.3 \times 10$
$Q_A = 100 - 12 + 100 + 3$
$Q_A = 203 - 12 = 191$
$$\text{Income elasticity} = \frac{dQ_A}{dY}\cdot\frac{Y}{Q_A} = 0.2\times\frac{500}{191}$$
$$= \frac{100}{191} = 0.523$$

129. The demand function for Good A is given by $Q_A = 100 - 2\ P_A + 0.2Y + 0.3\ P_B$. Find the cross-price elasticities of demand at $P_A = 6$, $Y = 500$, $P_B = 10$.

(a) 0.06 (b) 0.016
(c) 0.52 (d) – 0.06

UGC NTA NET/JRF-02.03.2023, Shift-I

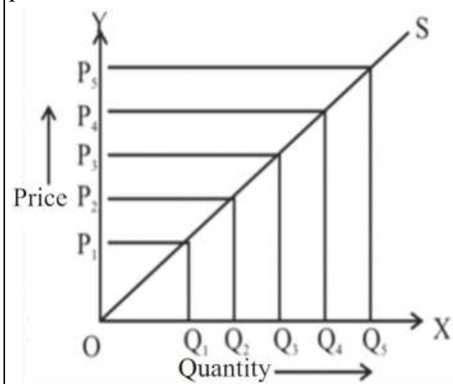
Ans.(b): Cross – price elasticity of demand
$$= \frac{\Delta Q_A}{\Delta P_B}\times\frac{P_B}{Q_A}$$
Given − $Q_A = 100 - 2P_A + 0.2Y + 0.3P_B$
$$= \frac{\Delta Q_A}{\Delta P_B} = 0.3 = \frac{3}{10}$$
$Q_A = 100 - 2\ (6) + 0.2\ (500) + 0.3\ (10)$
$= 100 - 12 + 100 + 3$
$= 200 - 9$
$= 191$
$$\text{Cross price elasticity} = \frac{3}{10}\times\frac{10}{191} = \frac{3}{191} = 0.016$$

130. When other things remain same, law of supply states that-

(a) quantity supplied decreases with increases in price and increases with decreases in price
(b) quantity supplied increases with increases in price and decreases with decreases in price
(c) quantity supplied remains constant with increases or decreases in price
(d) quantity supplied remains constant with increases in price and decreases with decreases in price

RPSC PGT-2022

Ans. (b) : The law of supply states that other things remaining equal, the quantity supplied increases with an increase in price $S_x = f(P_x)$ i.e. supply is an function of price.



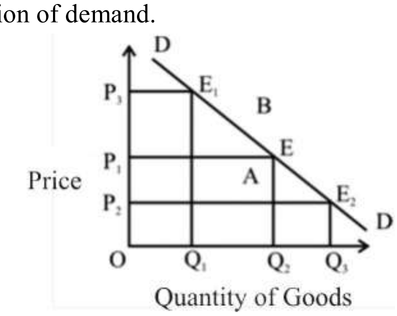
In the diagram, Q5 is the supply curve, which express the relationship between price and quantity sold, when price is OP_1, then quantity solid is OQ_1. similarly, OP_2 ------- OP_5 and OQ_2------- OQ_5 means that as the price increased, the supply of the commodity also increased.

131. Contraction of demand is the result of-

(a) Decrease in the number of consumers
(b) Increase in the price of the good concerned
(c) Increase in the prices of the other goods
(d) Decreases in the income of purchasers

RPSC PGT-2022

Ans. (b) : The contraction of demand results in an increase in the price of that goods. Other things being equal, when demand increases due to fall in price, it is called expansion of demand and when demand decreases due to increase in price, it is called contraction of demand.



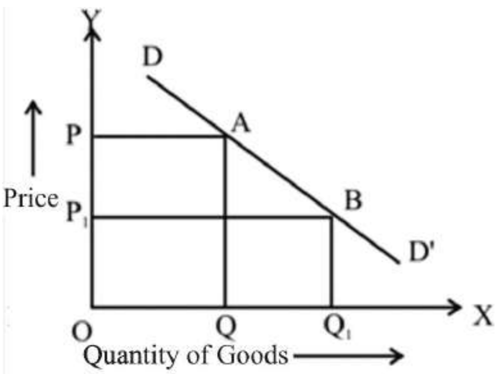
In the above diagram DD is the demand curve. It demand curve E moves to the right at E_2 demand well increase to OQ_3 and price will be OP_2. If it moves from E to E_1 or to the left, there will be contraction in demand, the demand will decrease to OQ_2, the price will be OP_3.

132. Quantity Demanded changes by a smaller percentage that does price than elasticity of demand will be-

(a) Perfectly elastic e = ∞
(b) Inelastic 0 < e < 1
(c) Elastic e = 1
(d) Perfectly inelastic e = 0

RPSC PGT-2022

Ans. (b) : Where there is a small percentage change in the quantity demanded of a good compared to the price, the elasticity of demand will be O< e < 1. For example, a 10 percent decrease in price brings a 5 percent increase in demand. This has been explained in the diagram. DD' is the demand curve in the diagram which shows that when the fall in price is equal to PP_1, $OP_1 = \frac{1}{2}$ OP then the increase in demand is only = QQ_1 i.e. less than double. That is, the ratio of decrease in price is more than the ratio of increase in demand.



133. Non-rivalry and non-excludability are the characteristics of :
(a) Normal goods (b) Public goods
(c) Demerit goods (d) Inferior goods

NVS PGT-15.12.2022

Ans. (b) : Public goods are characterized by non-rivalry and non-excludability. Non-rivalry means that one person's consumption of the goods does not diminish its availability for others, and non-excludability means that it is difficult or costly for one user to exclude others from using a good. Classic examples include national defense and clear air.

134. When the supply of a commodity does not change at all irrespective of any change in its price, what will be the elasticity of supply curve?
(a) Perfectly elastic (b) Perfectly inelastic
(c) Unitary elastic (d) Both (a) and (b)

NVS PGT-15.12.2022

Ans. (b) : When the supply of a commodity does not change at all regardless of any change in its price, it means that the quantity supplied remains constant. In this case, the elasticity of supply is zero, indicating a perfectly inelastic supply curve. This implies that the supply does not respond to changes in price and remains fixed.

135. Which of the following is not determinants of elasticity of supply ?
(a) Cost of production of additional unit of a goods
(b) Nature of commodity
(c) Time period
(d) Disposable Income of Consumer

NVS PGT-15.12.2022

Ans. (d) : The determinate of elasticity of supply refer to factors that influence the responsiveness of the quantity supplied of a goods or service to change in its price. These determinates help determine whether the supply of a good is elastic or inelastic.
To summarize, out of the given options (d) Disposable income of consumers is not a determinant of elasticity of supply. The elasticity of supply is primarily influenced by factors related to production costs, the nature of commodity and the time period considered.

136. If the demand for a good is inelastic, an increase in its price will cause the total expenditure of the consumers of the goods will be-
(a) Increase (b) Decrease
(c) Remain the same (d) Become zero

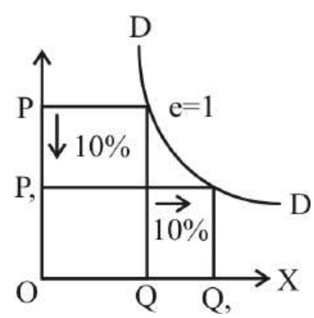
NVS PGT-15.12.2022

Ans. (a) : If the demand for a good is inelastic on increase in its price will cause the total expenditure of the consumers of the goods will be increase.

137. The price elasticity of demand is equal to one for a demand curve, which is :
(a) Horizontal line
(b) Upward sloping
(c) Vertical line
(d) Rectangular hyperbola

NVS PGT-15.12.2022

Ans. (d) :



Quantity Demanded unitary Elastic Demand

• When the proportionate change in price produces the same change in the demand of the product, the demand is referred to as unitary elastic demand.
• The numerical value for unitary elastic demand is equal to one (e =1).
• The demand curve for unitary elastic demand is represented as a rectangular hyperbola.

138. Given below are two statements:

Statement I : If you bought a product which now becomes subject to tax, you will be in a better position to avoid the tax and the seller bears with a larger part if your demand is elastic while seller's supply is inelastic.

Statement II: A tax on salt is likely to be borne by the consumer.

In the light of the above statements, choose the most appropriate answer from the options given below:

(a) Both statement I and statement II are correct
(b) Both statement I and statement II are incorrect
(c) Statement I is correct but statement II is incorrect
(d) Statement I is incorrect but statement II is correct

UGC NTA NET/JRF-08.10.2022

Ans. (a) : If you purchased a product that is now subject to tax. You may be in a better position to avoid paying the tax, and the maximum burden on the seller will be when your demand is elastic and the seller's supply is inelastic. The tax on salt has to be borne by the consumer because the elasticity of demand for salt is inelastic. Hence both statements I and II are correct.

139. If the demand function is: $P = 35 - 2x - x^2$ and the demand x_0 is 3. What will be the consumer's surplus?

(a) 27 (b) 25
(c) 60 (d) 20

UGC NTA NET/JRF-08.10.2022

Ans. (a) : $P = 35 - 2x - x^2$, Given, $x_0 = 3$

$P = 35 - 2 \times 3 - 3^2$

$P = 35 - 6 - 9 = 20$

$$CS = \int_0^3 (35 - 3x - x^2)dx - Px$$

$$CS = \int_0^3 (35 - 2x - x^2)dx - 60$$

$$CS = \left[35x - \frac{2x^2}{2} - \frac{x^3}{3}\right]_0^3 - 60$$

$$CS = \left[35 \times 3 - (3)^2 - \frac{(3)^2}{3}\right]_0^3 - 60$$

$$CS = [105 - 9 - 9] - 60$$

$$CS = 105 - 78$$

$$CS = 27$$

140. Suppose a profit maximising monopolist is producing 800 units of output and is charging a price of Rs. 40 per unit. If the elasticity of demand for the product is –2, marginal cost of the last unit produced is ______

(a) 10 (b) –400
(c) –2 (d) 20

UGC NTA NET/JRF-08.10.2022

Ans. (d) : Given,

Total production of the monopolist = 800 units

Price (P) = 40 Rs/unit

Elasticity of demand (e) = –2

$$\text{Price (P) or AR} = \text{MR}\left(\frac{e}{e-1}\right)$$

Where MR = Marginal revenue, e = Price elasticity

$\because$ In equilibrium marginal revenue (MR) = Marginal cost.

$$\therefore \text{Price} = \text{MC}\left(\frac{e}{e-1}\right)$$

$$40 = \text{MC}\left(\frac{+2}{+2-1}\right)$$

$$40 = 2\ \text{MC}$$

$$\text{MC} = \frac{40}{2} = 20$$

Marginal cost (MC) = 20

The term $\frac{e}{e-1}$ Will be greater than a given amount of price elasticity, hence in monopoly price> marginal cost or $P > MC$

141. Monopoly power is :

(a) Inversely related with price elasticity
(b) Positively related with price elasticity
(c) It is not related with elasticity
(d) Higher elasticity high monopoly power

NVS PGT-16.12.2022, Morning

Ans. (d) : Whenever the monopolist decides the price and output, he takes into account his price elasticity of demand. The reality is that the monopolist will set the price where the price elasticity of commodity is more than unit, hence monopoly power has a direct relationship with the price elasticity,

142. Identify the correct option for the formula to calculate price elasticity :

(a) $e_p = \frac{AR - MR}{AR}$

(b) $e_p = \frac{AR}{AR - MR}$

(c) $e_p = \frac{P}{P - \Delta TR}$

(d) Both (2) and (3) are correct

NVS PGT-16.12.2022, Morning

Ans. (b) : According to Prof Lipsey, the ratio of Percentage change in quantity demanded to percentage change in price is called elasticity of demand. Choose the correct formula for price elasticity from the given options, is-

$$e_p = \frac{AR}{AR - MR}$$

143. Cross elasticity between price of Pepsi and quantity demanded of Coke would be :

(a) Positive (b) Negative

(c) Zero (d) Cannot be defined

NVS PGT-16.12.2022, Morning

Ans. (a) : In the case of substitutes the reaction is positive and greater. The higher the coefficient Eba, the more substitutable the goods will be. If the price of Pepsi increases then the demand for coca cola will increase, similarly if the price of pepsi decreases then the demand for coca cola will decrease. Therefore, the are elasticity between the price of pepsi and the quantity demanded of coca cola will be positive.

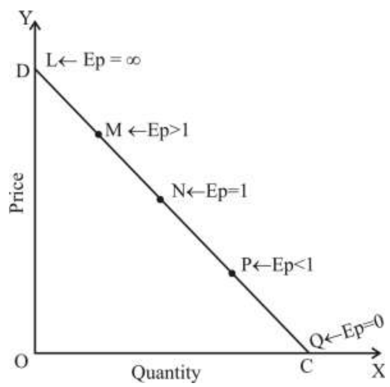
144. On a straight line demand curve; price elasticity will be ZERO at :

(a) Mid point (b) At the X axis

(c) At the Y axis (d) Cannot be defined

NVS PGT-16.12.2022, Morning

Ans. (b) :



Price elasticity on a straight demand line will be zero on the x-axis. It is clear from the figure that the elasticity of demand at the midpoint of the demand curve is equal to unity. When going above the midpoint the elasticity of demand is high and when the demand curve touches the Y- axis the elasticity become ∞ and when the demand curve touches the x-axis the elasticity of demand become zero.

145. Supply curve shifts due to change in :

1. Price of the product.

2. Price of factor of production.

3. Change in technology.

4. Invention of new raw material for the production of this commodity.

(a) (A) only

(b) (A) and (B) only

(c) (A), (B), (C) and (D)

(d) (B), (C) and (D) only

NVS PGT-16.12.2022, Morning

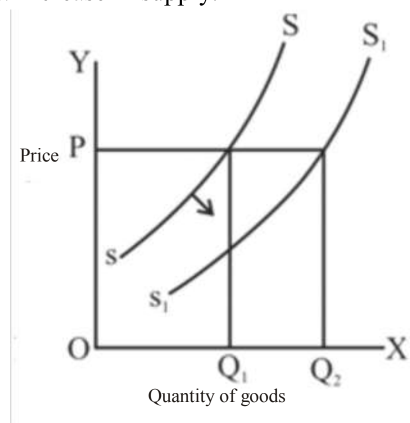
Ans. (d) : The law of supply states that a higher price leads to a higher quantity supplied and that a lower price leads to a lower quantity supplied. Thus, change in price of the product will change quantity supplied along the supply curve.

Shift in the supply curve can occur due to the following reasons–

2. By change in the price of means of production.

3. Due to technological changes such as efficient or less expensive production processes.

4. By searching for new raw materials for production Due to the above reasons, the supply curve in the diagram shifts to the right from SS to S1 S1. Hence it will show increase in supply.



146. On parallel demand curves; given the price of commodity; the price elasticity of demand :

(a) Will decrease if we move away from the point of origin.

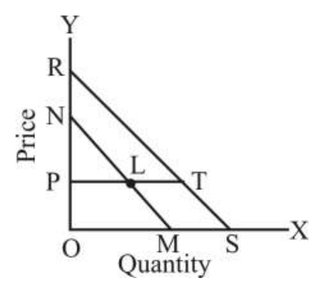
(b) Will increase if we move away from the point of origin.

(c) Price elasticity will remain unchanged.

(d) It cannot be defined.

NVS PGT-16.12.2022, Morning

Ans. (a) :



On parallel demand curves, for a given price of a good, the price elasticity of demand will decrease if we move away from the origin. In the figure, NM and RS are a demand curves. PT is a straight live which passes through the points L and T of these demand lines respectively. Price elasticity (Ep) at point L of NM demand curve is $\frac{ML}{LN}=\frac{OP}{PN}$.

Similarly, at point T of RS curve Ep=

$$\frac{ST}{TR}=\frac{OP}{TR} \text{ because } \frac{OP}{PN}>\frac{OP}{PR}.$$

Therefore $\frac{ML}{LN}>\frac{ST}{TR}$ .or

Ep at L >Ep at T

Hence, it is clear that the curve which is near the origin has more elasticity than the curve which is far from the origin.

147. Arc Method to measure the price elasticity of demand is equal to:

(a) $\frac{\Delta Q}{\Delta P}.\frac{Q_1+Q_2}{P_1+P_2}$ (b) $\frac{\Delta Q}{\Delta P}.\frac{Q_1-Q_2}{P_1-P_2}$

(c) $\frac{Q_2-Q_1}{P_2-P_1}.\frac{P_1+P_2}{Q_1+Q_2}$ (d) $\frac{Q_1-Q_2}{P_1-P_2}.\frac{Q_1+Q_2}{P_1+P_2}$

NVS PGT-16.12.2022, Morning

Ans. (c) : The arc method of measuring price elasticity of demand is used to find the elasticity of demand. The arc method is used to find the elasticity of demand when it moves between two points on the demand curve. The part of the demand curve between two points is called 'arc' and the elasticity of demand related to it is called 'arc elasticity of demand'.

$$\text{Elasticity of supply} = \frac{\text{incommensurable change in quantity}}{\text{incommensurable change in price}}$$

or $\quad ep = = \frac{Q_2-Q_1}{P_2-P_1}\times\frac{P_1+P_2}{Q_2+Q}$

or $\quad ep = \frac{\Delta Q}{\Delta P}\times\frac{P_1+P_2}{Q_1+Q_2}$

148. Assuming the price of all other goods to be constant, if the income of the consumer increases by 5% and as a result, his purchases of commodity increase by 10%, then we can express

(a) $E_Y = \frac{10}{5} > 1$ (b) $E_Y = \frac{5}{10} < 1$

(c) $E_Y = \frac{10}{5} \neq 1$ (d) $E_Y = \infty$

TNPSC CSSS-11.01.2022

Ans. (a) : Income elasticity of demand or Ey is referred to as the corresponding change in the demand of a product in response to the change in a consumer's income. It can also be defined as the ratio of change in the quantity demanded by the change in the customer's income.

$$E_Y^D = \frac{\text{Proportionate change in demand}}{\text{Proportionate change in income}}$$

$$= \frac{\Delta Q}{\Delta Y}\times\frac{Y}{Q}$$

Here

commodity increase by 10%

income of the consumer increases by 5%

$$E_Y^D = \frac{\text{Proportionate change in demand}}{\text{Proportionate change in income}}$$

Ey=10/5

=2>1

Hence option (a) is correct.

149. Decrease in effective demand result in

(a) Increase in supply
(b) Decrease in supply
(c) Contraction of production
(d) Increase in production
(e) Answer not known

TNPSC CSSS-11.01.2022

Ans. (b $ c) : In Keynes's macroeconomic theory, effective demand is the point of equilibrium where aggregate demand = aggregate supply. David Ricardo and John Baptiste Say held the view that "Supply creates its own demand". However, in looking at the Great Depression, Keynes argued that effective demand could be less than necessary to achieve equilibrium. If demand falls, it can create a negative multiplier effect which causes unemployed resources. In Keynes theory, the level of 'effective aggregate demand' determines equilibrium national income.

150. The proportionate change in the quantity demanded of X commodity resulting from a proportionate change in the price of Y commodity is

1. Cross-elasticity of demand
2. Income-elasticity of demand
3. Price-elasticity of demand
4. Market demand

(a) Only1 correct
(b) Only 2 correct
(c) Only 3 correct
(d) Only 4 correct
(e) Answer not known

TNPSC CSSS-11.01.2022

Ans. (a) : The cross price elasticity of demand refers to how responsive or elastic the demand for one product is with the response to the change in price of another product.

$$E_{P(\text{CROSS})}^D = \frac{\text{Proportionate change in demand for good } A}{\text{Proportionate change in price of good } B}$$

$$= \frac{\Delta Q^A}{\Delta P^B}\times\frac{P^B}{Q^A}$$

151. In the labour demand-supply framework, at the employment level below the equilibrium, there is incentive for the firm/employer to put workers to work as

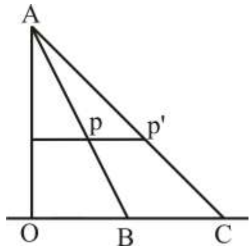
(a) marginal product of labour exceeds the real wage.
(b) marginal product of labour is lower than the real wage.
(c) marginal product of labour is equal to real wage.
(d) marginal product of labour is not related to real wage.

WB SET-2022

Ans. (a) : In the labour demand-supply framework, at the employment level below the equilibrium, there is incentive for the firm/employer to put workers to work as marginal product of labour exceeds the real wage.

When marginal product of labour is equal to real wage Producer wiil be in equilibrium an will stop labour employment.

152. Consider the following diagram. AB and AC are two demand curves.



Choose the correct answer:

(a) Price elasticity of demand at p and p' are same.

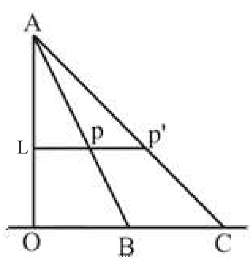
(b) Price elasticity of demand at p' is greater than that of p.

(c) Price elasticity of demand at p is greater than that at p'.

(d) Price elasticity of demand at both p and p' is 1/2.

WB SET-2022

Ans. (a) :



Price elasticity at only point on the demand

$$\text{Curve is } = \frac{\text{Lower segment}}{\text{Upper segment}}$$

$\sum_p \text{of P} = \frac{PB}{PA}$ ____(i)

$= \frac{OL}{LA}$ (Since LP is Parrell to bax O ΔOAB)

Similarly

$\sum_p \text{at P}' = \frac{P'C}{P'A}$

$= \frac{OL}{LA}$ ____(ii)

From equation (i) and (ii)

$\frac{PB}{PA} = \frac{OL}{LA} = \frac{P'C}{P'A}$

$\therefore \sum_p \text{at P} = \sum_p \text{at P}'$

Therefore elasticity at both the point is same.

153. If the supply of a goods is perfectly elastic, an increase in demand will result in-

I. Equilibrium price remains constant

II. Increase in equilibrium quantity

(a) Both I and II (b) Neither I nor II

(c) Only II (d) Only I

DSSSB PGT-17.07.2021, Shift-II

Ans. (a) : If the supply of a good is perfectly elastic, then the demand for the good can increase it the price of the good remains constant and the quantity of the good increases.

154. Elasticity of demand is a

I. Qualitative statement

II. Quantitative statement

(a) Only I (b) Both I and II

(c) Neither I nor II (d) only II

DSSSB PGT-17.07.2021, Shift-II

Ans. (a) : Elasticity of demand is a qualitative statement.

The demand for any commodity is in the opposite direction to its price that is, if the price of the commodity decreases, the demand increases and if the price increase, the demand will decreases, but it, is not clear low much will be the change in demand, that is, the demand will increase, Appropriate information is not available regarding the quantitative value of change. Hence, it is clear that elasticity of demand is a qualitative statement. Not quantitative.

155. For Giffen goods, price elasticity of demand is -

(a) Zero (b) Not known

(c) Negative (d) Positive

DSSSB PGT-17.07.2021, Shift-II

Ans. (d) :

A Giffen good is a good that people consume more of when its price rises, thus violating the law of demand.

Price elasticity of demand is positive for Giffen goods.

Giffen goods- Generally, Giffen goods are called those on which the law of demand does not apply, for the product increases and when the price decreases, the demand for the product decreases, hence whenever Giffen goods are sold. It the price increases, consumers increase the demand for Giffen goods.

156. If supply curve is Perfectly Inelastic, then the supply curve is ---

(a) Vertical

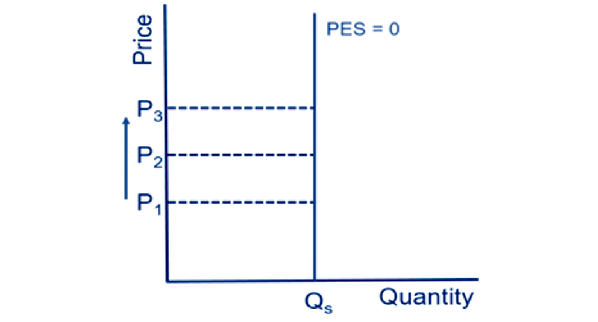
(b) At an angle of 45 degrees from X axis

(c) At an angle of 45 degrees from Y axis

(d) Horizontal

DSSSB PGT-17.07.2021, Shift-II

Ans. (a) : In the case of completely inelastic supply curve, the supply curve is vertical. If the supply curve is completely inelastic ($e_s = 0$) then in this situation the price change has no effect on the quantity supplied, hence the supply curve remains vertical in form.

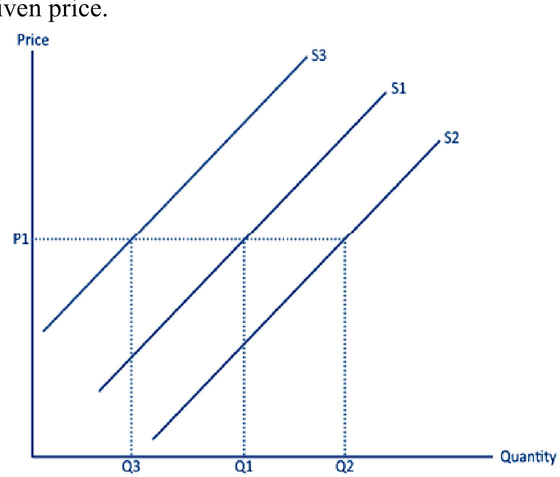


157. **Due to which of the following reasons the change in the supply of a good along with same supply curve may occur?**
I. Change in the price of the good
II. Change in the prices of related goods
(a) Both I and II
(b) Only I
(c) Neither I nor II
(d) Only II

DSSSB PGT-17.07.2021, Shift-II

Ans. (b) : The supply curve will move upward from left to right, which expresses the law of supply: A change in the price of a goods can cause a change in the supply of a goods along the same supply curve .As the price of a given commodity increases, the quantity supplied increases .

Changes in production cost and related factors can cause an entire supply curve to shift right or left. This causes a higher or lower quantity to be supplied at a given price.



158. **Income elasticity of demand is a ________.**
(a) measure of responsiveness of potential buyers to the change in price of the commodity
(b) measure of responsiveness of potential buyers to the change in income
(c) measure of responsiveness of potential buyers to the change in price of the other commodity
(d) None of the above

Punjab Lect. 2021

Ans. (b) : Income elasticity of demand measures the responsiveness of demand for a particular good to changes in consumer income. The higher the income elasticity of demand for a particular good, the more demand for that good is tied to fluctuations in consumers' income.

$$E_Y^D = \frac{\text{Proportionate change in demand}}{\text{Proportionate change in income}}$$

$$= \frac{\Delta Q}{\Delta Y} \times \frac{Y}{Q}$$

159. **If $x = 25 - 3p - p^2$ be a demand function, then the point elasticity of demand at p = 3 is :**
(a) $\frac{27}{7}$ (b) $\frac{27}{5}$
(c) $\frac{28}{8}$ (d) $\frac{26}{5}$

Odisha SSB Lecturers 19.09.2021

Ans. (a) : $X = 25-3P-P^2$
at $P = 3$
$X = 25-3\times3-3^2$
$= 25-9-9$
$= 7$
at $P = 3$, $X = 7$
Now,
Point elasticity of demand
$$e_d^p = \frac{dQ}{dP}.\frac{P}{Q}$$
here,
$$\frac{dx}{dP} = \frac{d}{dP}\left(25-3P-P^2\right)$$
$= (0-3-2P)$
Putting P = 3
$-3-3\times2$
$= -9$
$$e_d^p = \frac{dx}{dP}.\frac{P}{Q}$$
$$= -9.\frac{3}{7}$$
$$\frac{-27}{7}\left(\text{ignoring} - \text{sign}\right)$$
Hence, option . (A) is correct.

160. **The prices of pen is Rs. 10 and demand for pens is 100. If the price of pen falls to 5 and demand increases to 150, then price elasticity of demand will be**
(a) 0 (zero) (b) 1
(c) 2 (d) 3

UPPSC GDC 2021

Ans. (b) :

$$\text{Elasticity of Demand } ed = \frac{\Delta Q}{\Delta P}.\frac{P}{Q}$$

$\Delta Q \Rightarrow 150 - 100 = 50$

$\Delta P \Rightarrow 10 - 5 = 5$

$$ed = \frac{50}{5}.\frac{10}{100}$$

$$ed = \frac{100}{100}$$

ed = 1

161. TBS = Tax Burden on Seller; TBB = Tax Burden on Buyer; Ed= Elasticity of demand and Es = Elasticity of supply, then which one of the following is correct?

(a) TBS / TBB = Ed / Es
(b) TBS / TBB = Es / Ed
(c) TBB / TBS = Ed / Es
(d) TBB / TBS = Ed - Es

UP Higher Asst. Prof. 2021

Ans. (a) : TBS/TBB = Ed/Es

$$\frac{\text{Tax burden on seller}}{\text{Tax burden on buyer}} = \frac{\text{Elasticity of demand}}{\text{Elasticity of supply}}$$

The tax will be developed between the buyer and the seller in the same proportion as will be will he demand elasticity of supply.

162. For complementary goods, the cross elasticity of demand will be

(a) Zero
(b) Infinity
(c) Positive but less than infinity
(d) Negative

UP PGT 2021, 2009

Ans. (d) : There are two types of goods-independent goods and dependent goods (complementary and substitute). If the price of one goods increases/ decreases, he demand for another commodity decrease/increases, then the goods are said to be complementary. There is a negative relationship between the price of a commodity and the demand for its complementary goods. i.e,

(i) If cross elasticity of demand = 0 → Commodities independent or independent
(ii) If cross elasticity of demand = < 0 → Complementary goods.
(iii) If cross elasticity of demand = > 0 → Substituted goods

163. The cross price elasticity of demand is equal to

(a) $\frac{\Delta Q}{\Delta P}.\frac{P}{Q}$ (b) $\frac{\Delta Q_1}{\Delta P_2}.\frac{P_2}{Q_1}$

(c) $\frac{\Delta Q_1}{Q_2}.\frac{P_2}{\Delta P_1}$ (d) $\left(\frac{Q_1+Q_2}{P_1+P_2}\right).\frac{P_1}{P_2}$

UP PGT 2021

Ans. (b) The idea of cross Elasticity of demand was first given by Thomas Moore and detailed explanation by scientist Robert Triffin. Cross elasticity measures the impact of change in price of one goods on the quantity demanded of the other goods.

Cross elasticity of demand

$$= \frac{\%\text{change in quantity demnand for goods x}}{\%\text{change in price of goods}}$$

$$\text{Or cross elasticity of demand } = \frac{\frac{\Delta x}{x}}{\frac{\Delta Py}{py}} = \frac{\Delta x}{\Delta Py}.\frac{Py}{x}$$

Other Facts–

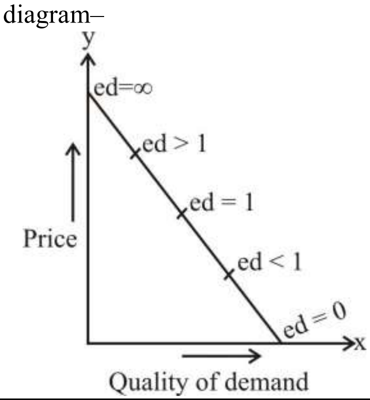
- The cross elasticity of independent goods is zero.
- The cross elasticity of complementary goods is negative.
- The cross elasticity of substitute goods is positive.

164. Elasticity of demand on different point of a demand curve is

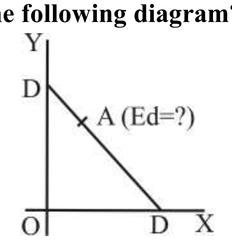
(a) Equal (b) Zero
(c) Infinite (d) Different

UP PGT 2021

Ans. (d) : The elasticity of demand on different point of a demand curve is different. As is clear from the following diagram–



165. What will be 'Elasticity of Demand' at point 'A' given in the following diagram?

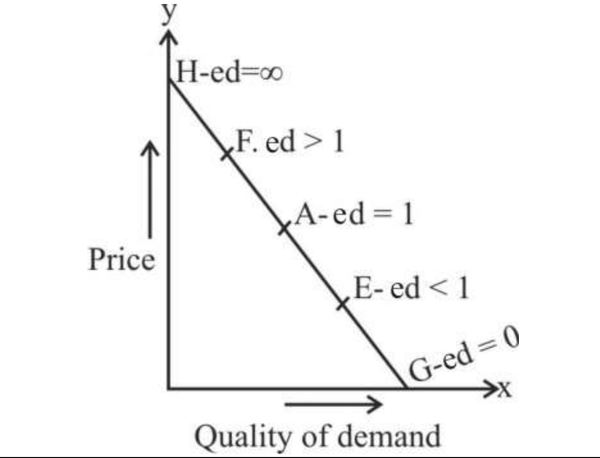


(a) Ed = 1 (b) Ed = 0
(c) Ed < 1 (d) Ed > 1

UPPSC GIC 2021

Ans. (d) : Marshall propounded the geometric method to measure the elasticity of demand at a point on he demand curve.

$$\text{Elasticity of point } = \frac{\text{Lower sector of demand}}{\text{Upper sector of demand}}$$



166. Who gave the scientific explanation of Cross Elasticity of Demand?

(a) Pigou (b) Marshall
(c) Robert Triffin (d) Robertson

UPPSC GIC 2021

Ans. (b) : The elasticity explanation of the cross Elasticity of demand was given by Robert Triffin in his theory of price or value. Cross elasticity of demand is the measure of the relative change in the quantity demand of a given commodity as a result of a change in the price of a related commodity.

167. For the inferior goods, income elasticity is equals to :

(a) Negative (b) Positive
(c) Infinite (d) Zero

Haryana PGT 2020, UPPCS Economics 2004

Ans. (a) : Income elasticity of demand

$$\Rightarrow \frac{\%\text{change in quanity demanded}}{\%\text{change in income}}$$

$$ey = \frac{\Delta x / x}{\Delta y / y}$$

- For normal/essential goods, he income elasticity of demand is less than unity but greater than zero.
- Income elasticity of demand for luxury goods is more than unit.
- The income elasticity of demand for essential goods (like salt) is zero.
- The income elasticity of demand for inferior goods is negative

168. What will be the nature of elasticity of demand of transportation and communication facilities for industrial development of a country ?

(a) Elastic (b) Perfectly elastic
(c) Perfectly inelastic (d) Inelastic

Haryana PGT 2020

Ans. (d) : The nature of elasticity of demand of transportation and communication facilities for industrial development of a country will be perfectly inelastic.

169. Elasticity can be determined using he following formula

(a) $E_p = \frac{q_1 - q_2}{q_1 + q_2} \times \frac{P_1 + P_2}{P_1 - P_2}$ (b) $E_p = \frac{q}{p} \times \frac{p}{q}$

(c) $E_p = \frac{\Delta q}{\Delta p} \times \frac{p}{q}$ (d) $E_p = \frac{\Delta q}{\Delta y} \times \frac{y}{q}$

UP TGT -2016

Ans : (a, c)

$$E_p = \frac{q_1 - q_2}{q_1 + q_2} \times \frac{q_1 + q_2}{q_1 - q_2} \times \frac{P_1 + P_2}{P_1 - P_2}$$

The above formula shows the elasticity of demand. In the context of economics, the term elasticity is used to describe he amount of change in another variable when one economic variable is changed. If a change in one variable results in a greater change in the other variable, then the elasticity is said to be high

170. When the total outlay on a goods remains constant with the change in its price, then it is the case of

(a) Perfectly elastic demand
(b) Perfectly inelastic demand
(c) Perfectly unit demand
(d) Highly elastic demand

UP PGT -2016

Ans : (c) When the total outlay on a commodity remains constant with the change in its price, then this situation shows unitary elastic demand.

171. The cross elasticity of demand for a pair of substitutes is –

(a) Positive (b) Unit
(c) Negative (d) Infinite

UPPGT -2016
UGC NET III Paper June, 2013
UPPGT 2013, 2011

Ans : (a) If the value of cross elasticity of demand is positive ($e_{Ab} > 0$) then both the goods will be substitute goods:-

Elasticity of demand	Nature of goods
I. 0 (zero)	independent goods
II. – (Negative)	Complementary goods
III. + (Positive)	Substitute goods
IV. ∞ (infinite)	Fully substitute goods

172. If marginal revenue is 20 units and price is 40 units, then the value of price elasticity of demand will be–

(a) More than a unit (b) Equal to the unit
(c) Less than unit (d) Equal to zero

UPPSC GDC– 2019

Ans. (a) :

$$e = \frac{AR}{AR - MR}$$

$$e = \frac{40}{40-20}$$

$$e = \frac{40}{20} = 2$$

Hence, the value of price elasticity of demand is more than a unit.

173. Which one of the following is the correct relationship between elasticity of demand (e), price of product (A) and marginal revenue/ income (M)?

(a) $M = A\left(e + \frac{1}{e}\right)$ (b) $M = A\left(\frac{e}{e-1}\right)$

(c) $M = A\left(\frac{1-e}{e}\right)$ (d) $M = A\left(\frac{e-1}{e}\right)$

UP LT Grade -2018

Ans. (d) : The relationship between average revenue (AR) marginal revenue (MR) and price elasticity of demand (e_p) can be explained by the following Formula–

$$MR = AR\left(1 - \frac{1}{e}\right)$$

$$\text{or, } MR = AR\left[\frac{e-1}{e}\right]$$

⇒ If e = 1 then MR will be zero.

⇒ If e > 1 then MR will be positive.

⇒ If e < 1 then MR will be negative.

174. If the value of elasticity of demand is 3, then the relationship between Average revenue (AR) and Marginal revenue (MR) will be shown by which of the following?

(a) $AR = \frac{1}{3}MR$ (b) $MR = \frac{2}{3}AR$

(c) $MR = \frac{1}{3}AR$ (d) $AR = \frac{2}{3}MR$

UP LT Grade -2018

Ans. (b) : $e_p = 3$

$$\text{then, } MR = AR\left(1 - \frac{1}{e}\right)$$

$$MR = AR\left(1 - \frac{1}{3}\right)$$

$$MR = AR\left(\frac{3-1}{3}\right)$$

$$MR = AR\left(\frac{2}{3}\right)$$

175. If demand curve is $x = \frac{100}{p}$, then what will be the elasticity of demand for p = 10 units.

(a) Half (b) One

(c) Zero (d) Infinite

UP LT Grade -2018

Ans. (b)

According to the question, $x = \frac{100}{p}$, p = 10

$$\text{then, } x = \frac{100}{10}$$

x = 10

$$x = \frac{100}{p}$$

$x = 100\ p^{-1}$

$$\frac{dx}{dp} = -100p^{-2} = -\frac{100}{p^2}$$

$$\text{Elasticity of demand } (e_d) = -\frac{dx}{dp}.\frac{p}{x}$$

$$\text{OR } e_d = -\left[\frac{-100}{p^2}.\frac{p}{x}\right]$$

$$= \frac{100}{10^2}.\frac{10}{10} = \frac{100}{100} \times \frac{10}{10}$$

$e_d = 1$

176. If the supply curve is S = 2p² –10 then what will be the elasticity of supply for p 10 unit.

(a) Less than a unit (b) Equal to unit

(c) More than a unit (d) Infinite

UP LT Grade -2018

Ans. (a) : According to the question,

$S = 2p^2 - 10$

p = 10

$$\text{Hence, } \frac{ds}{dp} = 4p = 30$$

Now, $S = 2\ (10)^2 - 10$

then, = 2 × 100 – 10

= 200 – 10

S = 190

$$\text{Elasticity of supply} = -\frac{ds}{dp}.\frac{p}{s}$$

$$= -\left(4p.\frac{10}{190}\right) = -\left(4 \times 10.\frac{10}{190}\right) = -\left(40.\frac{10}{190}\right)$$

$e_s = -2.2$

Therefore, elasticity of supply is less than a unit.

177. If the demand function is 25, then when p = 5, the elasticity of demand will be-

(a) <1 (b) 1

(c) >1 (d) 0

MP Assistant Professor– 2017

Ans. (b) : Is Given–

At demand Function

p = 5, elasticity of demand (e_d) = ?

$q = 25 - 4p + p^2$

$$\frac{dq}{dp} = (-4 + 2p)$$

Putting p =5 in q = 25 – 4p + p^2
q = 25 – 4 × 5 + 5^2
q = 30

$$e_d = \frac{dq}{dp} \times \frac{p}{q}$$

$$= -(-4 + 2p) \times \frac{p}{30}$$

Keeping p = 5

$$e_d = -(4 + 2 \times 5) \times \frac{5}{30}$$

$$= 6 \times \frac{1}{6} = e_d = 1$$

178. The elasticity of demand for foodstuffs according to Engel's law–
(a) Less than unit (b) Equal to units
(c) More than unit (d) None of these

UP PGT-2010

Ans. (a) : Engel proposed the rule on the basis of the relation found between the income of the family and the expenditure on consumption, according to him–
(a) The proportion of expenditure on food will decrease with the increase in income.
(b) The ratio of expenditure on house and clothes will remains constant.
(c) There will be an increase in the proportion of expenditure on education, health and entertainment.

179. If the elasticity of demand is $\frac{\Delta x}{x} / \frac{\Delta p}{p}$ and $\frac{\Delta P}{P} = 0$, then elasticity of demand will be –
(a) Zero (b) Unit
(c) Infinite (d) None of these

MP Assistant Professor– 2017

Ans. (c) :
Is given; elasticity of demand $\frac{\Delta x}{x} / \frac{\Delta p}{p}$ and $\frac{\Delta p}{p} = 0$
keeping the value on, $\frac{\Delta p}{p} = 0$
Elasticity of demand = $\frac{\Delta x}{x} / 0$
Elasticity of demand = ∞(infinite)
(Dividing a number by 0 will give 0).

180. In which case the seller can shift the tax burden entirely on the buyer–
(a) When demand is perfectly elastic
(b) When demand is perfectly inelastic
(c) When demand is highly elastic
(d) When demand is relative elastic

MP Assistant Professor– 2017

Ans. (b) : When demand is perfectly inelastic, then in such a situation the seller can shift the tax burden entirely on the buyer.
On the contrary, when demand is perfectly elastic, the entire burden of tax will fall on the seller. The lower the elasticity of demand, the greater the tax burden on buyer, and vice versa.

181. Income elasticity of demand for luxury goods will
(a) Always positive (b) Always negative
(c) Zero (d) Infinite

MP Assistant Professor– 2017
UPPCS Economics 2007

Ans. (a) : Income elasticity of demand for a luxury goods will always be positive. In respect of these goods, the increase in demand is greater than the increase in income.

182. Which of the following goods, the price elasticity of demand is the least?
(a) Car (b) Salt
(c) Tea (d) House

MP Assistant Professor– 2017

Ans. (b) : Price elasticity of demand for salt is the lowest because change in price does not affect its demand and its consumption remains constant.

183. A demand curve would be a rectangular hyperbola when
(a) e > 1 (b) e = 1
(c) e < 1 (d) e = 0

Uttarakhand Assistant Prof. (GDC)- 2017

Ans. (b) :A demand curve is a rectangular hyperbola when the elasticity of demand is unit (e = 1) at all points.

184. Which of the following is not a method of measuring elasticity of supply?
(a) Percentage method
(b) Total expenditure method
(c) Point method
(d) None of the above

Uttarakhand GIC- 2018, Set-A

Ans. (b) : The elasticity of supply or price elasticity of supply refers to the degree of reactivity of supply of a commodity due to change in its price.

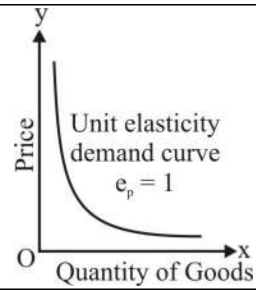
$$\text{Elasticity of supply}(e_p) = \frac{\%\text{change in quantity supplied}}{\%\text{change in price}}$$

Elasticity of supply is measured by percentage method and point method.

185. Increase of unit elasticity at all points, the demand curve is–
(a) Horizontal
(b) Vertical
(c) Rectangular hyperbola
(d) None of the above

Uttarakhand GIC- 2018, Set-A

Ans. (c) : Increase of unit elasticity at all points, the demand curve is rectangular hyperbola.



186. If the demand for a commodity is inelastic, an increase in its price will affect the total expenditure of the consumers of this commodity–

(a) Increase
(b) Decrease
(c) Remain the same
(d) Become zero.

Uttarakhand GIC- 2018, Set-A

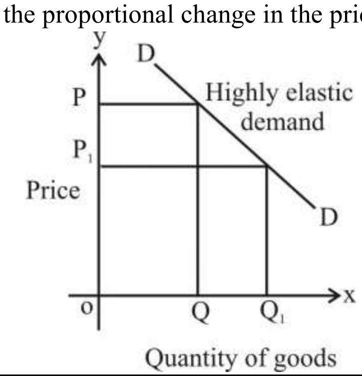
Ans. (a) : If the demand for a commodity is inelastic then it means that the increase in the price of the commodity will not affect the consumption of the consumer. As a result, the increase in the price of this commodity will increase the total expenditure of the consumers of this commodity.

187. When the proportionate change in the demand for a commodity is more than the proportional change in the price, it is called–

(a) Elasticity of demand is zero
(b) Elasticity of demand is unit
(c) Perfectly inelasticity demand
(d) Highly elasticity demand

Uttarakhand GIC- 2018, Set-A

Ans. (d) : Incase of highly elasticity demand, the proportional change in the demand for a commodity is more than the proportional change in the price.

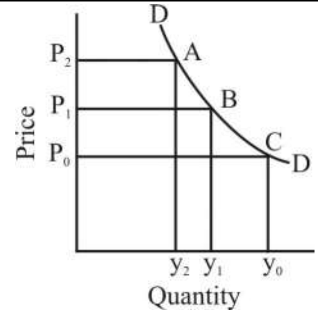


188. The elasticity of rectangular hyperbola is equal to-

(a) One
(b) Less than one
(c) More than one
(d) None of these

UP PGT-2010
UGC NET II Paper Dec. 2006

Ans. (a) : Such a demand curve whose price elasticity at each point i.e., price is equal to unity, then that curve is a rectangular hyperbola.



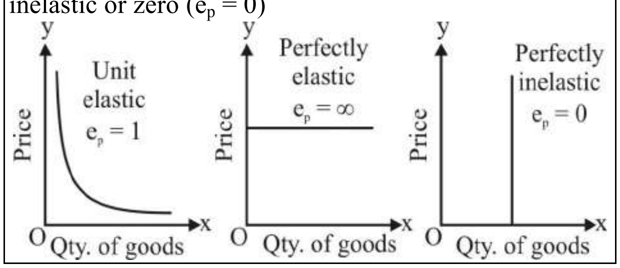
When as a result of a percentage change in the price of a commodity, its quantity demanded changes by the same percentage, then the price elasticity of demand is equal to unity. Price elasticity at the midpoint of a straight line demand curve is equal to unity. price elasticity of demand may be equal to unity at all points on a demand curve. The price elasticity of demand at points A, B and C in the graph is equal to unity. The important feature of this unit price elasticity of demand curve is that is total expenditure remains constant all the prices. Hence the total expenditure at price P_2 which is equal to the area of rectangle OP_2AQ_2, the total expenditure at price P_1 which is equal to the area of rectangle OP_1BQ_1 and the total expenditure OP_0CQ_0 price P_0 are equal to each other. Such a demand curve whose price elasticity at each point i.e., price is equal to one unit is called a rectangular hyperbola in mathematics. Rectangular hyperbola moves towards the axis but does not touch them.

189. If the shape of demand curve is rectangular hyperbola, then the value of price elasticity will be __________.

(a) one
(b) less then one
(c) zero
(d) more then one
(e) less then zero

Chattishgarh Assistant Prof. 2014

Ans. (a) : If the shape of the demand curve is a rectangular hyperbola, then the value of price elasticity will be one ($e_p = 1$). Similarly, if the demand curve is a straight line parallel to the x-axis, then price elasticity of demand is infinite or completely elastic ($e_p = \infty$) and if the demand curve is a vertical line on the x-axis, then the price elasticity of demand will be completely inelastic or zero ($e_p = 0$)



190. Which of the following is the price elasticity of demand for the demand function $q = k_p^{-1}$
(Here p is the price, q is the quantity demanded and k and r are positivity constants)

(a) 1 (b) $\frac{1}{r}$

(c) r

(d) Not constant because the function is non linear.

UGC NTA NET- II Paper Dec., 2018

Ans : (c)

$q = k_p^{-r}$ ...... (i)

$e_d = \frac{-dq}{dp} \cdot \frac{p}{q}$ ..... (ii)

(i) Differentiating with respect to p

$\frac{dq}{dp} = -krp^{-r-1}$

(ii) To

$e = -(-krp^{-r-1}) \cdot \frac{p}{kp^{-1}}$

$k_{rp}^{-r} p^{-1} \times \frac{p^{+1}}{kp^{-r}}$

e = r

191. The price elasticity of a linear supply curve passing through the origin will be–

(a) Unit

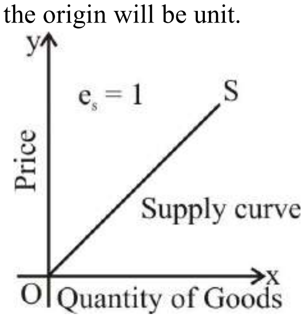
(b) Zero

(c) Less than unit

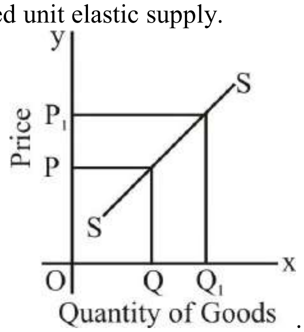
(d) Infinite

UGC NTA NET- II Paper Dec., 2018

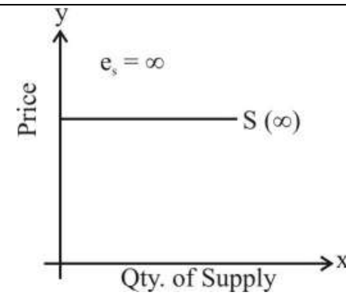
Ans : (a) The price elasticity of a linear supply curve passing through the origin will be unit.



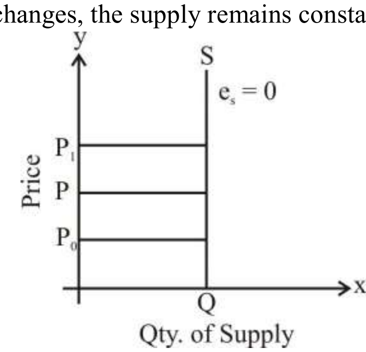
A proportional increase in price as a result of a change in supply is called unit elastic supply.



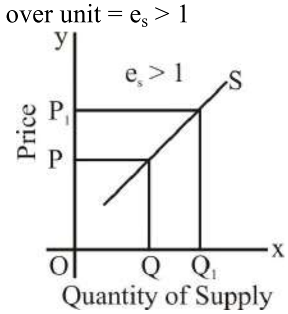
When the quantity supplied is Q, the price level is p and when Q_1, the price level is p_1. So both have increased in the same proportion. Perfectly elastic supply = In this, even a small decrease in price leads to zero supply



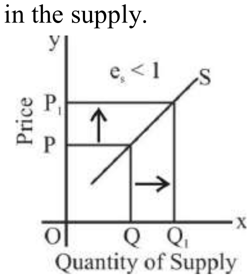
Perfectly inelastic supply = In this case, no matter what the price changes, the supply remains constant.



Elastic supply over unit = $e_s > 1$



When there is a small change in the price, there is a greater increase in the supply.



When a grater change in price results in a smaller increase in supply

192. Where the demand function is p = 16 – q – 0.5 q^2, where Q = 4, the price elasticity of demand will be:-

(a) + 0.5 (b) + 0.2

(c) + 0.7 (d) + 0.3

UGC NET- III Paper Nov., 2017

Ans. (b) :

If demand Function is $p = 16 - q - 0.5\, q^2$, then q = 4

$P = 16 - q - 0.5 - q^2$

$P = 16 - 4 - 0.5 \times 16$

P = 0

$$e_d = \frac{-dq}{dp} \times \frac{p}{q}, \quad \frac{dp}{dq} = 0 - 1 - q$$
$= -1 - 4 = -5$
$$= -\left(\frac{-1}{5} \times \frac{4}{4}\right) \qquad \frac{dq}{dp} = -\frac{1}{5}$$
$$= \frac{1}{5} = 0.2$$

193. In the given demand function $Q = \frac{20}{P}$, where the signs have their usual meaning, at what price will the elasticity of demand be unity?

(a) 20 (b) 10
(c) 5 (d) Suitable all

UGC NET- II Paper Jan., 2017

Ans : (d)

According to the question, $Q = \frac{20}{P}$

Assuming example $= P = 20$
$$Q = \frac{20}{P}$$
$$Q = \frac{20}{20}$$
$Q = 1, P = 20$
$$Q = \frac{20}{P} \text{ or } Q = 20P^{-1}$$
$$\frac{dQ}{dP} = -20P^{-2}$$
$$\frac{dQ}{dP} = \frac{-20}{P^2}$$
$$e_p = \frac{dQ}{dP} \cdot \frac{P}{Q}$$
$$e_p = -\left[-\frac{20}{20^2} \cdot \frac{P}{1}\right] = e_P = 1$$

Similarly, taking the value of P as 10 and 5, the elasticity of demand will be one Hence, the answer would be all of the above

194. What will be the price elasticity of demand the value of x = 2 for the demand function $p = 10 - 2x - 0.5\, x^2$?

(a) Zero (b) 0.5
(c) 1 (d) 1.5

UGC NET- III Paper Jan., 2017

Ans. (b) The price elasticity of demand the value of x = 2 for the demand function $P = 10 - 2x - 0.5\, x^2$ will be 0.5.
$$e_P = -\frac{dQ}{dp} \cdot \frac{P}{Q}$$
$p = 10 - 2x - 0.5\, x^2 \Rightarrow x = 2$
$p = 10 - 4 - 2.0$
$p = 4$

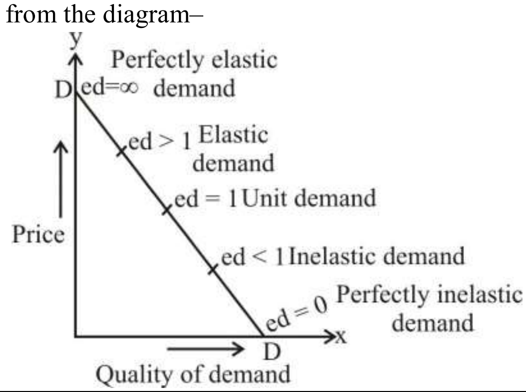
$p = 10 - 2x - 0.5\, x^2$
$$\frac{dp}{dx} = -(-2 - x) \Rightarrow (2 + x)$$
$$\frac{1}{e_p} = -\frac{dp}{dx} \cdot \frac{x}{p} = -\left[-(2+x)\right]\frac{2}{4}$$
$$= (2+2)\frac{2}{4} = \frac{8}{4} = 2$$
$$\frac{1}{e_p} = \frac{2}{1} \Rightarrow e_p = \frac{1}{2} = 0.5$$
$e_P = 0.5$

195. Which of the following is true with respect to a straight line demand curve touching both the axis? Demand is elastic–

(a) Below the mid point
(b) Above the mid point
(c) At the mid point of the curve
(d) At the length of the entire demand curve

UGC NET- II Paper Dec, 2015

Ans : (b) A straight line demand curve touching both the axis is elastic above the mid point. As it is clear from the diagram–



196. When the price of a commodity is Rs. 15, then consumer spends Rs. 240 and when the price of that commodity rises to Rs. 20, he spends Rs. 300. Which of the following is the value of elasticity of demand.

(a) $\frac{2}{3}$ (b) 1
(c) $\frac{3}{20}$ (d) $\frac{1}{30}$

UGC NET- III Paper Dec, 2015

Ans : (*)

According to the question–

$P_1 = 15$ $Q_1 = 240$
$P_2 = 20$ $Q_2 = 300$
$$e_p = \frac{\%\Delta Q}{\%\Delta P}$$
$\Delta P = 20 - 15 = 5$
$$\%\Delta P = \frac{5}{15} \times 100 \frac{100}{3}\%$$

$\Delta Q = 300 - 240 = 60$

$$\%\Delta Q = \frac{60}{240} \times 100 = 25\%$$

$$e_p = \frac{25}{100/3} \Rightarrow e_p = \frac{25 \times 3}{100} \Rightarrow e_p = \frac{3}{4}$$

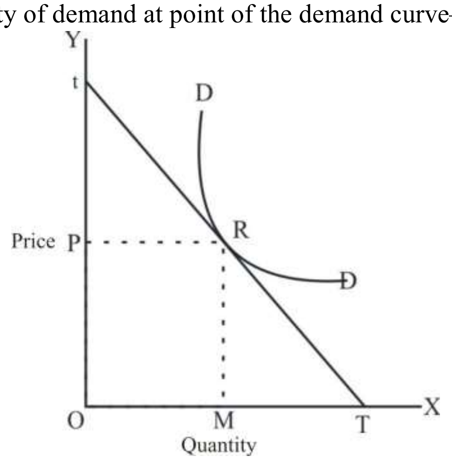
No option is correct

197. Which of the following is correct for a linear demand curve?

(a) Elasticity of demand is unity at all points
(b) Elasticity of demand remain constant at all point
(c) Elasticity increases on a downwards movement of the demand curve.
(d) Elasticity decreases on a downwards movement of the demand curve

UGC NET- III Paper Dec, 2015

Ans : (d) Elasticity decreases on moving down a linear demand curve. To demonstrate this, we find out the elasticity of demand at point of the demand curve–



To find the elasticity of demand at point 'R' in the diagram:-

Slope of the curve at point $R = \frac{-RM}{MT}$

$$e_p = \frac{-\Delta q}{\Delta p} \times \frac{p}{q}$$

Price of commodity at point R = RM, Quantity = OM

at point $= \frac{-\Delta q}{\Delta p} = -\frac{MT}{RM}, \frac{\Delta p}{\Delta q} = \frac{-RM}{MT}$

$$e_p = -\left(-\frac{MT}{PR}\right) \times \frac{RM}{OM}$$

$$= \frac{MT}{OM} = \frac{MT}{PR} = \frac{RT}{tR}$$

$$e_p = \frac{RT}{tR}$$

Thus, point R on the demand curve is the mid-point of the demand line. Therefore, the elasticity of demand can be calculated on the demand line–

(i), At point t, $e_p = \frac{\text{Part below the point t}}{\text{Part above the point t}}$

In the diagram below, the portion of the demand curve above point t is equal to zero, and the portion the demand curve below point t is equal to T. Therefore–

$$e_p = \frac{tT}{O} = \infty$$

(ii) At point A, $e_p = \frac{AT}{tA}$

In the figure below, point A lies above the middle point R. Hence the value of AT will be greater than tA–

$$e_p > 1$$

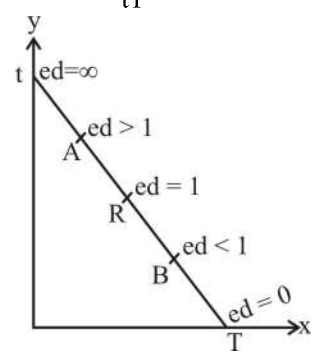
(iii) At point R $e_p = \frac{RT}{tR}$

It is clear from the graph that R is the midpoint of the demand line. Hence

RT = tR i.e., $e_p = 1$

(iv) At point B, $e_p \frac{BT}{tB}$. Hence $e_p < 1$

(v) At point T, $e_p \frac{0}{tT}$ .Hence $e_p = 0$



Thus, on a straight demand line whose slope is not the same at ever point, the elasticity of demand will be different at different points

198. What lowers the income elasticity of demand for food in developed countries?

(a) Zero (b) $0 < e < 1$
(c) 2 (d) 3

Ans. (b) :

Income elasticity of demand

$$= \frac{\%\text{change in demand}}{\%\text{change in income}}$$

1. $e_y > 1$, 10% increase in income results in 20% increase in quantity demanded.
2. $e_y = 1$, 10% increase in income results in 10% increase in quantity demanded.
3. $e_y = 1$, 10% increase in income leads to 5 percent increase in demand.
4. $e_y = 0$, with 10% increase in income, there is no change in demand.
5. $e_y < 0$, 10% increase in income results in 5% decrease in demand.

Thus, In developed countries the income elasticity of demand is less than unit/unit

199. Seller will bear higher burden of tax–

(a) If the demand for the commodity is less elastic.
(b) If the demand for the commodity is inelastic.
(c) If the elasticity of demand of the commodity is high.
(d) If the elasticity of supply of the commodity is high

UGC NET- III Paper June., 2013

Ans : (c) The direct monetary burned of tax imposed on that commodity is divided between the buyers and sellers in the ratio in which the elasticity of demand and elasticity of supply of that commodity are. Other things being equal, greater than elasticity of demand for a taxed goods, greater will be the tax burden on the seller and greater will be the elasticity of supply, greater will be the tax burden on the buyer. If the elasticity of demand is equal to the elasticity of supply, then the monetary burden of the tax will be divided equally between the buyer and the seller.

200. Elasticity of substitution is–

(a) Substitution of cheap inputs for costly inputs.
(b) The rate at which the inputs (labour and capital)
(c) A measure of the responsiveness of the input ratio to changes in the input price ratio
(d) Measure of responsiveness of input prices and substitution of cheaper

UGC NET- III Paper June, 2013

Ans : (c) Elasticity of substitution is a measure of the responsiveness of the input ratio to a change in the input price ratio. In other words, the elasticity of demand for substitution tells how much of one goods will be substituted for the other when the ratio of the prices of the two goods changes.

$$e_s = \frac{\text{Proportionate change in the ratio of quantities consumed of the two goods}}{\text{Proportionate change in the ratio of prices of the two goods}}$$

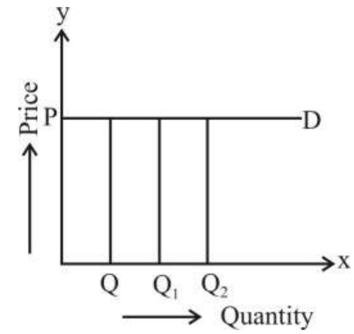
When two goods are perfect substitutes, then the elasticity demand of substitute is infinite, i.e., $e_s = \infty$. If two goods are close substitutes then elasticity of demand for substitutes is greater than unity i.e., $e_s > 1$ and when two goods are independent, then the elasticity of demand for the substitute is zero ($e_s = 0$)

201. The price elasticity of demand curve, which is parallel to the horizontal axis and represents quantity is equal to the following

(a) Zero (b) Infinite
(c) Less than one (d) One

UGC NET- III Paper Dec., 2012
UPPCS Economics-1999
UPPGT 2010, 2002

Ans : (b) : When the demand curve is in the form of a straight line parallel to the x-axis, it shows that the elasticity of demand is infinite. As it is clear from the diagram.

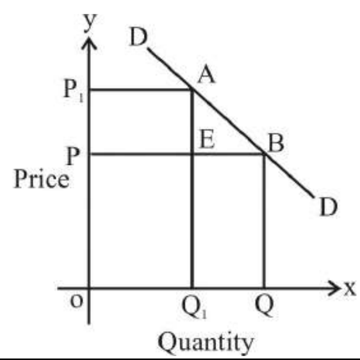


202. The price elasticity of demand is equal to one for the demand curve, which is (demand curve):-

(a) Horizontal line
(b) Vertical line
(c) Rectangular hyperbola
(d) Downward moving line

UGC NET- II Paper Dec. 2011

Ans. (d) : When the relative change in demand of a commodity is equal to the relative change in its price, then there will be unitary elastic demand or unit elasticity of demand. That is $e_d = 1$ as it is clear from the figure.

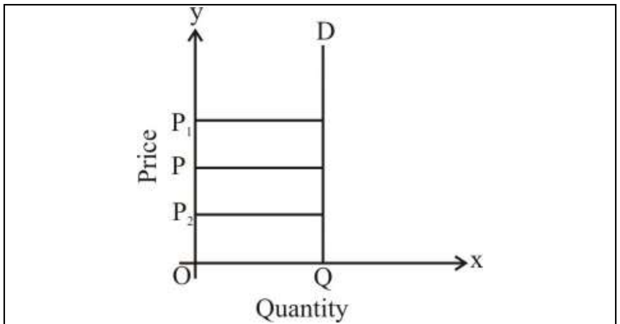


203. Assertion (A): Demand curve line is vertical when the elasticity of demand is zero
Reason (R): Marginal utility of the commodity increases

(a) Both (A) and (R) are correct, and (R) is the correct explanation of (A).
(b) Both (A) and (R) are correct, and (R) is not the correct explanation of (A).
(c) (A) is correct but (R) is wrong.
(d) (A) is wrong but (R) is correct.

UGC NET- II Paper June, 2011

Ans. (c) : The demand curve line is vertical, when the elasticity of demand is zero i.e., even after the change in the price of the commodity, its demand remaining the same, if there is no change in it, then the demand will be completely inelastic.



Using more of a commodity does not increase its marginal utility, but decreases.

204. Which of the following is a measure of price elasticity of demand?

(a) $\frac{\Delta Q_x}{\Delta P_x} \cdot \frac{P_x}{Q_x}$ (b) $\frac{\Delta P_x}{\Delta Q_x} \cdot \frac{P_x}{Q_x}$

(c) $\frac{\Delta Q_x}{\Delta P_x} \cdot \frac{Q_x}{P_x}$ (d) $\frac{\Delta Q_x}{\Delta P_x}$

UGC NET- II Paper June, 2011

Ans. (a) : Price elasticity of demand is the relative change is quantity demanded of a commodity as a result of relative change in its price. That is, relative change in price and quantity demanded of a commodity means proportional or percentage change in them. Price elasticity $(e_p) = -\frac{\Delta q}{q} \div \frac{\Delta p}{p}$

$= -\frac{\Delta q}{q} \times \frac{p}{\Delta p}$

$e_p = -\frac{\Delta q}{\Delta p} \cdot \frac{p}{q}$

Where, Δq = Change in quantity demanded
q = Initial quantity demanded
Δp = Change in the price of the commodity
p = Initial Price of the goods

Page-178, H.L. Ahuja, Micro Eco.

205. The value of elasticity coefficient changes on the line of linear downward demand because–

(a) $\frac{dq}{dp}$ changes (b) $\frac{dp}{dq}$ changes

(c) $\frac{p}{q}$ changes (d) Both a and b

UGC NET- II Paper June. 2009

Ans. (a) : The value of elasticity coefficient changes on the line of linear downward demand because $\frac{dq}{dp}$ changes .

206. Select the correct code from the option given below–
Assertion (A): Price elasticity of demand varies from point to point on a downward moving linear demand curve.
Reason (R): Elasticity does not depend on the slope of the demand curve.

(a) Both (A) and (R) are correct, and (R) is the correct explanation of (A)
(b) Both (A) and (R) are correct, and (R) is not the correct explanation of (A)
(c) (A) is correct, but (R) is wrong
(d) (A) is wrong, but (R) is correct

UGC NET- II Paper Dce. 2006

Ans. (b) : The price elasticity of demand varies from point to point on a downward moving linear demand curve. Price elasticity does not depend only on slope of the demand curve. Hence, Both (A) and (R) are correct, but (R) is not the correct explanation of (A).

207. Which of the following represents arc elasticity?

(a) $\frac{\Delta q.}{\Delta p.} \frac{\text{sum of prices}}{\text{Sum of quantities}}$ (b) $\frac{\Delta p.}{\Delta q.} \frac{p_1 + p_2}{q_1 + q_2}$

(c) $\frac{\Delta q.}{\Delta p.} \frac{p_1 - p_2}{q_1 + q_2}$ (d) $\frac{\Delta q.}{\Delta p.} \frac{p_1 + p_2}{q_1 + q_2}$

UGC NET- II Paper Dce. 2006

Ans. (d) :

Arc elasticity of demand $= -\frac{\Delta q}{\Delta p} \cdot \frac{p_1 + p_2}{q_1 + q_2}$

The part of the demand curve between two points is called an 'Arc', and the related elasticity of demand is called 'Arc elasticity of demand'.

208. If the elasticity of a non linear demand curve is always constant, then the slope of the curve will

(a) be positive
(b) remain unchanged
(c) change from point to point
(d) none of these

UGC NET- II Paper Dce. 2006

Ans. (c) : If the elasticity of a non-linear demand curve is always constant, then the slope of the curve will change from point to point

209. If a change in price gives us different values of elasticity in the rise and fall of price, then we are using–

(a) Point Method
(b) Arc method
(c) Gross cost method (total outlay)
(d) Expenditure method

UGC NET- II Paper Dce. 2006

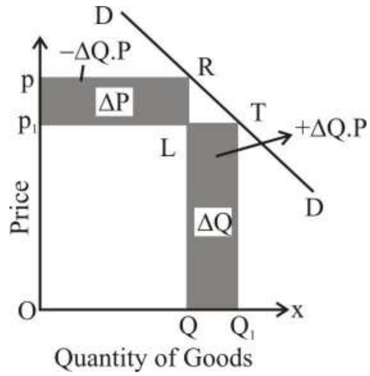
Ans. (a) : If a change in price gives us different values of elasticity in rise and fall of price, then we are using point method.

210. If the expenditure on a commodity increase after an increase in its price, then the elasticity of demand will be-

(a) Less than unit (b) Equal to the unit
(c) More than unit (d) Infinite

UPPCS Economics-2010

Ans. (a) : If a fall in the price of a commodity results in a decrease in total expenditure, then the price elasticity of demand will be less than unit. It is because, a fall in price will result in a decrease in total expenditure on the goods only if the percentage increase in quantity demanded is less than the percentage decrease in price. These, when total expenditure increases with increases in price, the price elasticity of demand will be less than unity



It will be seen in the figure that ΔQ.P < ΔP.Q

$$\frac{\Delta Q.P}{\Delta P.Q} < 1$$

Hence, $\frac{\Delta Q.P}{\Delta P.Q} = e_p < 1$

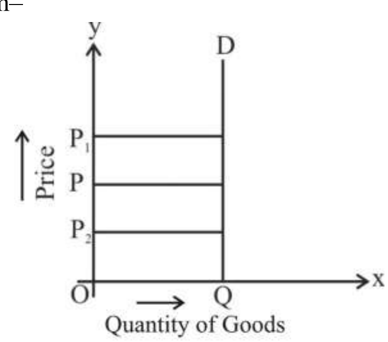
Similarly, an increase in price leads to an increase in total expenditure, will still be $e_p < 1$.

211. If the quantity demanded of a commodity remain unchanged despite a fall in its price, then the price elasticity of demand is –

(a) Zero (b) Equal to one
(c) Less than one (d) More than one

UPPCS Economics-2009

Ans. (a) : If the quantity demanded of a commodity remains unchanged despite of fall in its price, then the price elasticity of demand is zero. As it is clear from the diagram–



212. When the price is Rs. 10, then the quantity demanded is 5 kg. If the price falls to Rs. 6, then the quantity demanded is 4 kg. what will be the elasticity of demand

(a) < 1 (b) = 1
(c) > 1 (d) none of these

UPPCS Economics-2008

Ans. (a) : $e_p = -\frac{\Delta q}{\Delta p}.\frac{p}{q}$

$p_1 = 10, q_1 = 5$ kg

$p_2 = 6, q_2 = 4$kg

$\Delta p = 4, \Delta q = 1$

$e_p = \frac{1}{4} \times \frac{10}{5}$

$\Rightarrow \frac{1}{2}$

Hence, elasticity of demand will be $e_p > 1$.

213. Given a demand function P.Q. = 60 where P is the price and Q is the quantity. If P = 6 in the function, then the price elasticity of demand will be –

(a) – 6 (b) + 6
(c) + 1 (d) – 1

UPPCS Economics-2007, 2000

Ans. (c)

Price elasticity of demand $(e_p) = \frac{-dq}{dp}.\frac{P}{Q}$

given P.Q. =60

$\frac{dQ}{dp} = \frac{-60}{p^2}$

$= -\left(\frac{60}{p^2}\right)$

PQ = 60

$Q = \frac{60}{6}$

Q = 10

$e_p = \frac{-dQ}{dP} \times \frac{P}{Q}$

$= -\left[-\frac{60}{P^2} \times \frac{6}{10}\right] = \frac{60}{36} \times \frac{6}{10} \Rightarrow 1$

214. If the cross elasticity of demand of two goods A and B is zero, so it's more likely that those goods are–

(a) Same (b) Independent
(c) Complementary (d) Substituted

UPPCS Economics-2007

Ans. (b) : Cross elasticity of demand is the measure of the relative change in the quantity demanded of another goods as a result of a changed in the price of a related goods.

$$e_{AB} = \frac{\Delta q_A}{\Delta q_B}.\frac{p_B}{q_A}$$

If the value of cross elasticity of demand is zero i.e., $e_{AB} = 0$, then such goods are neither complementary nor substitute but will be open or independent

215. When the cost of a commodity is Rs. 10 per unit, then the consumer will spend Rs. 160 on it, and when the price increases to Rs. 12, then its expenditure is Rs. 192. The elasticity of demand for the commodity is–

(a) Equal to the unit (b) Inelastic
(c) Super elastic (d) Indeterminable

UPPCS Economics-2006

Ans. (a) : When the change in price of a commodity changes the quantity demanded so much that the total expenditure on its remains the same, then the price elasticity will be equal to unit. The reason is that with a changed price, total expenditure can remain the same only if the percentage change in quantity demanded (%ΔQ) is equal to the percentage change in price (%ΔP).

According to the question,

$P_1 = 10$ $Q_1 = 160$
$P_2 = 12$ $Q_2 = 192$

$$e_p = \frac{\%\Delta Q}{\%\Delta P}$$
$$\Delta P = 12 - 10 = 2$$
$$\%\Delta P = \frac{2}{10}\times 100 = 20\%$$
$$\Delta Q = 192 - 160 = 32$$
$$\%\Delta Q = \frac{32}{160}\times 100 = 20\%$$
$$e_p = \frac{20}{20} = 1$$
$$e_p = 1$$

216. The income elasticity of demand for food grains is–

(a) Less than unit (b) More than unit
(c) Equal to the unit (d) Indeterminable

UPPCS Economics-2006

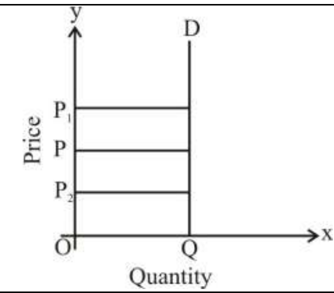
Ans. (a) : Income elasticity of demand for food grains is less than unit

217. The total expenditure of a consumer is not affected as a result of a price change if the price elasticity of demand is –

(a) Inelastic
(b) Elastic equal to unit
(c) Highly inelastic
(d) Perfectly inelastic

UPPCS Economics-2004

Ans. (d) : In total expenditure of consumer is not affected as a result of a price change if the price elasticity of demand is perfectly inelastic. Even after change in the price of a commodity, its demand remains the same, if there is no change in it, then the demand will be perfectly inelastic.



218. The price elasticity of demand in the demand function $q = ap^b$ is–

(a) a (b) 1
(c) b (d) ab

UPPCS Economics-2004, 2006

Ans. (c) : According to the question, $q = ap^b, e_p = ?$

$$e_p = -\frac{dq}{dp}.\frac{p}{q}$$
$$q = ap^b$$
$$\frac{dq}{dp} = bap^{b-1}$$
$$e_p = -\left(bap^{b-1}.\frac{p}{q}\right)$$
$$= -\left(bap^{b-1} - \frac{p}{ab^b}\right)$$
$$= -\left(bap^b.p^{-1}.\frac{p}{ab^b}\right)$$

ep = b

Demand function $q = ap^b$ in price elasticity of Demend is b.

219. The longer the time period, the elasticity of supply will be–

(a) Perfectly elastic (b) Inelastic
(c) Highly elastic (d) Static

UPPCS Economics-2004

Ans. (c) : Supply represents the quantity of a commodity that a seller is willing to sell at a given time and at a given price. The supply of a perishable goods is inelastic, whereas the supply of a durable goods is elastic.

Time also has on effect on the elasticity of supply. The shorter the time with producers, the more inelastic is the elasticity of supply, and vice versa, the more time producers have, the more elastic the elasticity of supply.

220. Point elasticity of demand can be measured b which of the following formula:-
(The meaning of the symbols/abbreviations in general)

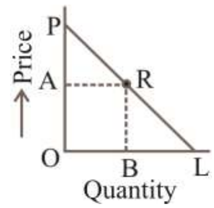
(a) $\frac{Q_1 - Q_0}{P_1 - P_0}\times\frac{P_1 + P_0}{Q_1 + Q_0}$ (b) $-\frac{\Delta Q}{\Delta P}\frac{P}{Q}$

(c) $\frac{dQ}{dP}.\frac{P}{Q}$ (d) $\frac{\Delta P / P}{\Delta Q / Q}$

UPPCS Economics-2003

Ans. (b) : The point elasticity of demand is measured by the following formula

$$-\frac{\Delta Q}{\Delta P}.\frac{P}{Q}$$



221. The elasticity of supply for the supply function q = 20 p is

(a) Zero (b) Unit
(c) More than unit (d) Less than unit

UPPCS Economics-2003

Ans. (b) : According to the question,

q = 20p, P = price, e_s = ?

$$e_s = -\frac{dq_s}{dp}.\frac{P}{q_s}$$

q = 20p

$$\frac{dq}{dp} = 20$$

$$e_s = 20.\frac{P}{20p} = 1$$

e_s = 1

The elasticity of supply for the supply function d = 20p is unit.

222. As a result of an increase in the price of tea from Rs. 40 per pound to Rs. 50 per pound, the demand for coffee increases from 600 pound to 720 pound. The cross elasticity of demand is–

(a) 1/2 (b) 2/3
(c) 3/4 (d) 4/5

UPPCS Economics-2002

Ans. (d) : Cross elasticity of demand

$$(e_{AB}) = \frac{\Delta QA}{\Delta P_B}.\frac{P_B}{Q_A}$$

Is given,
Initial price = 40
Increased price = 50
Initial demand = 600 pound
Increased demand = 720 pound

Cross elasticity of demand $= \frac{120}{10} \times \frac{40}{600} = \frac{4}{5}$

223. When the cross elasticity of price between two goods is zero, then such goods are called–

(a) Independent goods
(b) Luxury goods
(c) Substitute goods
(d) Complementary goods

UPPCS Economics-2001,1998,1996

Ans. (a) : Cross elasticity of demand is the measure of the relative change in the quantity demanded of a given goods as a result of a change in the price of a related goods.

If the value of cross elasticity of demand is zero, i.e. e_{AB} = 0 then such goods are independent or independent goods.

If the value of cross elasticity of demand is positive, i.e., $e_{AB} > 0$ then both the goods will be substitute goods.

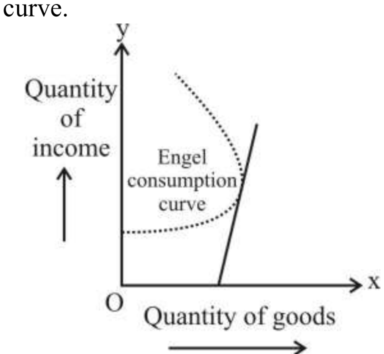
If the value of cross elasticity of demand is negative i.e, $e_{AB} < 0$ the both the goods are complementary to each other.

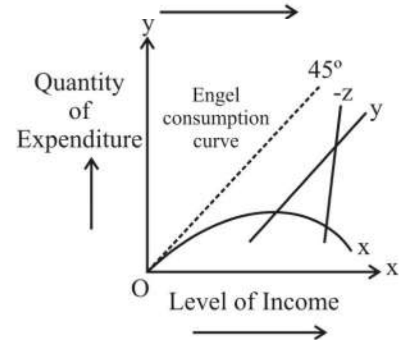
224. The elasticity of demand for food items according to the Engel's law is:

(a) Less than unit (b) Equal to unit
(c) More than unit (d) Infinite

UPPCS Economics-2001

Ans. (a) : After studying the family budget of different income groups, the German Statistical Engel concluded that the proportion of expenditure on food will decrease, the proportion of expenditure on housing and clothing will remain constant and there will be an increase in the expenditure ratio on all other items like education, health and entertainment etc. In this way, the curve drawn by him to show the relationship between the level of income and the amount of expenditure is called Engel curve.





According to the Engel's law, the elasticity of demand for food items is less than unit.

225. The cross elasticity of demand is –

(a) Always positive
(b) Always Negative
(c) Negative towards substitute goods
(d) Negative in demand with complementary goods

UPPCS Economics-2001
UPPGT- 2010

Ans. (d) : Cross elasticity of demand is the measure of the relative change in the quantity demanded of a given commodity as a result of the change in the price of related commodity.

Thus, if both the goods A and B are substitutes, then the cross elasticity of demand will be positive. Similarly if A and B are negative complementary to each other, then the cross elasticity of demand will be positive. If the value of cross elasticity of demand is zero i.e., $e_{AB} = 0$ then such a commodity will be independent or independent.

If the value of cross elasticity of demand is negative i.e, $e_{AB} < 0$ then the goods will be complementary to each other and if the value of cress elasticity is positive i.e., $e_{AB} > 0$ then both the goods will be substitutes.

226. The marginal revenue for a commodity is constant, the elasticity of demand on its related demand function will be–

(a) Unit (b) Infinite
(c) Indeterminable (d) Zero

UPPCS Economics-2000

Ans. (c) : If the marginal revenue for a commodity is constant, then the elasticity of demand on its related demand elasticity function will be unit.

227. A goods comes under the category of luxury, if its income elasticity of demand-

(a) Less than unit (b) More than unit
(c) Equal to unit (d) Less than zero

UPPCS Economics-2000, UPPGT-2009

Ans. (b) : A goods comes under the category of luxury if its income elasticity demand is more than unit, because more of increase in income is spent on such goods (Luxury goods). The income elasticity of demand for necessary commodities is less than unit, but greater than zero, and the income elasticity of demand for essential commodities (salt and medicines) is zero. In respect of inferior goods, income elasticity is negative because the demand for such goods decreases with the increase in the income of the consumer.

228. If the price of a commodity is Rs. 20, and the elasticity of demand is 2.5, the marginal revenue of the producer will be-

(a) ₹8 (b) ₹50
(c) ₹12 (d) ₹18.5

UPPCS Economics-1999

Ans. (c) :

$$MR = AR\left(1-\frac{1}{e}\right)$$

$$MR = 20\left(1-\frac{1}{2.5}\right)$$

$$= 20\left(1-\frac{10}{25}\right)$$

$$= 20\left(\frac{25-10}{25}\right)$$

$$= 4 \times 3 = 12$$

229. If the cross elasticity of demand for two goods is positive, then those goods-

(a) Substitute
(b) Complementary
(c) Not related to each other
(d) None of the above

UPPCS Economics-1999

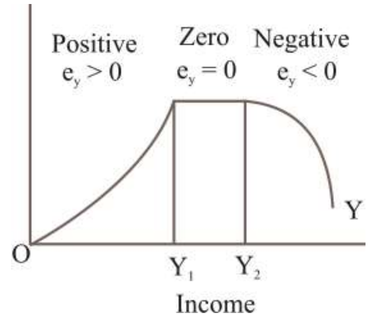
Ans. (a) : If the cross elasticity of demand for two goods is positive then those goods are substitutes. If the cross elasticity of demand for two goods is negative, then those goods are complementary to each other. If the value of cross elasticity of demand is zero i.e., $e_{AB} = 0$ then in such a situation, the goods neither be complementary nor substitutes but will be independent. The idea of cross elasticity of demand was first introduced by Thomas Moore in his book synthetic economics Robert Triffin used it in the theory of value/price.

230. The income elasticity of demand for the inferior goods is –

(a) Positive (b) Negative
(c) Zero (d) Infinite

UPPCS Economics-1999

Ans. (b) : The income elasticity of demand for inferior goods is negative. The income elasticity of normal goods is less than unit. The income elasticity of luxury goods is greater than unit.



231. The elasticity of supply refers to the charge in supply due to the following reasons–

(a) Price of the commodity
(b) Consumer interest
(c) Terms of supply
(d) Demand of the commodity

UPPCS Economics-1997

Ans. (b) : The elasticity of supply present a quantitative measure. Elasticity of supply refers to the change in the quantity supplied of a commodity due to a change in its price.

$$\text{Elasticity of supply} = \frac{\text{Proportionate change in quantity supply}}{\text{Proportionate change in price}}$$

Time affects the elasticity of supply. The shorter the time with producers,. the more inelastic the elasticity of supply and the longer the time, the more elasticity is the elasticity of supply. Thus the supply of a perishable goods is inelastic while that of a durable goods is elasticity.

232. **The demand curve for food grains is generally–**

(a) Elastic (b) Inelastic

(c) Unit Elastic (d) Perfectly elastic

UPPCS Economics-1997

Ans. (b) : The demand curve for food grains is generally inelastic.

233. **The cross elasticity of demand between two substitute goods will be–**

(a) More (b) Very much

(c) Less (d) Infinite

UPPCS Economics-1997

Ans. (*) :The cross elasticity of demand between two substitute goods is positive. Which is not given in the option. If two goods are complementary then the cross elasticity of demand is negative.

234. **Which of the following formula is suitable for measuring arc elasticity of demand**

(a) $\frac{\text{Percentage change in demand}}{\text{Percentage change in price}}$

(b) $\frac{\text{Percentage change in total expenditure}}{\text{Percentage change in price}}$

(c) $\frac{\text{Change in price}}{\text{Old price + new price}}$

$\frac{\text{Change in demand}}{\text{Old quantity demand + New quantity demand}}$

(d) $\frac{\text{Change in demand}}{\text{Old quantity demand + New quantity demand}}$

$/ \frac{\text{Change in price}}{\text{Old price + new price}}$

UPPCS Economics-1997

Ans. (d) : The Arc elasticity of demand method is used to determine the elasticity of when it moves between two points on the demand curve. The part of the demand curve between two point is called an 'arc' and the corresponding elasticity of demand is called arc elasticity of demand.

Arc elasticity of demand =

$-\frac{\text{Change in demand}}{\text{Old quantity demand + New quantity demand}}$

$\frac{\text{Change in price}}{\text{Old price + new price}}$

$$\boxed{e_p = \frac{-\Delta q}{\Delta p} \cdot \frac{P_1 + P_2}{q_1 + q_2}}$$

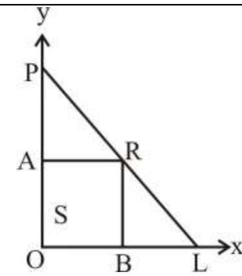
235. **The value of elasticity of demand at the midpoint of a straight line demand curve which cuts both the axes will be–**

(a) 2.0 (b) 1.5

(c) 1.0 (d) 0.5

UPPCS Economics-1997

Ans. (c) : The value of elasticity of demand at the midpoint of a straight line demand curve that cuts both the axes will be 1.0. As it is clear in the diagram–



In he figure PL line is a straight line, Elasticity of demand is to be found at point R.

$e_p = \frac{-\Delta q}{\Delta P} \cdot \frac{P}{q}$

Change in quantity $\Delta q = OL - OL - OB = BL$

Change in price $\Delta P = 0 - RB = -RB$

Lope of demand line $\frac{\Delta P}{\Delta q} = \frac{-RB}{BL}$

Hence $\frac{\Delta q}{\Delta P} = \frac{1}{-RB} = \frac{BL}{-RB}$

Price of commodity at point R– P = 0A and quantity q = OB

$e_p = -\left(\frac{BL}{-RB}\right) \cdot \frac{OA}{OB}$

$= \frac{BL}{RB} \cdot \frac{RB}{OB}$ $\therefore$ OA = RB

$= \frac{BL}{OB} = \frac{BL}{AR}$

In the figure, ΔPAR and ΔRBL are similar, so

$= \frac{BL}{AR} = \frac{RL}{PR} = \frac{\text{Lower portion of the demand curve}}{\text{Upper portion of the demand curve}}$

236. **The negative income elasticity of demand means that when income falls, then the quantity purchased of the commodity**

(a) Increases

(b) Decreases

(c) Remain unchanged

(d) Any one of the above

UPPCS Economics-1996

Ans. (a) : The negative income elasticity of demand means that when income falls, so the quantity purchased of the commodity increases. Income elasticity of demand refers to the measure of the relative change in demand for a commodity as a result of a change in the income of a consumer, if the price of the commodity remains unchanged.

$$e_y = \frac{\Delta q}{\Delta p} \cdot \frac{y}{q}$$

Generally, the income elasticity of demand for a commodity is positive.

237. The price elasticity of demand on a linear demand function is –
(a) Increases as the point moves down
(b) Decreases as the point moves down
(c) Y is the minimum of a point on the axis
(d) Remains the same at all points

UPPCS Economics-1995

Ans. (b) : On a linear demand function, the price elasticity of demand decreases as the point moves down.
Point elasticity of demand =
$$\frac{\text{Lower poriton of the demand curve}}{\text{Upper portion of the demand curve}}$$

238. The cross elasticity of demand is expressed as
(a) $\frac{\text{Percentage change in quantity demanded of good x}}{\text{Percentage change in price of good y}}$
(b) $\frac{\text{Percentage change in quantity demanded of commodity x}}{\text{Percentage change in price of commodity x}}$
(c) $\frac{\text{Percentage change in quantity demanded of commodity x}}{\text{Percentage change in price of commodity y}}$
(d) $\frac{\text{Percentage change in price of commodity x}}{\text{Percentage change in demand of commodity y}}$

UPPCS Economics-1995

Ans. (a, c) : The cross elasticity of demand is the measure of the relative change in the quantity demanded of a given commodity as a result of a change in the price of a related commodity
$$e_{AB} = \frac{\text{Proportional change in the demand of commodity A}}{\text{Proportional change in price of commodity B}}$$
If both the goods A and B are substitutes, then the income elasticity of demand will be positive.
If both the goods A and B are complementary to each other, then the income elasticity of demand will be negative.

239. The cross elasticity of demand between perfect substitute goods is
(a) Excessive (b) Very little
(c) More (d) Infinity

UPPCS Economics-1994
UPPGT 2003,2000

Ans. (d) : If two goods are perfect substitutes, then the elasticity of demand is infinite. This is the reason why the indifference curve of all substituent is in the shape of a straight curve.

Value of cross elasticity	**Nature of commodity**
0	Independent goods
–	Complementary goods
+	Substitute goods
∞ (infinite)	Perfect substitute goods

240. If the elasticity of demand of a commodity is less than unit, then the fall is its price will result in a proportion to the quantity bought of it–
(a) Will be less change
(b) Will be more change
(c) Will be same change
(d) Will be no change

UPPCS Economics-1993

Ans. (a) : If the elasticity of demand of a commodity is less than unit, then a fall in its price will result in less than a proportionate change in the quantity bought.

241. In relation to which commodity the elasticity of demand is positive-
(a) Increase in demand
(b) Decrease in demand
(c) Contraction in demand
(d) Expansion in demand

UPPCS Economics-1993

Ans. (a) : The elasticity of demand in relation to increase in demand of the commodity is positive.

242. The elasticity of demand at a point on the line is–
(a) e_p = upper part/lower part
(b) e_p = lower part/upper part
(c) e_p = left side part/right side part
(d) e_p = right side part/left side part

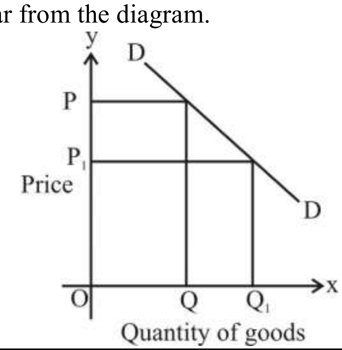
UPPCS Economics-1992

Ans. (b) : The elasticity of demand at a point on a line
$$e_p = \frac{\text{lower part}}{\text{upper part}}$$

243. If the price of a scooter is decreased by 10% and its demand is increased by 30%, then the elasticity of demand will–
(a) Inelastic (b) Elastic
(c) Perfectly inelastic (d) Perfectly elastic

UPPCS Economics-1992

Ans. (b) : If the price of a scooter is decreased by 10% and its demand is increased by 30%, then the elasticity of demand will be elastic.
When the relative change in demand for a commodity is greater, then the demand for that commodity is elastic. As it is clear from the diagram.



244. MR is zero, if the elasticity of demand is–
(a) More than unit (b) Equal to unit
(c) Less than unit (d) Zero

UPPCS Economics-1991

Ans. (b) : If the elasticity of demand is equal to the unit, then MR is zero.

245. In the following formula–

$$\text{elasticity coefficient} = \frac{?}{\text{Percentage change in price}}$$

In place of above (?) it will be written:-

(a) Percentage change in Quantity demand
(b) Change in demand
(c) New demand
(d) Basic demand **UP PGT-2002**

Ans. (a) : The elasticity of demand is the measure of the relative change in the quantity demanded of the commodity as a result of the relative change in the price of the commodity. Formula–

Elasticity of demand =

$$= \frac{\%\text{change in quantity demanded}}{\%\text{change in price}}$$

246. In the following demand schedule, if the price decreases from Rs. 4 per unit to Rs 2 per unit, then the elasticity of demand will be–

Demand schedule

p	q
4	50
3	60
2	75

(a) More than unit (b) Equal to unit
(c) Less than unit (d) Zero
UP PGT-2002

Ans. (b) :

$$\text{Elasticity of demand} = \frac{-\text{proportional change in quantity demand}}{\text{proportional change in price}}$$

$$= \frac{\dfrac{-\text{change in demand}}{\text{Pre- Demand quantity}}}{\dfrac{\text{change in price}}{\text{amount of prior value}}} = \frac{\dfrac{\Delta Q}{Q}}{\dfrac{\Delta P}{P}}$$

$$= -\frac{\Delta Q}{\Delta P} \times \frac{P}{Q} \text{ on keeping}$$

$$= -\frac{75-50}{2-4} \times \frac{4}{50} = -\frac{25}{-2} \times \frac{4}{50}$$

$$\Rightarrow \frac{2}{2} = 1 \text{ (equal to unit)}$$

247. As a result of change in the price of one goods, when then demand for both the goods increases or decreases, then the cross elasticity of demand will be

(a) Negative (b) Positive
(c) Zero (d) Equal to unit
UP PGT-2002

Ans. (a) : If the demand for another commodity decreases (increases) when the price of a commodity increases (decreases), then the goods are said to be mutually complementary. There is a negative relationship between the price of a commodity and the demand for its complementary commodity, i.e, $e_{AB} < 0$

248. Unitary elasticity of demand means–

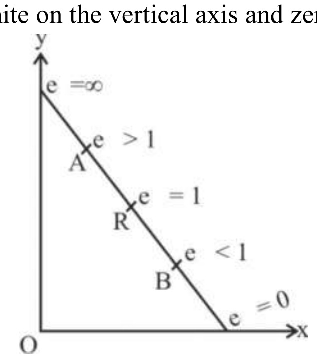
(a) Zero (b) Equal to 1
(c) More than 1 (d) Less than 1
UP PGT-2004

Ans. (b) : When the relative change in in demand of a commodity is equal to the relative change in its price, then the demand for that commodity is called unitary demand or unity demand

249. The price elasticity of demand at each point on the demand curve for a linear demand curve is–

(a) Remains constant
(b) Gets Changes
(c) Changes but this change is between zero and unit
(d) Changes but this change is between zero and infinity **UP PGT-2004**

Ans. (d) : The elasticity of demand lies between zero and infinite at every point of a linear demand curve. It is infinite on the vertical axis and zero on the base axis.



250. If demand function is $D = \frac{400}{P}$, then the price elasticity of demand at 40 units will be–

(a) $\frac{1}{2}$ (b) $\frac{3}{4}$
(c) Unit (d) Two
UP PGT-2004

Ans. (c) :

$$\textbf{Elasticity of demand} = -\frac{\Delta q}{\Delta p} \cdot \frac{P}{Q} \textbf{ or } \frac{\Delta D}{\Delta P} \cdot \frac{P}{D}$$

$$D = \frac{400}{P}, D = \frac{400}{40} = 10$$

D = 10, P = 40

$$e_p = -\frac{dq}{dp} \cdot \frac{p}{q} \text{ or } e_p = -\frac{dD}{dP} \cdot \frac{P}{d}$$

$$D = \frac{400}{P}$$

$$\frac{dP}{dp} = -400p^{-2}$$

$$e_p = -\left(-\frac{400}{p^2} \cdot \frac{40}{10}\right)$$

$$= \frac{400}{40^2} \cdot \frac{40}{10}$$

$\mathbf{e_p = 1}$

251. **When the demand curve is a rectangular hyperbola, then the elasticity of demand will be**
(a) Unit elastic (b) Perfectly elastic
(c) Perfectly inelastic (d) Highly elastic
UP PGT-2005

Ans. (a) : Such a demand curve whose price elasticity at every point i.e, price is equal to unit, then that curve is a Rectangular

252. **The concept of cross elasticity of demand was introduced by–**
(a) Marshall (b) Hicks
(c) Schulz (d) Dalton
UP PGT-2009

Ans. (b) : According to the elasticity of demand, and the transfer of goods and the classification of complementary goods, the demand for one commodity is based on the total price effect resulting from a decrease in the price of another commodity in which there is no compensatory change in income. Hicks in his book 'value and capital' presented the idea that a more correct classification of substitutes and complements can be made only on the basis of the substitution effect of the price change.

253. **If the price elasticity of demand of a goods is more than unit, then the increase in the price of the goods, the total expenditure in change on that goods will be–**
(a) Increase
(b) Decrease
(c) Remains the same
(d) Nothing can be said, other more information is required. **UP PGT-2009**

Ans. (b) : When the elasticity of demand is more than unit (e > 1) i.e, the relative change in demand for a commodity is more than the relative change in its price, then the demand for that commodity will be said to be more elastic for Example-due to an increase of 10% in the price of a commodity, there is a decrease of 30% in the demand of the commodity.

254. **20 Units of that commodity are demanded at a price of Rs. 5 per unit. If the price of the commodity decreases to Rs. 4 per unit, so that the demand increases to 25 units, then what will be the elasticity of demand?**
(a) 0.5 (b) 1.0
(c) 1.25 (d) 1.50 **UP PGT-2009**

Ans. (c) :

$$e_p = -\frac{\Delta q}{\Delta p} \times \frac{p_1}{q_1}$$

$$p_1 = 5, p_2 = 4, \Delta p = p_2 - p_1 = 4 - 5 = -1$$

$$q_1 = 20, q_2 = 25, \Delta q = q_2 - q_2 = 25 - 20 = 5$$

Put the value $= -\frac{5}{-1} \times \frac{5}{20}$

$$= \frac{5}{4} = 1.25$$

255. **Who first used the concept of elasticity of demand in economic theory?**
(a) Mill (b) Marshall
(c) Wicksell (d) Wicksteed
UP PGT-2009

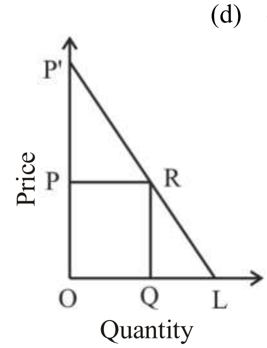
Ans. (b) : In the context of solving various problem in economics has an important place of elasticity of demand. This concept was first developed by Marshall, According to him, as a result of a change in price, the change in demand, in what proportion, depends on the ability of demand to change at different prices. This capacity will be the price elasticity of demand.

256. **The quantitative relationship between the quantity demanded of a commodity and its price is explained–**
(a) On the basis of law of demand
(b) On the basis of elasticity of demand
(c) Combined use of both
(d) By non of the above
UP PGT-2010

Ans. (b) : Elasticity of demand is measure of the relative change of the quantity demanded of the commodity as a result of the relative change in the price of the commodity.
Elasticity of demand

$$= \frac{\text{Proporitonate change in qunatity demanded}}{\text{Proportionate change in price}}$$

257. **The elasticity of the middle part of a straight line demand curve is equal to–**
(a) 2 (b) 1/2
(c) 1 (d) 4



UP PGT-2010

Ans. (c) : The elasticity of the middle part of a straight line demand curve is equal to the unit. The demand line is a straight line whose elasticity of demand at point R is 1, because the elasticity of demand =

$$\frac{\text{Lower portion of the demand curve}}{\text{Upper portion of the demand curve}}$$

258. **Which one of the following demand curves is not a constant elasticity curve?**
(a) Linear
(b) Rectangular hyperbola
(c) Horizontal
(d) Vertical **UP PGT-2010**

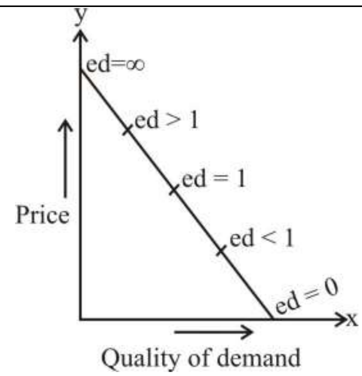
Ans. (a) : For a linear demand curve, the price relative elasticity of demand changes at end point of the demand curve, but this change is between zero and infinity, whereas in a rectangular hyperbola, the elasticity of demand is unit vertical and the elasticity of demand on the horizontal demand curve is infinite.

259. The elasticity of demand on moving from top to bottom on the demand line–

(a) Decreases (b) Increases
(c) Remains unchanged (d) Not certain

UP PGT-2011

Ans. (a) : Price elasticity of demand shows the variability in demand of a commodity as a result of change in its price. Price elasticity is always negative because in price and quantity demanded change in opposite direction.



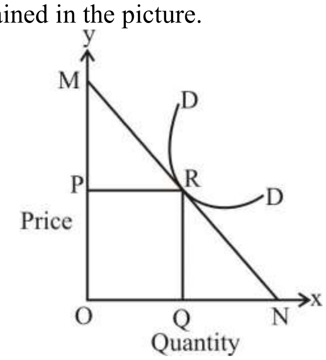
On moving from top to bottom on a demand line, the elasticity of demand decreases

260. If a straight demand line touches a straight demand curve, then the elasticity of both the demand curves at the point of contact–

(a) Will be one
(b) Will be different
(c) Either one or different
(d) It depends on the position of the point of contact

UP TGT-2003

Ans. (a) : If a straight demand line touches a curve linear demand curve, then the elasticity of both the demand curves will be same at the point of contact. This can be explained in the picture.



In the figure, MN represents the straight demand line and DD curve represents the linear demand curve which are touching each other at point R, Elasticity of demand at point .

$$R = \frac{\text{Lower portion of point R}}{\text{Upper portion of point R}} = \frac{RN}{RM}$$

Hence it is clear that the elasticity of both the curves at the point of contact R, will be same.

261. If the income elasticity of demand of a commodity is more than unit, then the commodity-

(a) Is an necessary (b) Luxury
(c) Inferior thing (d) None of these

UP TGT-2004

Ans. (b) : The elasticity of income demand curve for luxury goods is high i.e., positive. In such a situation, if the income increases, then the demand for such goods will increases.

262. Marginal revenue will be negative, if the demand is

(a) Unit elasticity (b) Relative elasticity
(c) Inelasticity (d) Perfect elasticity

UP TGT-2004

Ans. (c) : Marginal revenue is negative in such a situation when demand is Inelastic.

263. Given a demand function x = k/p where k is a constant. Its elasticity of demand will be –

(a) Always one
(b) Always less than one
(c) Always more than one
(d) Infinite **UP TGT-2005**

Ans. (a) : x = k/p x.p = (where k is constant)
The total expenditure k by x.p. consumer on the commodity is constant which means that when the price falls, the quantity demanded increases to such an extent that the total expenditure k on the goods remains constant. It means that the price elasticity of demand is equal to the unit

264. When a commodity has alternative uses, its demand becomes–

(a) More elastic (b) Less elastic
(c) Perfectly inelastic (d) Zero

UP TGT-2005

Ans. (a) : According to Robinson, if an item is such that it has many uses, then its demand will be more elastic and the goods coming in a specific use will be inelastic.

265. The income elasticity of demand for an inferior goods is–

(a) Positive (b) Zero
(c) Negative (d) Infinite

UP TGT-2009

Ans. (c) : The income elasticity of demand for inferior goods in negative and the quantity demand of these goods decreases with the increase in the income of the consumer. Their Engle curve, curves backwards. While the elasticity of Income demand for the best goods will be positive.

266. If the demand curve is parallel to the y-axis, then the price elasticity of demand is–

(a) Equal to unit (b) Infinite
(c) Zero (d) More than unit

UP TGT-2009

Ans. (c) : When the demand curve is perfectly inelastic, it will be parallel to the y-axis, in this case the increase in price will not affect the demand. That is, no matter how much the price increases or decreases, but the demand will remain the same.

267. The indifference curve is generally convex towards the origin point, because marginal rate of substitution–

(a) Increasing (b) Decreasing
(c) Remains the same (d) None of these

UP TGT-2009

Ans. (b) : The indifference curve will be convex to the origin point because the marginal rate of substitution is decreasing. That is, as we increases the quantity of one unit, we have to decrease the quantity of the other unit so that we can get the same satisfaction.

268. Elasticity of closely spaced substituent–

(a) Less than unit (b) More than unit
(c) Zero (d) Infinite

UP TGT-2010

Ans. (a) : The inelasticity of demand between two substitute goods is positive. On the contrary, when two goods are complementary to each other, such as bread and butter, tea and milk, etc. then an increase in the price of one commodity will lead to a decrease in the demand for the other, and a decrease in the price of one will increase the demand for the other. Thus the elasticity of demand between two complementary goods is negative.

269. Which one of the following statements is correct regarding oblique or cross elasticity of demand between two goods?

(a) When two goods are perfect substitutes, then cross elasticity of demand is zero
(b) When two goods are completely independent of each other, the cross elasticity of demand is infinite
(c) When two goods are complementary then the cross elasticity of demand is positive
(d) When two goods are substitute demanded, the cross elasticity of demand is negative

UP TGT-2010

Ans. (d) : Complementary goods are those when the demand for another commodity decreases when the price of one commodity increases, that the they are the goods of substitute demand. Their cross elasticity of demand is negative.

270. What are the type of elasticity of demand?

(a) One (b) Two
(c) Three (d) Four

UP TGT-2010

Ans. (c) : Other things remaining the same, the proportionate change in the demand as a result of proportionate change in the price.
Marshall gave the concept of elasticity of demand. There are three types of elasticity of demand -
(i) Price elasticity of Demand
(ii) Income elasticity of Demand
(iii) Cross elasticity of Demand

271. The elasticity of demand shows–

(a) Change in quantity
(b) The rate of change in quantity
(c) Change in price
(d) Change in income

UP TGT-2011

Ans. (b) : The elasticity of demand is type of special relationship that shows the ratio or rate of change between the quantity demanded of the commodity and the price of the commodity. Thus, elasticity of demand is the measure of the relative change in the quantity demand of the commodity to a relative change in its price. According to Mrs. John Robinson, elasticity of demand is the proportional change in the quantity of commodity purchased as a result of a small change in price divided by the proportional change in price.
Elasticity of Demand-

$$= -\frac{\text{Proporitonate change in qunatity demanded}}{\text{Proportionate change in price}}$$

272. In comparing inferior goods with Giffen goods it can be said that

(a) Both the goods are superior goods
(b) All inferior good are Giffen goods
(c) Change in real income has got same impact on the demand for both the goods
(d) None of the above

TRB Tripura Teacher-2019

Ans. (c) : An inferior good is an item that consumers buy less of as their income rises; they have a negative income elasticity of demand. These goods are usually of cheaper, lower quality than comparable items that a consumer might want to buy, but can't afford. Giffen goods are one subtype of inferior goods that behave differently. Consumers buy less of Giffen goods as their income rises, as usual for inferior goods. The difference is that consumers will buy more of a Giffen good (proportionally to their income) as its price rises. Therefore, Giffen goods exhibit a negative income elasticity of demand – like inferior goods – but a positive price elasticity of demand, like certain luxury goods (specifically Veblen goods). Giffen goods are usually staple food products that people rely on to survive, like rice and wheat.

273. Income elasticity of demand for milk is :

(a) Equal to one (b) Greater than one
(c) Less than one (d) Equal to zero

Telangana Jr. Lect. 2018, Paper-III

Ans. (c) : Normal goods are differentiated into normal luxuries and normal necessities. Compared to the normal luxurious goods, the normal necessity goods have a smaller margin of elasticity in income. The normal necessities goods include fuel, medicine, and milk. Any income elasticity of demand example for normal necessity goods has a YED value between 0 and 1.

274. Assume that the demand for commodity Y is inelastic. In such a situation, an increase in its price will lead to:
(a) A decrease in total expenditure of consumer
(b) An increase in total expenditure of consumer
(c) No change in consumer's total expenditure
(d) Infinite change in consumer's total expenditure

Telangana Jr. Lect. 2018, Paper-III

Ans. (b) : When demand is inelastic, an increase in the price of a commodity would cause the total expenditure of the consumers to increase. As demand is inelastic, demand does not respond to the change in price, now when the price raises the expenditure the product of price and quantity demanded.

275. The marginal cost of a pure public goods is :
(a) One (b) More than one
(c) Zero or close to zero (d) Less than zero

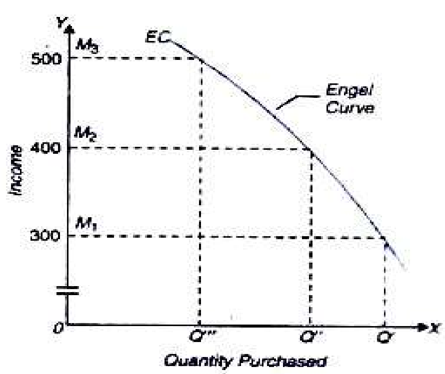
Telangana Jr. Lect. 2018, Paper-III

Ans. (c) : Consumption by one consumer does not restrict consumption by other consumers. in other words the marginal cost of supplying a public good to an extra person is zero

276. The Engel curve for giffen goods is:
(a) Negatively sloped (b) Positively sloped
(c) Vertical (d) Horizontal

Telangana Jr. Lect. 2018, Paper-III

Ans. (a) : An Engel curve describes how household expenditure on a particular good or service varies with household income. For normal goods, the Engel curve has a positive gradient. That is, as income increases, the quantity demanded increases. For inferior goods and Giffen goods , the Engel curve has a negative gradient. That means that as the consumer has more income, they will buy less of the inferior good because they are able to purchase better goods.

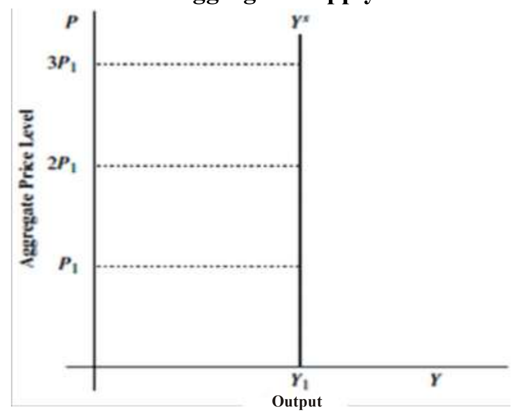


277. In the classical model, the price elasticity of aggregate supply curve is:
(a) Infinity (b) One
(c) Less than one (d) Zero

Telangana Jr. Lect. 2018, Paper-III

Ans. (d) : The classical economists hold the view that resources are fully employed in all the firms and hence the manufacturing units are working at their full capacity. Decline in prices and wage rate will ensure full employment of resources. It indicates that the same amount of goods will be supplied whatever be the price level. Hence In the classical model, the price elasticity of aggregate supply curve is zero. Thus, we can say that the classical AS curve is vertical. It is known as the 'classical AS curve.

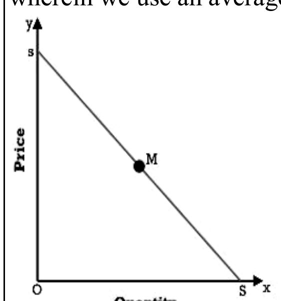
Classical Aggregate Supply Curve



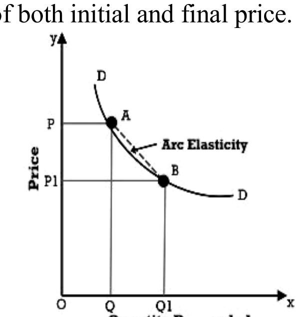
278. Which of the following is a relevant measure of responsiveness of the changes in price are not small?
(a) Point elasticity of demand
(b) Proportional elasticity of demand
(c) Total elasticity of demand
(d) Arc elasticity of demand

Telangana Degree College Lect. 2017, Paper-II

Ans. (d) : We use the point elasticity method when the changes in price and quantity demanded is very small. because changes are quite little, one can take the original price and quantity, as a base.
But, what to do when the change is substantial, One can neither take the initial price nor the final price as a base. In such a case we use the **arc elasticity method**, wherein we use an average of both initial and final price.



Point Elasticity



Arc Elasticity

279. Which of the following statements about the price demand curve is/are true?
(A) In case of Giffen goods, the price demand curve has a positive slope
(B) In case of normal goods, the price demand curve has a positive slope
(C) In case of inferior goods, the price demand curve has a negative slope
(D) In case of luxury goods, the price demand curve has a positive slope
Choose the correct answer :
(a) (A) and (B) only (b) (B) and (C) only
(c) (D) only (d) (A) and (D) only
Telangana Degree College Lect. 2017, Paper-II

Ans. (*)
Correct statements
In case of Giffen goods, the price demand curve has a positive slope.
(B) In case of normal goods, the price demand curve has a negative slope
(C) In case of inferior goods, the price demand curve has a negative slope
as negative substitution effect is greater than positive income effect so that total price effect is negative.
(D) In case of luxury goods, the price demand curve has a negative slope.
Demand curves for luxury goods are highly elastic. For Veblen goods demand curves is positively sloped
Hence only statement A and C are correct.

280. Samuelson established the inverse relationship between price and quantity demanded by assuming :
(a) Income elasticity of demand is negative
(b) Marginal utility of money is constant
(c) Income elasticity of demand is positive
(d) Utility is independent
Telangana Degree College Lect. 2017, Paper-II

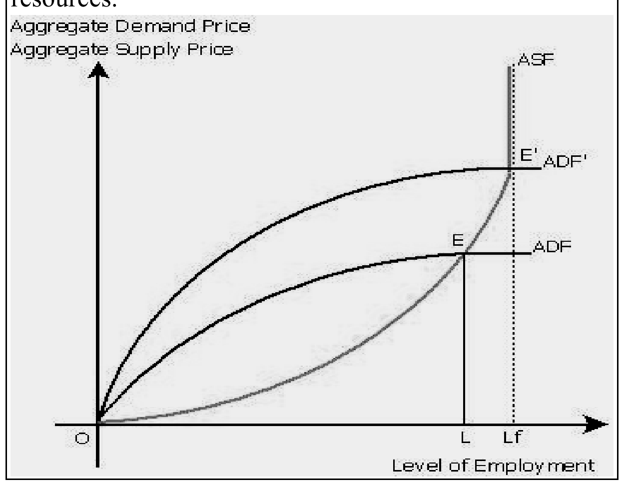
Ans. (c) : Samuelson established the inverse relationship between price and quantity demanded by assuming income elasticity of demand is positive. From positive income elasticity he deduces the Marshallion inverse price – demand relationship.

281. The demand-pull inflation exists when :
(a) Costs are increasing faster than output
(b) The level of aggregate demand grows faster than the supply
(c) The prices of imports are rising than the domestic goods
(d) There is an increase in the oil prices
MH SET- 26.09.2021

Ans. (b) : The level of aggregate demand grows faster than the supply.
Demand− Pull inflation occurs when the overall demand for goods and services in an economy increase at a faster rate than the economy ability to supply these goods and services. This typically leads to an increase in prices as business are unable to meet the higher demand with their existing production capacity.

282. Demand side unemployment is partly caused by :
(a) Imperfections in labour market
(b) Occupational and geographical immobility of factors
(c) Demographic changes
(d) A lack of aggregate demand
MH SET-27.12.2020

Ans. (d) : Aggregate demand, or AD, refers to the amount of total spending on domestic goods and services in an economy.
Aggregate demand = Consumer spending + Investment + Government spending + (Exports – Imports)
According to Keynes's theory, high unemployment in Great Britain and the United
States (as well as in other industrialized countries) was the result of a deficiency in aggregate demand. Aggregate demand was too low because of inadequate investment demand.
He argued that economy's equilibrium level of output and employment may not always correspond to the full employment level of income. It is possible to have macroeconomic equilibrium at less than full employment. If current level of aggregate demand (expenditure) is not adequate to purchase all the goods produced in the economy (i. e . a situation of excess supply) then output will be cut back to match the level of aggregate demand leading to unemployment of resources.



283. When a price of the good falls, if the positive substitution effect is smaller than the negative income effect, such goods are called :
(a) Inferior goods (b) Normal goods
(c) Giffen goods (d) Veblen goods
Kerala Set-2020

Ans. (c) : When a price of the good falls, if the positive substitution effect is smaller than the negative income effect, such goods are called Giffen goods.

284. According to supply side economics a tax cut :
(a) Will increase aggregate supply
(b) Will increase aggregate demand
(c) Shifts both aggregate supply and aggregate demand towards right
(d) Leaves both aggregate supply and aggregate demand unaltered

Kerala Set-2020

Ans. (c) : According to supply side economics a tax cut shift both aggregate supply and aggregate demand towards right. .

285. Which of the following is NOT a merit good?
(a) National defense
(b) Health care
(c) Primary education
(d) Welfare services

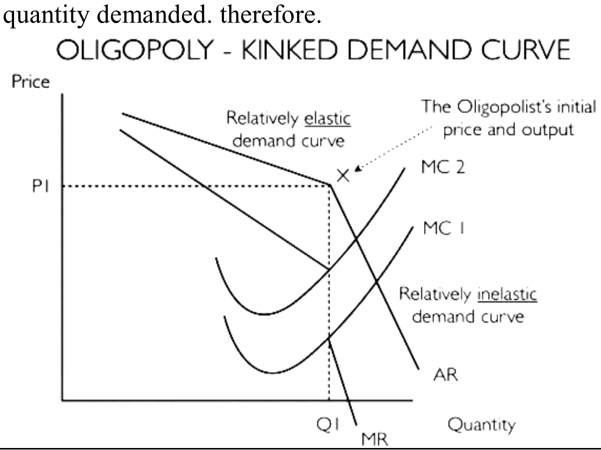
APPSC Degree College Lect.16.09.2020

Ans. (a) : National defense is not considered a merit good. Merit goods are goods or services that are believed to have positive effects on individuals and society. but many not be provided adequately by the market due to various reasons such as externalities or information asymmetry.

286. A Kinked demand curve below the point of Kink is:
(a) More elastic
(b) Less elastic
(c) Unit elastic
(d) None of these

APPSC Degree College Lect.16.09.2020

Ans. (b) : A kinked demand curve is characterized by a sudden change in slope at a particular price level. Below the point of the kinked, the demand curve becomes steeper. Elasticity of demand measures the responsiveness of quantity demanded to a change in price. When demand is less elastic, a change in price will result in a proportionately smaller change in quantity demanded. therefore.



287. Income effect of the change in:
(a) Money income of the consumer is negative for an inferior good
(b) Price of a good is positive for an inferior good
(c) Price of a good is negative for a normal good
(d) Money income of the consumer is negative for normal good

APPSC Degree College Lect.16.09.2020

Ans. (a) : Income effect of the change in money income of the consumer is negative for an inferior good.

288. If the elasticity of demand for a good is less than elasticity of supply for the good, then the:
(a) Burden of tax on buyers would be higher than that on sellers
(b) Burden of tax on buyers would be lower than that on sellers
(c) Burden of tax on buyers would be equal to that on sellers
(d) Nothing can be definitely said about burden of taxation

APPSC Jr. Lect.-20.02.2018

Ans. (a) : When supply is more elastic than demand, buyers bear most of the tax burden. When demand is more elastic than supply, producers bear most of the cost of the tax.

289. If two commodities are perfect substitute, the indifference curve will:
(a) Slope upwards
(b) Approach a right angle
(c) Approach a straight line with negative slope
(d) Be a straight line with negative slope

APPSC Jr. Lect.-20.02.2018

Ans. (d) : An indifference curve for perfect substitutes will be linear because the marginal rate of substitution between two substitutes, is constant.

If two good X and Y are perfect substitutes, the indifference curve is a straight line with negative slope

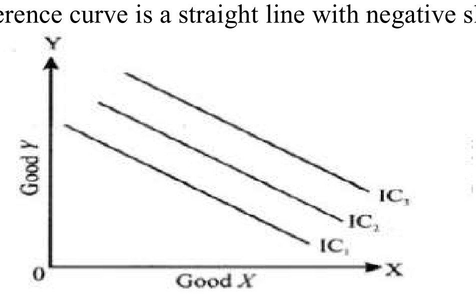


Figure of indifference Curve of Perfect Substitutes

290. According to which theory of Demand for Money, is money considered to have unitary elasticity with respect to price level?
(a) Classical Quantity Theory of Money
(b) Keynesian Liquidity Preference Theory
(c) Tobin's Theory of Demand for Money
(d) Baumol's Inventory Theory of Demand for Money

APPSC Jr. Lect.-20.02.2018

Ans. (a) : The classical economists thought that money has a unit elasticity of demand. This means that a change in its value causes a changes in demand in inverse e proportion. if the value of money falls, or in other words, the general price level rises, the demand for money will expand in exact preparation to the rise in prices.

291. Let slope of demand curve be –0.5. Calculate Price Elasticity (e_D) when initial price is 50 units:

(a) 0.8 (b) 1.0
(c) 0.5 (d) 1.2

KVS PGT-2018

Ans. (a) : Given that,

Slope of demand curve $\frac{\Delta p}{\Delta q} = -0.5$

$p = 20$

$q = 50$

$e_p = ?$

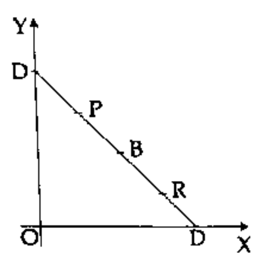
$$e_p = -\frac{\Delta q}{\Delta p} \times \frac{p}{q}$$

$$e_p = \frac{1}{0.5} \times \frac{20}{50}\left[\because \frac{\Delta p}{\Delta q} = 0.5\right]$$

$$e_p = \frac{20}{25.0} = 0.8$$

Hence, the elasticity of demand is 0.8

292. In the diagram, DD is a demand curve with points P, B and R. Arrange these points in ascending magnitude of the Price elasticity of demand.



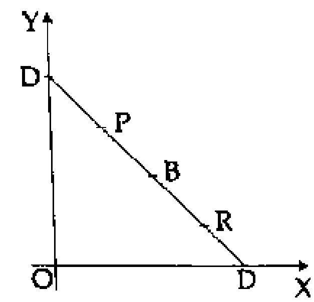
(a) R; B and P
(b) P, R and B
(c) P, B and R
(d) R, P and B

KVS PGT-2018

Ans. (a) : There is a difference between the slope of a demand curve and its price elasticity. To understand this difference, let us analyze the price elasticity of demand formula a – $E_p = (-)\frac{\Delta Q}{\Delta p}.\frac{p}{q}$

Hence the increasing order of price elasticity of demand in the diagram–

R (E_p<1), B (E_P = 1), P (E_p>1)



293. If the Price elasticity of demand is less than one (Ep < 1), MR will be:

(a) Positive
(b) Equal to one
(c) Negative
(d) Undefined

KVS PGT-2018

Ans. (c) : If price elasticity of demand is less than one (E_p<1), then marginal revenue will be negative.

In the given diagram S t is the average income or demand curve. And S t, is the marginal revenue line. It is clear that at the level of sales OQ, the elasticity of demand at point p is 1 because

PT = SP

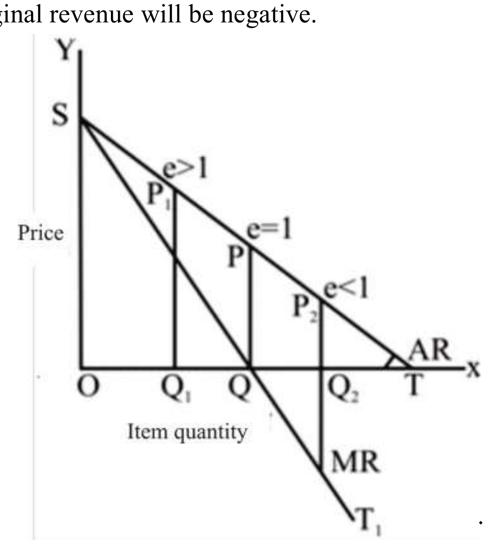
$\because$ ep = 1

Hence marginal revenue $= A \times \frac{e-1}{e}$

$= A \times \frac{1-1}{e}$

$= 0$

Hence, it is clear that marginal revenue at point p is zero. This, it can be said that if the elasticity of demand shown at any production level is unit, then the marginal revenue of that production will be zero and when it is more than 1, then the marginal revenue will be positive and if the elasticity of demand is less than unit, the marginal revenue will be negative.



294. Identify the correct formula for arc elasticity:

(a) $\frac{\Delta Q}{\Delta P}.\frac{Q_1+Q_2}{P_1+P_2}$

(b) $\frac{Q_2-Q_1}{P_2-P_1}.\frac{P_1+P_2}{Q_1+Q_2}$

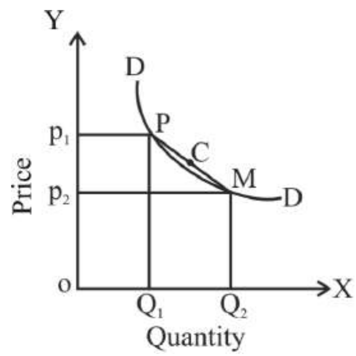
(c) $\frac{\Delta P}{\Delta Q}.\frac{P_1+P_2}{Q_1+Q_2}$

(d) $\frac{P_2-P_1}{Q_2-Q_1}.\frac{P_1+P_2}{Q_1+Q_2}$

KVS PGT-2018

Ans. (b) : According to Prof. Baumol, "Arc elasticity is a measure of the average responsiveness of a demand curve to a price change over a limited distance.

$$E_P=\frac{\Delta q}{\Delta p}\times\frac{p_1+p_2}{q_1+q_2}\begin{pmatrix}\because \Delta q=q_2-q_1\\ \Delta p=p_2-p_1\end{pmatrix}$$



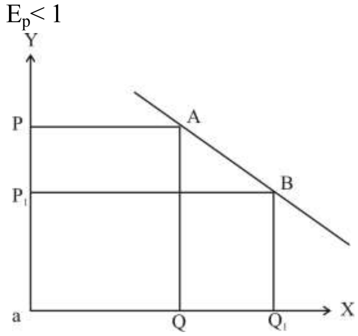
295. If the Price and Total Expenditure moves in the same direction; price elasticity of demand will be:

(a) Greater than one (b) Equal to one
(c) Less than one (d) Equal to zero

KVS PGT-2018

Ans. (c) : When a fall in price reduces total expenditure and on increases in price increases total expenditure, the demand is less elastic.

That means $E_p < 1$



296. Let Q = -14 + 10p be the supply function. Calculate Price Elasticity of Supply (e_s) between price of ₹ 10 and ₹ 12.

(a) 2.5 (b) 3
(c) 1.57 (d) 3.5

KVS PGT-2018

Ans. (*) : given that, Q = -14+10P

P_1 =10 So Q_1 = -14+(10×10) = 86

P_2 =12 So Q_2 = -14+(10×12) = 106

$$e_s=\frac{dQ}{dP}\times\frac{P_1+P_2}{Q_1+Q_2}=\frac{106-86}{12-10}\times\frac{10+12}{86+106}=\frac{20}{2}\times\frac{22}{192}$$

$$=\frac{440}{384}=1.145$$

297. If the price of X commodity (P_x) is ₹ 10 per unit and by selling one additional unit of commodity Total Revenue changes by ₹ 8. The price elasticity of demand will be:

(a) 2
(b) 2.5
(c) 5
(d) Can not be calculated

KVS PGT-2018

Ans. (c) Price of commodity is Rs. 10 per unit

$\therefore$ P = AR = 10

MR = 0 addition in TR by selling addition unit of commodity = 8

Now, $\boxed{e=\frac{AR}{AR-MR}}$

Putting values of AR and MR

$\boxed{e=\frac{10}{10-8}}$

$=\frac{10}{2}$

ep=5

Therefore elasticity Ep = 5

298. Perfectly elastic supplies of labour play a crucial role in

(a) Malthus' model of growth.
(b) Kuznets' model of growth.
(c) The Prebisch hypothesis.
(d) Lewis model of growth

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Ans. (d) : In 1954 Sir Arthur Lewis published a paper, 'Economic Development with unlimited supplies of labour' The Dual Sector model, or the Lewis model, is a model in Developmental economics that explains the growth of a developing economy in terms of a labour transition between two sectors, a traditional agricultural sector and a modern industrial sector. A central theme of that article was that, labour in dual economies is available to the urban, industrialised sector at a constant wage determined by minimum levels of existence in traditional family farming because of 'disguised unemployment in agriculture, there is practically unlimited supply of labour and available of industrialisation, at least in the early stages of development. At some later point in the history of dual economics, the supply of labour is exhausted then only a rising wage rate will draw more labour out of agriculture.

299. Choose the correct answer:
The short-run aggregate supply curve is upward sloping because
(a) Nominal wages are sticky in the short run, i.e. higher aggregate price level leads to higher profit per unit of output and increased aggregate output in the short run.
(b) Elasticity of wages with respect to price exceeds unity.
(c) Elasticity of wages with respect to price is equal to unity.
(d) Elasticity of demand with respect to price is equal to unity

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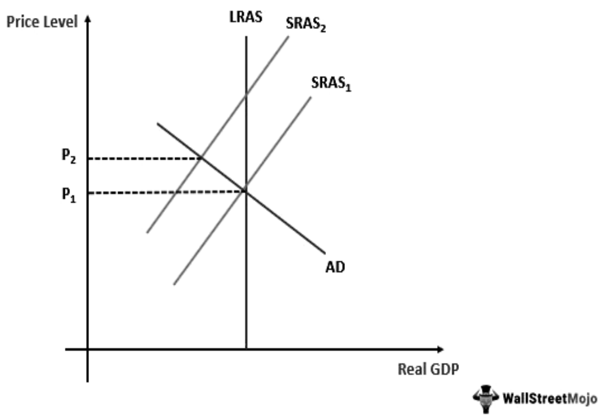
Ans. (a) : The short-run aggregate supply curve is upward sloping because Nominal wages are sticky in the short run, i.e. higher aggregate price level leads to higher profit per unit of output and increased aggregate output in the short run.



300. For Giffen good
(a) Income elasticity of demand is positive and price effect is positive.
(b) Income elasticity of demand is negative and price effect is negative.
(c) Income elasticity of demand is negative and price effect is positive.
(d) Income elasticity of demand is positive and price effect is negative.

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Ans. (c) Giffen goods exhibit a negative income elasticity of demand – like inferior goods – but a positive price elasticity of demand, like certain luxury goods (specifically Veblen goods) :

301. In case income elasticity of demand for good Y be zero, the income-consumption curve for good X will be
(a) Parallel to horizontal axis.
(b) Parallel to vertical axis.
(c) Positively sloped straight line.
(d) Negatively sloped straight line.

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Ans. (a) : Income elasticity of demand for good Y is zero therefore same amount of good Y will be demaned for every level of income and income will be spent only on good X. Therefore income consumption curve will be Parallel to horizontal axis.

302. If Price of a commodity and corresponding Total Expenditure on the commodity changes in opposite direction; price elasticity of demand will be:
(a) Equal to one
(b) Greater than one
(c) Less than one
(d) Cannot be defined

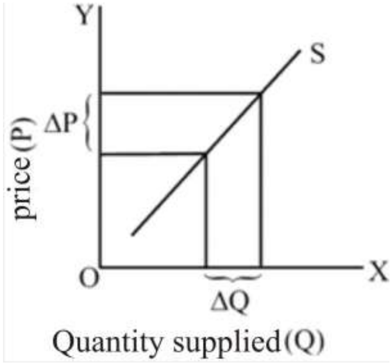
KVS PGT-2018

Ans. (b) : The total expenditure method of elasticity of demand was propounded by Dr. Marshall According to this method, to measure the elasticity of demand it should be known how mach and in which direction the total expenditure on a commodity will change due to change in its price.
(i) When there is no change in total expenditure due to change in the price of a commodity then the elasticity of demand will be equal to unity (Ed=1).
(ii) When falling price increases total expenditure and increasing price reduces total expenditure. That is, if there is an opposite change in price and total expenditure, then the elasticity of demand will be more than unity (Ed>1).
(iii) When price and total expenditure change in the same direction, the elasticity of demand will be less than unity (Ed<1).

303. Slope of the supply curve is given by the formula
(a) $\frac{\Delta Q}{\Delta P}$ (b) $\frac{\Delta P}{\Delta Q}$
(c) $\frac{P}{Q}$ (d) $\frac{Q}{P}$

KVS PGT-2017

Ans. (a) : According to the Law of supply, if other things remain the same, the quantity supplied increases when the price of a product increases and the quantity supplied also decreases when the price decrease. Therefore, a positive relationship is found between price and quantity supplied. The degree of responsiveness of sellers to change in supply due to changes in price is called elasticity of supply,



$$Es = \frac{\text{change in quantity supplied}}{\text{quantity supplied}}$$

$$\frac{\text{change in prices}}{\text{prices}}$$

$$E_s = \frac{\Delta Q}{Q} \div \frac{\Delta P}{P} \text{ or } \frac{\Delta Q}{\Delta P} \times \frac{P}{Q}$$

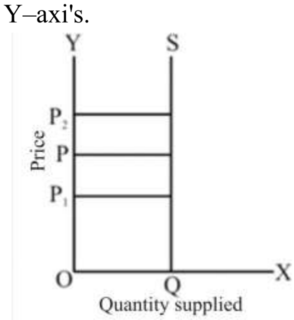
Where $\frac{\Delta Q}{\Delta P}$ Represents supply and the slope of the supply curve.

304. When supply curve is vertical, value of elasticity of supply is

(a) Greater than one (b) Less than one
(c) Zero (d) One

KVS PGT-2017

Ans. (c): When the supply curve is vertical then the value of elasticity of supply will be zero (0).The Supply curve being vertical means that the supply of the good is completely inelastic. That is, as a result of change in price there is no change in the supply of the good at all. In such situation the supply curve will be vertical parallel to the Y–axi's.



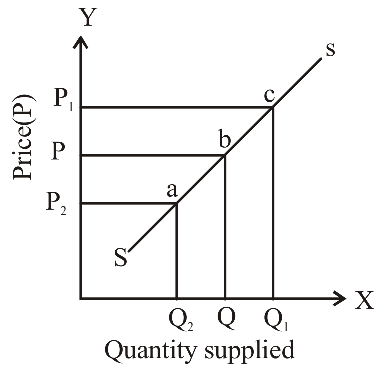
305. When less quantity is supplied at a lower price, it shows

(a) Contraction in supply
(b) Fall in supply
(c) Rise in supply
(d) Expansion in supply

KVS PGT-2017

Ans. (a) : There are two ways in which the supply of a commodity changes. One is the change in supply due to change in price, it is called contraction or expansion in supply and the other is the change in supply due to change in "other factors". The change in supply due to factors" apart from price, it is called "increase or decrease in supply.'

When a decrease in price cause a decrease in the quantity supplied, it is called 'contraction' of supply and when an increase in the quantity supplied, it is called 'expansion' of supply. In the figure, ba represents contraction in supply and be represents expansion in supply.



306. Demand curve is more inelastic under

(a) Perfect competition
(b) Monopoly
(c) Monopolistic competition
(d) Imperfect competition

KVS PGT-2017

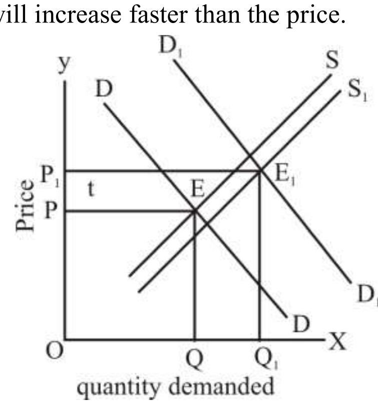
Ans. (b) : In a monopolistic market the demand curve is more inelastic because the monopolist has control over the price or supply of the good. Whereas in perfect competition the elasticity of demand is infinite. Monopolistic competition expresses the situation between monopoly and perfect competition in which the elasticity of demand is more elastic sine there is no uniformity among the curve cannot be drawn accurately and with complete certainty.

307. When increase in demand is more than increase in supply, then equilibrium price will

(a) rise (b) fall
(c) remain the same (d) None of these

KVS PGT-2017

Ans. (a) : When demand increase more than supply, the equilibrium price will increase but the equilibrium demand will increase faster than the price.

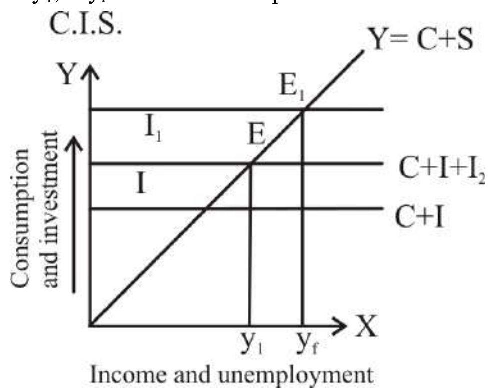


308. According to Keynes when an economy is in under employment equilibrium, the deficiency of aggregate demand can be removed by

(a) Larger induced investment
(b) Creating larger productive capacity
(c) Larger public investment
(d) Both (1) and (2)

KVS PGT-2017

Ans. (c): According to Keynes, when an economy is in equilibrium with underemployment, the deficiency in aggregate demand can be overcome by increasing large amounts of public investment and autonomous investment. In the diagram C+I is the aggregate demand curve and the aggregate supply curve is y = C+S .E is the equilibrium point on increasing autonomous investment I, the multiplies effect increase employment income y_1,to y_F and the new equilibrium becomes E_1.



309. Consumer bys 8 units of a good at a price of ₹ 7 per unit. When price rise to ₹ 8 per unit, he buys 7 units. Price elasticity of demand by expenditure method is :

(a) 1.2 (b) 1
(c) 2 (d) 0.8

KVS PGT-2017

Ans. (d) : $e_p = -\left(\frac{\Delta q}{\Delta p} \times \frac{p}{q}\right)$

or $-\left(\frac{\text{Proportion charne in quantity demanded}}{\text{proportion change in price}}\right)$

or $-\frac{\left(\frac{-1}{8}\right)}{\left(\frac{1}{7}\right)} = \frac{1}{8} \times \frac{7}{1} = \frac{7}{8} = 0.8$

Therefore, elasticity of demand = 0.8

310. Price elasticity of demand of a linear demand curve at the Y-axis is equal to

(a) Infinity
(b) Zero
(c) One
(d) Between one and infinity

KVS PGT-2017

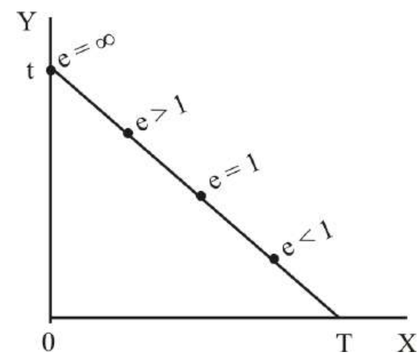
Ans. (a) : At the point where the linear demand curve touches the y – axis, the price elasticity of demand will be infinite (∞)

In the figure, the demand curve touches the y– axis at point t. hence at point t

$$ep = \frac{\text{Part below the t Point}}{\text{Part above the t Point}}$$

∵ The part above the point t is equal to zero and the part below the pint is equal to tT.

Therefore, $e_p = \frac{tT}{0} = \infty$



311. Price elasticity of demand of a linear demand curve at the Y-axis is equal to

(a) Infinity (b) Zero
(c) One
(d) Between one and infinity

KVS PGT-2017

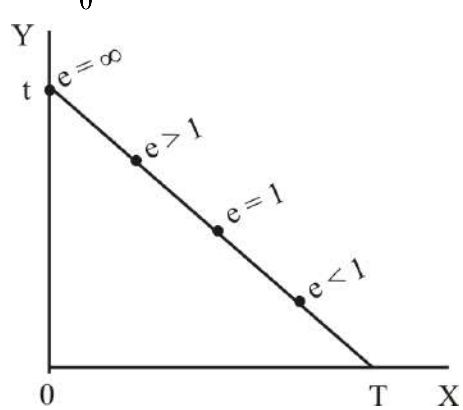
Ans. (a) : At the point where the linear demand curve touches the y-axis, the price elasticity of demand will be infinite (∞).

Dot in the picture the demand curve touches the y -axis, hence the point t

$$e_p = \frac{\text{Area below t point}}{\text{Area above t point}}$$

∴ The, part above the t point is equal to zero and the part below the t point is equal to tT.

$$e_p = \frac{tT}{0} = \infty$$



03.

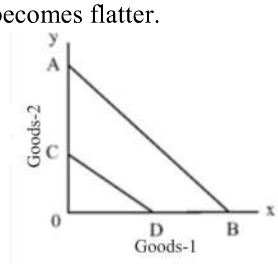
The Theory of Consumer Behaviour

1. Suppose goods 1 is taken on horizontal axis and goods 2 on vertical axis, then what happens to the budget line if the price of goods 1 double and price of goods 2 triples?

(a) The budget line becomes steeper
(b) The budget line becomes flatter
(c) The budget line becomes vertical
(d) The budget line remains unchanged

UGC NTA NET/JRF-20.06.2023, Shift-I

Ans. (b) : On a fixed budget (income). If the price of a commodity increases, the purchasing power of the consumer decreases due to which less quantity of the commodity is purchased than before. In the figure, when the price of goods- I doubles, the demand for goods-1 gets halved and when the price of goods-2 gets tripled, the demand for goods-2 gets reduced to one-third, due to which the budget line (AB) In comparison the budget line becomes flatter.



2. Defensive expenditure method is based on the understanding that

A. The consumer spends money to ameliorate the damaging effects of the bad.
B. The defensive expenditure undertaken reflects the consumer's willingness to pay to reduce the level of the bad.
C. The observed defensive expenditure is an upper bound on the willingness to pay to avoid the bad.
D. The defensive expenditure provide no additional services other than provisioning the desired environmental quality.
E. The observed defensive expenditure is a lower bound on the willingness to pay to avoid the bad.

Choose the correct answer from the option given below :

(a) A, B and C only (b) C, D and E only
(c) A, B, C and D only (d) A, B, D and E only

UGC NTA NET/JRF-20.06.2023, Shift-I

Ans. (d) : Protective Expenditure method is based on the understanding that-
(A) Consumers spend money to offset the harmful effects of bad things.
(B) Protective spending reflects the consumers' willingness to pay to reduce the level of bad things.
(D) Protective expenditure does not involve the provision of only additional services other than the provision of desired environmental quality.
(E) Protective expenditure incurred is the lower limit of readiness to avoid bad things.

3. You are analyzing the demand for goods X. Which of the following will result in a shift to the right of the demand curve for X?

(a) A decrease in the price of X.
(b) An increase in the price of a goods that is complement to goods X.
(c) An increase in the price of a goods that is a substitute for X.
(d) All of these

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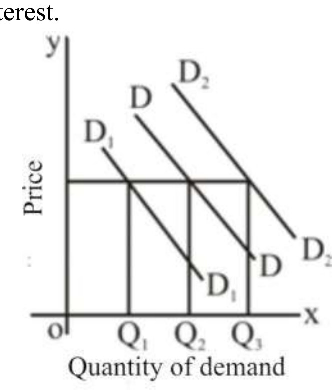
Ans. (c) : According to the law of demand, other things remaining the same, an increase in the price of a goods will lead to a decrease in the quantity demanded of the goods and vice versa, a fall in price will lead to an increase in the quantity demanded.
This is called the general demand law. If Shift the demand curve of a goods it means that the demands is not being affected by other element. That is, when the change in the price of substitute goods it changes in the price of complementary goods so it change in income and interest.



4. Asymmetric information problem arise-

(a) In horizontally integrated firms but not vertically integrated firm.
(b) In vertically integrated firm, but not horizontally integrated firm.
(c) In both vertically and horizontally integrated firm.
(d) Only in firms that do not have the advantages of either horizontal or vertical integration.

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Ans. (c) : Asymmetric information problems arise when one party has more are better information than the other party and uses it to its advantage Asymmetric information leads to market failure.
including the problem to adverse selection and the so-called lemon problem. The problem is a problem for both vertically and horizontally integrated firms.

5. The Engel curve for a Giffen goods is-
(a) Negatively sloped (b) Positively sloped
(c) Vertical (d) Horizontal
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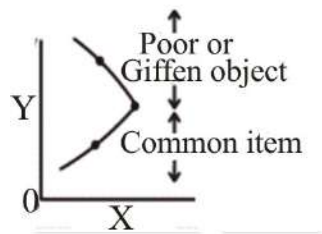
Ans. (a) : Engel curve shows the relationship between income and demand. Since in the case of normal goods the quantity demanded increases with increase in income. For this reason the slope of the Engel curve is positive rising from the bottom to the top. on the other hand, in the context of and inferior or Giffen goods. The Engel curve will have a negative slope falling from left to right.



6. Which of the following is correct with reference to community surplus?
(a) Producer surplus + Profit
(b) Producer surplus + consumer surplus
(c) Producer surplus – consumer surplus 1
(d) Total utility + profit
DSSSB PGT-17.07.2021, Shift-II

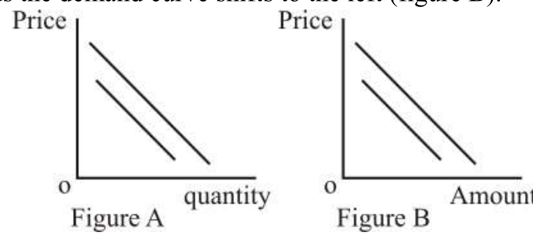
Ans. (b) : Community surplus = Producer surplus + consumer surplus. Community surplus is the aggregate of consumer and producer surplus at a given price and quantity in a market.
• Enjoyment is achieved when a buyer buys a product that pays below value. Which is generally ready to pay. Producer surplus reflects the difference between the marginal cost to supply the market and total revenue are willing to pay.

7. Which of the following is correct in the context of pigouvian subsidy ?
I. It is similar to pigouvian tax
II. It refers to the social form of production
(a) Both I and II (b) Only I
(c) Only II (d) Neither I nor II
DSSSB PGT-17.07.2021, Shift-II

Ans. (d) : A pigouvian tax or sin tax is a tax levied on actions that have negative effect on the other who are not directly involved. the tax in creases the cost of the action in order to make consumer less likely to act in that way pigouvian tax is essentially a tax on behaviour. it also impose costs on socially harmful goods or services.
The social form of production are capital goods and assets that require organized collective labor efforts as opposed to individual efforts to operate on.

8. Demand curve for coarse grains (inferior goods) as a result of increase in consumer's income.
(a) Shifts to the right
(b) Becomes a horizontal straight line
(c) There is no change
(d) Shifts to the left.
DSSSB PGT-17.07.2021, Shift-II

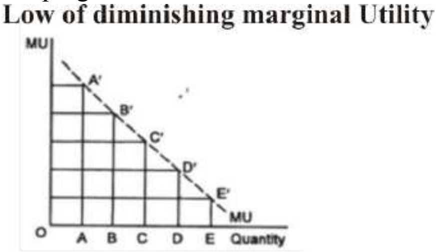
Ans. (d) : As a result of increase in consumer's income, the demand curve for inferior goods shifts to the left.
Demand curve:- When consumer's income, price of other goods and consumer's income increase, the demand for the good at each price changes, i.e. the demand curve shifts. The demand curve for normal goods shifts to the right (figure B) and for inferior goods the demand curve shifts to the left (figure B).



9. Which law defines that the demand curves to slope downward?
(a) Total utility maximization
(b) Total utility minimization
(c) Diminishing total utility
(d) Diminishing marginal utility
DSSSB PGT-17.07.2021, Shift-II

Ans. (d) : The law of diminishing marginal utility defines that the demand curve. Slopes downwards the law of diminishing marginal utility states that each subsequent unit of a good provides less marginal utility. Therefore, a person will not be willing to pay the same amount for each next unit; hence, the demand curve is a downward sloping curve.

Low of diminishing marginal Utility



10. Which of the following pair of object types is correct?
I. Bicycle - consumer durable
II. Beverages - Non durable consumer goods.
(a) Only II (b) Only I
(c) Both I and II (d) Neither I nor II
DSSSB PGT-17.07.2021, Shift-II

Ans. (c) : Bicycles are examples of consumer durables and beverages.
capital goods which do not get destroyed in immediate or short-term consumption their lifespan is comparatively longer than food and clothing and they also break down after use due to which there is a need

for their protection maintenance and renewal, These goods call durable consumer goods like television, automobile, bicycle.

11. Which of the following is called Benthamite welfare function can be denoted as?
(W denotes social welfare and U_1, U_2 etc. Represent cardinal utilities) .
(a) **W =** $U_1 + U_2 - U_3 + ...U_n$
(b) W = $U_1 - U_2 + U_3 - ....U_n$
(c) W = $U_1 + U_2 + U_3.....U_n$
(d) W = $U_1 * U_2 * U_3....U_n$

DSSSB PGT-17.07.2021, Shift-II

Ans. (c) : A utilitarian welfare function is called a benthamite welfare function. In which the utility of each person is sum up to achieve the overall welfare of the society. It shows equal treatment of all people.

$$W = U_1 + U_2 + U_3 + ... + U_n$$

12. Which of the following is correct regarding VNM expected utility theory?
I. 'U' represents the von Neumann-Morgenstern utility function
II. 'U' represents the Bernoulli utility function
(a) Only II (b) Neither I nor II
(c) Both I and II (d) Only I

DSSSB PGT-17.07.2021, Shift-II

Ans. (b) : 'U' not represents the Von-neumann - morgenstern utility function and it add the dimension of risk assessment to the valuation of goods services and out comes. utility maximization is necessarily more subjective than when choices are subject to certainty.

'U' not represent the Bernoulli ufility function. In Bernoulli formulation. this function was a logarithmic function. The decision-maker's expected utility from a gamble was less than its expected value.

13. According to New Keynesian economist, which of the following factors does NOT cause sticky prices?
(a) Coordination failure
(b) Menu costs
(c) Aggregate demand externalities
(d) Consumption expenditure

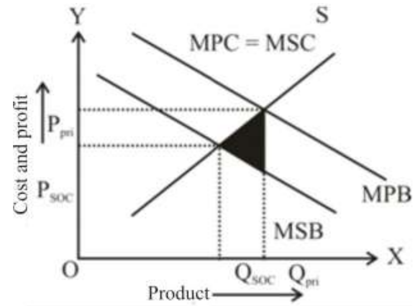
DSSSB PGT-17.07.2021, Shift-II

Ans. (d): From the new Keynesian economic perspective. Consumption expenditure is not the cause of sticky prices.

14. The external cost other pay as a result of our consumption in referred to as a -
(a) Positive consumption externality
(b) Negative consumption externality
(c) Positive production externality
(d) Negative production externality

RPSC PGT-2022

Ans. (b) : Obligations are spill over effects from production and or consumption for which no appropriate compensation is paid to one or more third parties affected. Negative consumption externalities these are costs incurred by third parties arising from the consumption of the services. The result is that the social marginal benefit (MSC), Curve is less than the private benefit (MPC).



15. Match the following

	List-I		**List-II**
1.	**Adam Smith**	**A.**	**Flims**
2.	**J.S. Mill**	**B.**	**Black Board**
3.	**Ricardo**	**C.**	**Globe**
4.	**Haberler**	**D.**	**Exhibition**

	1	**2**	**3**	**4**
(a)	B	D	A	C
(b)	B	A	C	D
(c)	B	C	A	D
(d)	C	D	A	B

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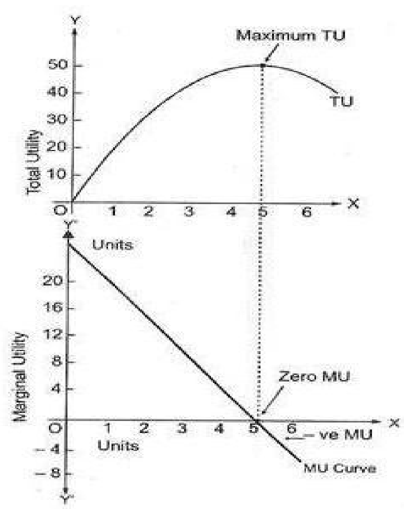
Ans. (c):

1. Adam Smith	-	B.	Black Board
2. J.S. Mill	-	C.	Globe
3. Ricardo	-	A.	Flims
4. Haberler	-	D.	Exhibition

16. Total utility is maximum, when-
(a) Marginal utility is zero
(b) Marginal utility is at its highest point
(c) Marginal utility is equal to average utility
(d) Average utility is maximum

RPSC PGT-2022

Ans. (a): When total utility is maximum then marginal utility is zero



In the above diagram. (TU) is total utility, (Mu) is marginal utility. Total utility is maximum at point E. After this it starts declining. The slope of TU at point E is zero therefore marginal utility is zero. It is clear that to will be maximum at that time mu will be minimum.

17. Identify the correct chronological order of the following
(A) Keynes' consumption function
(B) Life Cycle Hypothesis
(C) Relative Income Hypothesis
(D) Friedman's Permanent Income Hypothesis
Select correct answer
(a) (D), (B), (A), (C) (b) (B), (A), (C), (D)
(c) (A), (C), (D), (B) (d) (C), (D), (B), (A)
NVS PGT-15.12.2022

Ans. (c) :

(A)	Keynes'	Consumption function
(C)	RelativeIncome hypothesis	
(D)	Friedman's	Permanent Income
(B)	Life cycle	Hypothesis.

18. Who has measured consumer's surplus with the help of indifference curve technique?
(a) Edgeworth (b) Alfred Marshall
(c) J.R. Hicks (d) Pareto
NVS PGT-15.12.2022

Ans. (c) : Pro. J.R. Hicks rehabilitated the concept of consumer surplus by measuring it with his indifference curve technique of sequential utility analysis. The indifference curve measurability of utility does it assume that the marginal utility of money remains constant.
However without these invalid assumptions, Hicks was able to measure consumer surplus with his indifference curve technique.

19. Arrange the different schools of thought in a sequence of their occurrence starting from the oldest.
A. Physiocrats
B. Keynesian economics
C. Classical economics
D. New Keynesian economics
E. Monetarist Counter revolution
Choose the correct answer from the options given below :
(a) A, B, C, E, D (b) A, C, E, B, D
(c) A, B, E, C, D (d) A, C, B, E, D
UGC NTA NET/JRF-08.10.2022

Ans. (d) :
A. Physiocrats
C. Classical economics
B. Keynesian economics
E. Monetarist Counter revolution
D. New Keynesian economics

20. According to Keynes, Marginal Propensity to Consume
(a) Is the reciprocal of the Marginal Propensity to Save
(b) Can never exceed unity
(c) Can never exceed the average propensity consume
(d) May exceed unity when dissaving occurs
(e) Answer not known **TNPSC CSSS-11.01.2022**

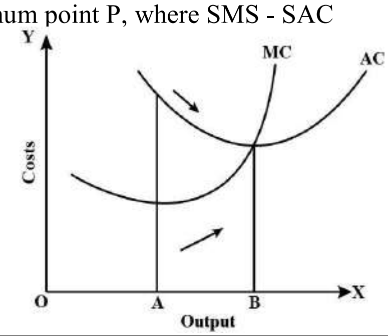
Ans. (*): In the question, no single option is the correct answer but more than one option is the correct answer, hence options a, b and c are the correct answer to the question.

21. All the combinations of the two commodities which the consumer can buy by spending his entire income for the given prices of the two commodities. These information's are provided by
(a) Income-Price Line
(b) Budget Line
(c) Consumption Possibility Line
(d) All these
(e) Answer not known
TNPSC CSSS-11.01.2022

Ans. (d): The budget line, also known as budget constraint, exhibits all the combinations of two commodities that a customer can manage to afford at the provided market prices and within the particular earning degree.
The budget line is a graphical delineation of all possible combinations of the two commodities that can be bought with provided income and cost so that the price of each of these combinations is equivalent to the monetary earning of then customer.

22. The SMC curve passes through which point of SAC curve?
(a) Equilibrium (b) Maximum
(c) Minimum (d) Tangent
(e) Answer not known **TNPSC CSSS-11.01.2022**

Ans. (c): SMC curve intersects SAC curve at its minimum point. This is because as long as SAC is falling. SMC remains below SAC and when SAC starts rising, SMC remains above SAC. SMC intersects SAC at its minimum point P, where SMS - SAC



23. Consider two utility functions
$$U = q_1^{1.5} q_2 \text{ and } V = q_1^{6} q_2^{4} + 1.5 ln q_1 + ln q_2$$
Choose the correct answer:
(a) V is a log linear transformation of U.
(b) V is an increasing monotonic transformation of U.
(c) V is a decreasing monotonic transformation of U.
(d) V is a Cobb-Douglas transformation of U.
WB SET-2022

Ans. (b) : V is an increasing monotonic transformation of U.

24. **Marginal Utility is**

(a) Defined as the change in the total utility resulting from one unit change in the consumption of a commodity per unit of time.
(b) Defined as the total utility derived from consumption of a commodity per unit of time.
(c) Defined as the change in money with purchasing one unit of a commodity per unit of time.
(d) None of the above **Punjab Lect. 2021**

Ans. (a): Marginal utility is defined as the change in the total utility resulting from one unit change in the consumption of a commodity per unit of time.

Marginal Utility : Marginal utility is the added satisfaction that a consumer gets from having one more unit of a good or service. The concept of marginal utility is used by economists to determine how much of an item consumers are willing to purchase. Positive marginal utility occurs when the consumption of an additional item increases the total utility. On the other hand negative marginal utility occurs when the consumption of one more unit decrease the overall utility.

25. **Which amongst the following is true for Keynesian Theory of consumption?**

(a) It is also known as Psychological Law of consumption
(b) It is also known as Absolute Income theory of consumption
(c) In this marginal propensity to consume is less than one but greater than zero
(d) All the above **Punjab Lect. 2021**

Ans. (d): All three statements are true for the Keynesian theory of consumption. It is also known as the psychological law of consumption, the absolute income theory of consumption, and it involves a marginal propensity to consume that is less than one but greater zero.

26. **Which of the following are the different types of demand?**

(a) Price demand and income demand
(b) Price demand and cross demand
(c) Both (a) and (b) above
(d) Neither (a) nor (b) **Punjab Lect. 2021**

Ans. (c) : The different types of demand

(a) Price demand and income demand
(b) Price demand and cross demand
(c) Price demand and income demand

Price demand:- The price demand refers to the number of goods or service on individual is eager to by at a given **Price income demand:-** The income demand means the eagerness of a person to by a define

(d) Cross demand : This is one of the important types of demand where the demand of product is not subjected to its own price but the price of other similar products is known as the cross demand.

27. **The Relative Income Hypothesis states that:**

(a) Short term average consumption function is proportional
(b) Ratchet effect operates from the previous peak level of consumption
(c) Consumption is determined by transitory income
(d) Equitable distribution of income leads to greater demonstration effect

Odisha SSB Lecturers 19.09.2021

Ans. (b): Duesen berry (1949) argued that consumption behaviors of individuals are irreversible, which means as income increases, consumption of the individuals increases sharply; but consumption turns out to be more stable than falling when individuals' income decreases. This behavior is called 'Ratchet Effect'

28. **Which of the following is not a feature of Revealed Preference Theory of Consumer Behavior?**

(a) Behaviorist ordinalist
(b) Transitive
(c) Weak ordering
(d) Consistency of choice

Odisha SSB Lecturers 19.09.2021

Ans. (c) : Revealed preference theory allows room for the preferred option to change depending upon price and budgetary constraints. By examining the preferred preference at each point of constraint, a schedule can be created of a given population is preferred items under a varied schedule of pricing and budget constraints. The theory states that given a consumer's budget, they will select the same bundle of goods (the "preferred" bundle) as long as that bundle remains affordable. It is only if the preferential bundle becomes unaffordable that they will switch to a less expensive, less desirable bundle of goods.

29. **The stage in which (i) basic needs are no longer a problem, and (ii) there is popular consumption of durable goods, is known as**

(a) The drive to maturity
(b) The take - off
(c) The stage of high mass consumption
(d) None of the above

TRB Tripura Teacher-2019

Ans. (c): In Rostow's development theory, the high mass consumption stage is a very important stage. In this stage, basic needs are no longer a problem, and durable goods are popularly consumed.

30. **Social advantage is maximized when the**

(a) Marginal social benefit is equal to marginal social sacrifice
(b) Total social benefit is maximized
(c) Total social sacrifice is minimized
(d) None of the above

TRB Tripura Teacher-2019

Ans. (a) : Social advantage is maximized at the point where marginal social social sacrifice cute the marginal social benefits curve. This is at the point. At this point the marginal disutility or social sacrifice is equal to the marginal utility or social benefit.

The principle of maximum social advantage is as we all known that government does some expenditures like expenditure on roads, education defense etc.

31. **Which of the following is not a characteristic of social goods?**
(a) Indivisibility
(b) Lack of exclusion principle
(c) Decreasing average cost
(d) None of the above

TRB Tripura Teacher-2019

Ans. (a): Social goods are such goods in which non-rivalry is found, that is, everyone consumes this good collectively, in which the principle of indivisibility and exclusion is absent, hence the correct answer to the above question is option a and b.

32. **Though water is very essential for us, but is has very little or no value. Why is it so?**
(a) Supply of water is scarce
(b) Marginal utility of water is very little or nil
(c) Both (A) and (B) are true
(d) None of the above

TRB Tripura Teacher-2019

Ans. (b) : The price of any commodity is equal to the marginal utility found in that commodity. Water, while found in large quantities, is a natural commodity whose marginal utility is very low or close to zero, hence the price of water is very low or close to zero.

33. **What is market failure?**
(a) Something prevents the market to allocate resources efficiently
(b) Both consumers and producers surplus are maximized
(c) Free market of individuals acting in their oneself interest leads to a socially desirable results
(d) There exists no consumers' surplus

MH SET- 26.09.2021

Ans. (c): Market failure is the economic situation defined by an inefficient distribution of goods and services in the free market. In market failure, the individual incentives for rational behavior do not lead to rational outcomes for the group.

34. **Consumer's welfare declines due to...............**
(a) Collusion of firms
(b) Increase in consumption
(c) Increase in asset holding
(d) Freedom of expression

MH SET-27.12.2020

Ans. (a) : Consumer's welfare declines due to collusion of firms.
Consumer welfare typically declines when firms engage in collusion, as it can lead to higher prices, reduced competition and limited choices for consumers. Collusion among firms can result in monopolistic or oligopolistic behavior, which is detrimental to consumer interest.

35. **If we sum up present time welfare of all consumers, we.....................**
(a) Can decide public policy
(b) Can get aggregate welfare of society
(c) Cannot get aggregate welfare of society
(d) Can decide foreign policy

MH SET-27.12.2020

Ans. (a) : Public policy can play an important role in determining the current welfare of any country or society because public policy is a decision taken collectively in public welfare which leads to the preference of all the individuals of all the society.

36. **The concept of consumer's welfare is :**
(a) Subjective (b) Objective
(c) Negative (d) Positive

MH SET-27.12.2020

Ans. (a) : Marshall has considered utility as a measure under the consumer's equilibrium theory. He has believed that the utility of an item can be measured. But according to critics, utility is a mental experience or a subjective element and cannot be measured quantitatively.

37. **Which of the following hypothesis says that the young generation saves while the old generation disserves?**
(a) Human capital
(b) Life cycle
(c) Permanent income
(d) Keynesian consumption function

MH SET-27.12.2020

Ans. (b) : This statement is an important basis of the life cycle hypothesis. The profounder of this theory are Ando Modigliani and Bromberg, according to which the growth rate of consumption in a period is an aspect of a plan of the consumer which extends throughout the rest of his life. An important argument of the life cycle hypothesis is that the pattern of income flow in relation to an individual is such that as the individual grows older, the income flow increases with age, attains a peak level and then it decreases as age increases.

38. **Which of the following is likely to have a negative effect on aggregate to consumption?**
(a) An increase in expected inflation
(b) A temporary increase in labour income
(c) An increase in nominal interest rate
(d) A permanent increase in labour income

MH SET-27.12.2020

Ans. (c) : An increase in nominal interest is likely to have a negative effect on aggregate consumption. When nominal interest rates rise, the cost of borrowing increase, which can lead to reduced consumer spending and borrowing. Higher interest rates can also discourage investment and make saving more attractive further reducing consumption in the economy. This can result in a decrease in aggregate consumption.

39. **Asymmetric information results into:**
(a) Market efficiency
(b) Adverse selection by consumer
(c) Government failure
(d) Market success **MH SET-27.12.2020**

Ans. (b): Asymmetric information result into adverse selection by consumer. When there is insufficient information available to certain participants in the market, this can also be the source of market failure. If the buyer or seller in a transaction lacks access to the information on which the price is based, they may be willing to overpay or undercharge for a good or service, disrupting the market's equilibrium.

40. ....utility means that an individual can attach specific values or numbers of utils from consuming each quantity of a good or basket of goods.

(a) Ordinal (b) Marginal
(c) Cardinal (d) Equi-marginal

MH SET-27.12.2020

Ans. (c) : Cardinal utility means that an individual can attach specific values or numbers of utils from consuming each quantity of a good or basket of goods.

41. If the Marginal Utility of the last unit of X consumed is twice the Marginal Utility of the last unit of Y consumed, the consumer is in equilibrium only if

(a) The price of X is twice the price of Y
(b) The price of X is equal to the price of Y
(c) The price of X is one half the price of Y
(d) None of these

Kerala Set-2020

Ans. (a) : If the consumer's marginal utility of the final good X is twice the marginal utility of the final good Y consumed then the consumer will be in equilibrium only when the price of goods will double.

42. The situation were some people demand a smaller quantity of a commodity as more people consume it in order to be different and exclusive

(a) Snob effect
(b) Veblen effect
(c) Averch-Johnson effect
(d) Bandwagon effect

Kerala Set-2020

Ans. (a): Snob effect:- It is a phenomenon described in microeconomics as a situation where the demand for a certain good by individuals of a higher income level is inversely related to its demand by those of a lower income level.

• The "Snob effect contrasts most other microeconomic models in that the demand curve can have a positive slope rather than the typical negatively sloped demand curve of normal goods.

43. Public Goods are:

1. That they are non rival in consumption
2. That are non exclusive
3. Leads to a free rider problem

(a) 1, 2 and 3 are correct
(b) 1 and 2 are correct
(c) 1 and 3 are correct
(d) 2 and 3 are correct **Kerala Set-2020**

Ans. (a): Public goods are non-rival, indivisible and non-excludable in nature, in which the problem of free riding is found.

44. Assertion (A) Why water has a low price, while diamonds have a high price?
Reason (R) The water is abundant so that its marginal utility is very low. On the other hand, diamonds are scarce and their marginal utility is quite high and hence their prices are high.

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

APPSC Degree College Lect.16.09.2020

Ans. (a) : The price of a commodity is determined on the basis of its marginal utility. Water is available in abundance on earth. Hence, its marginal utility is very low. Diamonds on the other hand, are rare and their marginal utility is quite high and hence diamond prices are high and water prices are low or close to zero.

45. According to Keynes, Marginal Propensity to Consume (MPC) falls as income:

(a) Rises
(b) Falls
(c) remains constant
(d) Fluctuates up and down

APPSC Degree College Lect.16.09.2020

Ans. (a) : Marginal propensity to consume or MPC is an important component of the Keynesian macroeconomic theory. This theory suggests that the individual has a propensity to consume more with an additional rise in income.

46. Compensating variation of income consists of:

(a) Reduction of income to nullify the effect of a fall in price of the good consumed by the consumer
(b) Reduction of income to nullify the effect of a rise in price of the good consumed by the consumer
(c) Increasing the income of the consumer to enable her to match up with her neighbors
(d) Increasing the income of the consumer to enable her to reach higher indifference curve

APPSC Jr. Lect.-20.02.2018

Ans. (a) : Compensation in income means that to offset the effect of reduction in the price of the product, that much income is taken from the consumer so that the consumer remains on the same preference curve and the preference he already has, i.e. arising from the reduction in price. The income effect is eliminated which is called compensating income.

47. Read the given statements and select the most appropriate option with regard to them.
Statement I: The Law of Demand is the base of the law of Diminishing Marginal Utility
Statement II: The negative slope of a demand curve is the combined outcome of the income effect and substitution effect of a change in the price of the goods.

(a) Both statements are correct
(b) Both statements are incorrect
(c) Statement I is correct and statement II is incorrect
(d) Statement I is incorrect and statement II is correct **APPSC Jr. Lect.-20.02.2018**

Ans. (c) : The reason for the demand curve falling to the lower right is the law of diminishing marginal utility, which is the basis of the law of demand. According to the law of diminishing marginal utility, as a consumer purchases more units of a good, the marginal utility he gets from those good decreases. Due to diminishing marginal utility, the price of the commodity also decreases due to which the consumer keeps purchasing more units of the commodity which can be consumed, in other words, more units of the commodity are purchased at a higher price and more units of the commodity are purchased at a lower price, which is when plotted on a demand curve, the demand curve has a negative slope.

48. Information asymmetry exists when
(a) Both parties are equally informed.
(b) Both parties are equally knowledgeable.
(c) One party has more information than the other.
(d) One party does not take interest in the subject.
WBPSC Asst. Prof. 2020

Ans. (c): Asymmetric information also known as information failure" occurs when one party to an economic transaction posses greater material knowledge than the other party. This typically manifests when the seller of a good or service possesses greater knowledge than the buyer; however the reverse dynamic is also possible. Almost all economic transaction involves information asymmetries.

49. The spirit of Engel's Law is that with an increase in family income:
(a) Proportion of income spent on luxuries decline.
(b) The savings rate increases.
(c) The proportion of income spent on food declines.
(d) Expenditure on food declines.
WBPSC Asst. Prof. 2020

Ans. (c) : Engel's Law is an economic theory put forth in 1857 by Ernst Engel, a German statistician. It states that the percentage of income allocated for food purchases decreases as a household's income rises, while the percentage spent on other things (such as education and recreation) increases.

50. When $\frac{MU_X}{P_x} < \frac{MU_Y}{P_Y}$, consumer will
(a) Buy less of Y and more of X
(b) Buy more of Y and Less of X
(c) Buy more of Y and no change in good X.
(d) Buy same units of good X and less units of good Y.
KVS PGT-2017

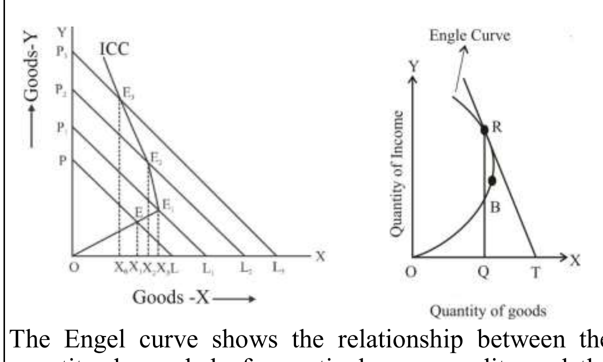
Ans. (b) : When $\frac{MU_X}{P_X} < \frac{MU_Y}{P_Y}$ consumer will consume more percentage and will purchase less quantity because the marginal utility derived from X goods % is greater than the marginal utility derived from Y goods %

51. As the consumer consumes more units of a commodity, his total utility from the commodity
(a) Increases less than in proportion reaches a maximum and then falls.
(b) Increases less than in proportion and then falls.
(c) Increases more than in proportion and then reaches a maximum.
(d) Falls become zero and then become negative.
KVS PGT-2017

Ans. (a): In the process of consumption, the sum of the utility received from each unit from the consumption of the first unit to the consumption of the last unit is total utility.
As the consumer's consumption of units of a goods increase less proportionately and decreases after attaining the highest value.

52. For an inferior goods, income, consumption curve and Engle curve are
(a) Positively sloped
(b) Negatively slopped
(c) Income consumption curve is positively sloped and the Engle curve is negatively sloped
(d) Income consumption curve negatively sloped and Engle curve is positively sloped
UPPSC GDC 2021
UGC NET- II Paper June, 2012

Ans. (b) : Income consumption curve (ICC) shows the effect of a change in consumer's income on his demand. The income consumption curve is made up of equilibrium points at different income levels of the consumer. In the case of negative income effect, the ICC curve is backward curved i.e. falling to the left or to the right and has a negative slope.



The Engel curve shows the relationship between the quantity demanded of a particular commodity and the income of the consumer. In the case of inferior goods, the income elasticity is negative, in such a situation the angle curve is backward curved, that is, the engle curve is of negative slope.

53. Arrange the following concepts of consumer behaviour in chronological order

A. Law of diminishing marginal utility
B. Law of demand
C. Revealed Preference Analysis
D. Indifference Curve Analysis

Choose the correct answer from the options given below

(a) A, B, C, D (b) A, B, D, C
(c) B, A, C, D (d) B, A, D, C

UP PGT-2021
NTA UGC NET/JRF Dec 2020/June 2021
UGC NET-II Paper Dec., 2013

Ans. (d) : Correct chorological order of the following concept of consumer behavior.

B→ Law of demand - (1656)
A→ Law of diminishing Marginal utility - (1854)
D→ Indifference curve analysis - (1881)
C→ Revealed preference analysis - (1938)

54. Which law is called Gossen's second law?

(a) Marginal utility law
(b) Law of equal marginal utility
(c) Law of demands
(d) Law of supply **UP TGT 2021**

UGC NET-II Paper Dec., 2014

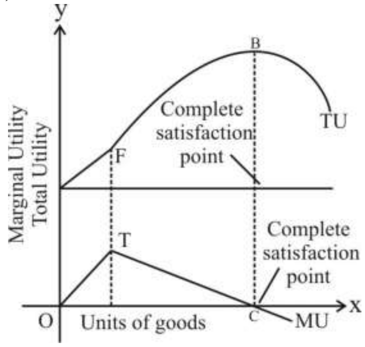
Ans. (b) : The law of equi-marginal utility is the another important law of consumption, which explains consumer demand with the help of utility analysis. This law was propounded by Gossen,. a French engineer in the 19th century. that's why this law is also called second law of Goess's. when a consumer is consuming two or more goods, this rule guides him in what proportion he should buy the different goods so as to maximize his total utility. The law of equil-marginal utility in economics is known by many names such as law of maximum satisfaction, law of substitution, law of proportionality, etc.

55. Total utility is maximum when :

(a) Marginal utility is zero
(b) Marginal utility is at its highest point
(c) Average utility is maximum
(d) None of these **UP TGT 2021, 2009, 2005**

UP PGT-2005, 2010
UPPCS Economics-1999

Ans. (a) : When total utility is maximum then marginal utility (MU) is zero.



It is clear from the figure that at point B when total utility is maximum then marginal utility at point C is zero.

56. A consumer will in equilibrium, when :

(a) $\frac{MU_x}{P_x} > \frac{MU_y}{P_y}$ (b) $\frac{MU_x}{P_x} < \frac{MU_y}{P_y}$

(c) $\frac{MU_x}{P_x} = \frac{MU_y}{P_y}$ (d) None of these

UP TGT 2021
UP PGT 2010

Ans. (c) : A consumer is in equilibrium when the budget line must touch the indifference curve in the equilibrium position, where the slope of the indifference curve will be equal to the slope of the budget line or the marginal rate of substitution of goods X for good Y is equal to the ratio of the prices of the two goods, then the consumer will be in equilibrium–

$$\frac{P_x}{P_y} = MRS_{xy} = \frac{MU_x}{MU_y}$$

$$\frac{MU_x}{P_x} = \frac{MU_y}{P_y}$$

57. The famous "Diamond-Water" paradox is explained by :

(a) Total utility (b) Marginal utility
(c) Price offered (d) Quantity supplied

UP TGT 2021

Ans. (b) : Diamond Water Paradox:-This concept was propounded by Adam smith. this concept explains why diamond is expensive even though it is of little use and water which is very useful for life but has low cost. This notion makes it clear that the value of a commodity is determined neither by the amount of labor involved in its production, nor by the total utility of a commodity, but by the marginal utility derived from its consumption is determined by it. Water supply is very high. Due to the abundance of its supply, as its consumption increases, its marginal utility will be very less, therefore its value will be less, whereas incase of diamond, which has no utility, the will be a shortage of supply due to its rarity and as its consumption increases its value price will increase.

58. Who has given the famous 'diamond water' paradox?

(a) Adam smith (b) J.S. Mill
(c) Marshall (d) Edge worth

MP Assistant Professor– 2017
UPPCS Economics 1993, 2005

Ans. (a) : Diamond water paradox was propounded by Adam Smith but could not present the solution of this paradox but later Marshall presented the solution of this paradox through marginal utility. Smith argued that water is an essential element for life yet it is cheap, while diamond is extremely expensive even though it is not essential for life. Smith himself could not resolve this contradiction. This paradox was resolved by the marginal utility theory of value.

59. The condition which shown consumers equilibrium in utility analysis–

(a) $\frac{MU_x}{P_x} \times \frac{MU_y}{P_y}$ (b) $\frac{MU_x}{P_x} \div \frac{MU_y}{P_y}$

(c) $\frac{MU_x}{MU_y} \times \frac{P_x}{P_y}$ (d) $\frac{MU_x}{MU_y} = \frac{P_x}{P_y}$

UP PGT 2021

Ans. (d) : The condition which shows consumers equilibrium in utility analysis is $\frac{MU_x}{MU_y} = \frac{P_x}{P_y}$

60. If the consumption function of the consumer sis $U = X_1X_2$ and budget constraint is $M = P_1X_1 = P_2XC_2$ then at the equilibrium level, the demand function for X_1 will be–

(a) $\frac{M}{2P_1}$ (b) $\frac{-M}{2P^2}$

(c) $\frac{M}{2P_1^2}$ (d) $\frac{-M}{2P_1}$

UP PGT 2021

Ans. (a) : If the consumption function of the consumer is $U = X_1X_2$ and budget constraint is $M = P_1X_1 = P_2 \times X_2$ then at the equilibrium level, the demand function for X_1 will be $\frac{M}{2P_1}$

61. A consumer will purchase more of Good Y than Good X, only when-

(a) $\frac{MU_X}{P_X} = MU_M$ (b) $\frac{MU_X}{P_X} < \frac{MU_Y}{P_Y}$

(c) $\frac{MU_Y}{P_Y} = MU_M$ (d) $\frac{MU_X}{P_X} > \frac{MU_Y}{P_Y}$

UPPSC GIC 2021

Ans. (b) : A consumer will purchase more of good Y than good X, only when $\frac{MU_x}{P_X} < \frac{MU_y}{P_y}$ i.e, the marginal utility obtained from good Y is more. As long as the marginal utility of good Y is greater than that of good X, a consumer will purchase more of good Y than good X.

62. According to the Cardinal Utility Theory, the marginal utility of money-

(a) Increases
(b) Remain constant
(c) Decreases
(d) First Increases then decreases

UPPSC GIC 2021

Ans. (b) : Cardinal utility theory is based on several assumptions–

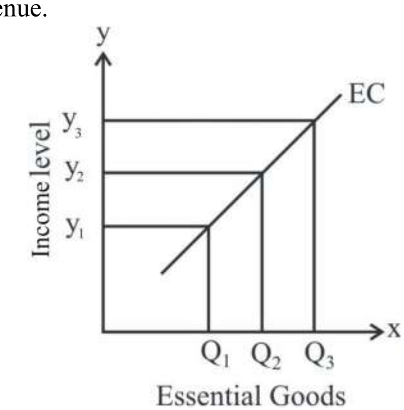
(1) Utility analysis is based on the cardinal assumption which holds that utility is measured and added like the weight and length of goods.
(2) Utility is measured by money.
(3) Marginal utility of money is assumed to be constant
(4) The consumer is a rational being who measures, counts, selects and compares different units of goods and tries to maximize utility.
(5) The consumer has full knowledge about the availability of goods and their quality.

63. The relationship between the level of income and the quantity purchased of a commodity if called :

(a) Demand curve
(b) Price consumption curve
(c) Laffer curve
(d) Engel curve

Haryana PGT 2020

Ans. (d) : To Engel curve of demand rises from bottom to top right for essential goods. It explains the relationship between the quantity of a commodity and the income of the consumers. While the demand curve shows the relationship between a good's price and quantity demanded, other things remaining the same, the price combinations of two goods that consumers will buy at different prices of a goods, and the laffer curve expresses the relationship between federal taxes and revenue.



64. Which of the following theory is known as 'the third root of logical theory of demand'?

(a) Indifference curve analysis
(b) Utility Analysis
(c) Giffin's Paradox
(d) Revealed preference Theory

UKPSC Lecturer (Mains) 2020

Ans. (d) : Prof. Samuelson's revealed preference theory is a behavioral ordinal analysis is known as the 'third M root of the logic theory of demand' Hicks calls this a 'direct consistency test under strong ordering' thus theory analysis the consumer's prefernce for a combination of two goods on the basis of the observed behaviour of the consumer in the market.

65. Which one of the following assumption is not correct for revealed preference analysis?

(a) Consistency
(b) Transitivity
(c) Rationality
(d) Weak ordering

UKPSC Lecturer (Mains) 2020

Ans. (d) : Revealed preference analysis is based on the following assumptions–
(i) Rationality
(ii) Transitiveness
(iii) Concept of expressed priority
(iv) Consumer interest is given.
(v) Strong serialization, etc.
Whereas weak ordering is the assumption of indifference curve.

66. Among the following, which one is associated with cardinal approach?
(a) Revealed preference theory
(b) Indifference curve analysis
(c) Utility theory
(d) None of these

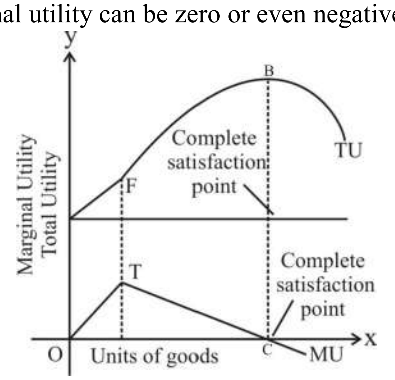
UKPSC Lecturer (Mains) 2020

Ans. (c) : Utility theory is associated with cardinal approach. Marshall is of the opinion that utility can be measured by money even though it is a psychological fact. We are not ready to pay more than the value of anything. This means that the marginal utility of a commodity is equal to the amount of money given in exchange for that commodity. The value given in exchange of a commodity was the measure of the utility of that commodity.

67. Consumer reaches a satisfaction point for a commodity, when marginal utility (MU) will be
(a) Negative (b) Zero
(c) Positive (d) None of these

UKPSC Lecturer (Mains) 2020

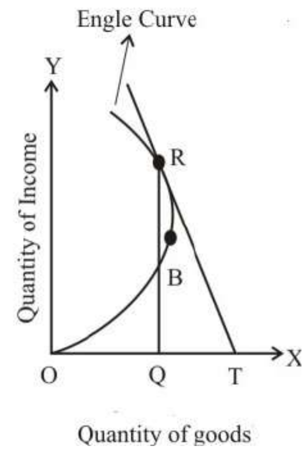
Ans. (b) : The point of complete satisfaction/saturation point or point of maximum satisfaction of the consumer for a good is achieved when the marginal utility (MU) will be zero. Marginal utility gradually decreases with the process of consumption and after reaching the level of maximum satisfaction, marginal utility becomes zero. Marginal utility can be zero or even negative.



68. Backward bending 'Engel Curve' belongs to:
(a) Superior goods (b) Inferior goods
(c) Neutral goods (d) None of these

UKPSC Lecturer (Mains) 2020

Ans. (b) : The Engel curve shows the relationship between the quantity demanded of a particular commodity and the income of the consumer. The EC curve is backward curved with respect to the inferior good under the Angle consumption curve. In respect of inferior goods, the income elasticity is negative and the quantity demanded of these goods decreases with the increase in the income of the consumer.
It is clear from the graph given below that inferior goods behave like a necessity in the initial ranges of income, so the initial slope of this curve is positive and after a certain level of income, this curve is backward happens.



69. Which of the following is not included in the four concepts of Hicks relating to reformation of the concept of Consumer's surplus?
(a) Quantity compensating variation in income
(b) Quantity equivalent variation in income
(c) Price equivalent variation in income
(d) Income compensating variation in price

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Ans. (d) : The following is the four concepts of Hicks relating to reformation of the concept of consumer's surplus is –
(i) Quantity compensating variation in income
(ii) Quantity equivalent variation in income
(iii) Price equivalent variation in income
(iv) Price compensating variation in income

70. While measuring price effect, which of the following remains constant?
(a) Money income (b) Real income
(c) Price ratio (d) All of these

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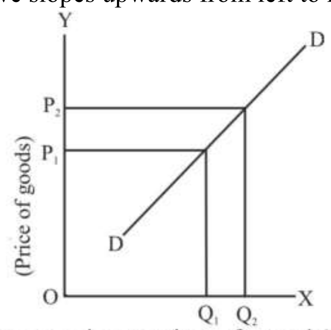
Ans. (a) : As a result of reduction in the price of a commodity, the impact on the consumption of that commodity is called the price effect. Price effect is of two types positive and negative. When the price effect is positive, a decrease in price leads to a decrease in consumption demand for that commodity and when it is negative, a decrease in price leads to an increase in consumption demand for that commodity. In this way, the price effect itself presents the effect or demand analysis of the change in prices. And in Marshall's theory of normal demand, the price effect is negative. Money income remains constant while computing the price effect. The price effect describes how a change in the price of a good X results in a change in the quantity bought by the consumer while consumer's income, tastes, preferences and other price of good y given.

71. For a Giffin good, the graph showing price-demand relationship is :

(a) Downward sloping (b) Horizontal
(c) Upward sloping (d) Vertical

UKPSC Lecturer (Mains) 2020

Ans. (c) : In case of Griffin goods, the law of demand fails i.e. the demand decreases when the price decreases and increases when the price increases. In other words, there is a positive relationship between the price and the quantity demanded. A Griffin good is such an inferior good in respect of which a high positive income effect is found. In the graph, when the price increases from OP_1 to OP_2, the demand for the good increases from OQ_1 to OQ_2 the graph of the price-demand relationship for a Giffin goods is upward sloping that is, it rises/ slope upward from left to right. The quantity demanded of a Giffen good decreases with a fall in price and its demand curve slopes upwards from left to right.



(Demand quantity of goods)

72. Change in demand due to change in purchasing power of a consumer is called–

(a) Income effect
(b) Price effect
(c) Substitution effect
(d) Demonstration effect **UP TGT -2016**

Ans : (a) While changing the purchasing power of a consumer, the monetary income of the consumer is assumed to be constant and the change in the price brings about a change in the purchasing power of the consumer. The change in purchasing power is called the price-generated income effect or the income effect.

73. A consumer is said to be in equilibrium when he receives maximum ______

(a) Profit (b) Facility
(c) Satisfaction (d) None of these

UP TGT -2016

Ans : (c) A consumer is said to be in equilibrium when he gets maximum satisfaction. consumers equilibrium means that a consumer spends his income at market prices in such a way that he gets maximum satisfaction. It is of two type –

(i) In respect of a commodity.

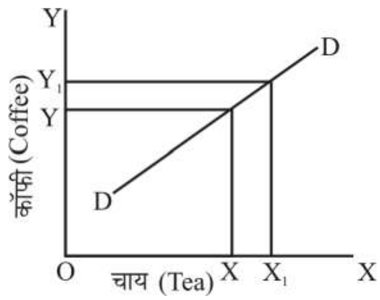
(ii) With reference to two or more goods.

74. If two goods are substitutes (Such as tea or coffee), the cross elasticity between them is–

(a) Negative (b) Positive
(c) Infinite (d) Zero

UP TGT -2016

Ans : (b)



Substitute goods are those goods which are used in place of each other like tea and coffee. When the price of one commodity increases, the demand for the other commodity increases and when the price of one commodity decreases, the demand for the other commodity decreases. The cross elasticity of demand between two substitute goods is positive. In other words, if X and Y are substitutes, then a decrease in the price of Y reduces the quantity demanded of X. Similarly, an increase in the price of Y increases the quantity demanded of X. gives

In the diagram where quantity of commodity X tea is taken on X axis and quantity of commodity Y coffee is taken on Y axis. When the price of Y increases from OY to OY1, the quantity demanded of X increases from OX to OX1. Thus the demand curve sloping upwards from left to right indicates positive elasticity between the two goods.

Note- The cross-elasticity between substitute goods is positive and the elasticity of demand is more elastic.

75. The Open preferential principle is based on–

(a) Calculative / cardinal utility
(b) Ordinal utility
(c) Behaviour of the market
(d) Behaviorist ordinal utility

UP LT Grade -2018

Ans. (d) : Presentation of Revealed Preference Theory in relation to consumer behavior is propounded by prof. Samuelson. The following are the assumptions of this theory.

1. The consumer is prudent.
2. Transitivity
3. Strong serialization validation.
4. Revealed preference axiom.
5. Interest of the consumer is given.
6. Stable behaviour's concept
7. Positive income elasticity of demand

76. When the price of which commodity decreases, the consumer reduces consumption?

(a) Superior goods (b) Inferior goods
(c) Giffen goods (d) Indifferent goods

UP LT Grade -2018

Ans. (c) : Giffen goods are a type of specific inferior goods, in relation to which the consumer reduces their consumption when their price falls and increases their consumption when their price increases, that is, the quantity demanded of a giffen goods changes only in the direction of change in its price. In the case of giffen goods, the positive income effect is stronger than the negative substitution effect. This is the reason that when the price of a commodity falls, the consumer reduces its demand.

77. Giffen goods refers to _________.

(a) Prestige Goods (b) Essential goods
(c) Non viable goods (d) Waste goods

UP TGT -2016

Ans : (d) Giffen goods refers to waste goods.

78. In the utility analysis method of consumer behaviour, which one of the following is not an assumption?

(a) Utility is measurable
(b) Utility is measurable interms of money
(c) Marginal utility of money keep on falling
(d) Marginal utility of money remains constant

UP Assistant Professor-2018

Ans. (c) : The theory based on utility analysis of consumer behaviour is related to Marshall. Marshall was prominent in marginal utility analysis who considered the marginal utility of money constant during the change in the price of the commodity. Marshall has ignored the change in real income due to price change by assuming marginal utility of money as constant.

Assumptions–

1. The process of consumption should go on continuously,
2. Every unit of the commodity comming in for consumption should be same in quality, taste and quantity.
3. There should be no change in interest and time.
4. Mental condition should be correct or balanced
5. The value of the commodity should not change during the consumptions process.
6. Utility should be measurable, can also be measured in terms of currency.

79. The equilibrium condition cardinal utility analysis can be expressed as –

(a) $\frac{MUx}{Px} = Qx$
(b) MUx=MUm
(c) $\frac{MUx}{Px} = \frac{MUy}{Py} = MUm$
(d) PxQx = MUm

UP Assistant Professor-2018

Ans. (c) : In cardinal equilibrium analysis, Marshall has assumed the condition of equilibrium–

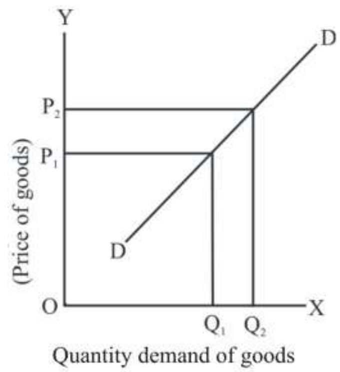
$$\frac{MU_x}{P_x} = \frac{MU_y}{P_y} = MU_m$$

80. The demand curve of giffen good will be–

(a) Horizontal
(b) Falling down to the right
(c) Vertical
(d) Rising upwards to the right

UP Assistant Professor-2018

Ans. (d) :



In case of Griffin goods, the law of demand fails i.e. the demand decreases when the price decreases and increases when the price increases. In other words, there is a positive relationship between the price and the quantity demanded. A Griffin good is such an inferior good in respect of which a high positive income effect is found. In the graph, when the price increases from OP_1 to OP_2, the demand for the good increases from OQ_1 to OQ_2 the graph of the price-demand relationship for a Giffin goods is upward sloping that is, it rises/ slope upward from left to right. The quantity demanded of a Giffen good decreases with a fall in price and its demand curve slopes upwards from left to right.

81. Budget effect means–

(a) Government expenditure on distribution of income
(b) Effect of tax policies on distribution of income and wealth of the private sector
(c) Effect of government expenditure on allocation of resources
(d) None of the above

UP Assistant Professor 2018

Ans. (a) : The main objective of the budget is to reduce the inequality of income distribution and this is mainly done by imposing taxes.

82. If the utility function of the consumer U= q_1q_2, P_1 = 1 and P_2 = 2 and y = 100. The demand for q_1 and q_2 will be–

(a) 50, 25 (b) 25, 50
(c) 50, 50 (d) 25, 25

MP Assistant Professor– 2017

Ans. (a) : Utility function of the consumer

$U = q_1q_2$, $P_1 = 1$ and $P_2 = 2$ and $y = 100$
$y = P1q1 + P2q2$
$100 = 1.q1 + 2.q2$
$100 = 1\times 50 + 2 \times 25$
$q_1 = 50, q_2 = 25$

83. Who among the following economists formulated the revealed preference theory?

(a) Marshall (b) Hicks Allen
(c) Smuelson (d) Keynes

MP Assistant Professor– 2017
UP PGT 2003, 2016
UP TGT 2009, 2011
Chattisgarh Asst. Prof. 2014

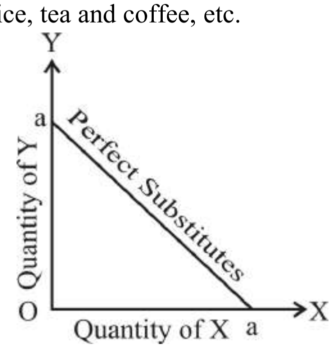
Ans. (c) : The theory of revealed preferences was formulated by Samuelson. this is an ordinal analysis. This theory analyses the consumer's preference for combinations of two goods on the basis of the observed behaviour of the consumer in the market. Hicks has called this test of direct correspondence under strong ordering.

84. When two goods X and Y are perfect substitutes, then the rate of marginal substitution will be constant in both of them and in such a situation the shape of the indifference curve is.

(a) A straight line with a negative slope
(b) Line parallel to x-axis
(c) line parallel to y-axis
(d) A flexible curved line with a negative slope

MP Assistant Professor– 2017

Ans. (a) : When two goods X and Y are perfect substitutes, the rate of marginal substitution will be constant in both of them and in this case the shape of the indifference curve will be a straight line with a negative slope. Two goods are perfect substitutes when the utility derived from both is equal. For example, wheat and rice, tea and coffee, etc.



85. According to Marshall, a consumer will be in equilibrium between two goods X and Y, when–

(a) $MU_x = MU_y = P_x = P_y$
(b) $MU_x / MU_y = P_y/P_x$
(c) $MU_x / MU_y = P_x/P_y$
(d) $MU_x/MU_y = MU_y/P_x$

MP Assistant Professor– 2017

Ans. (c) : According to Marshall, the condition of consumer equilibrium between two goods X and Y will be when the marginal utility derived from one unit of money is same for both the goods, that is,

$$\frac{MU_x}{P_x} = \frac{MU_y}{P_y}$$

and $\frac{MU_x}{MU_y} = \frac{P_x}{P_y}$

Where,

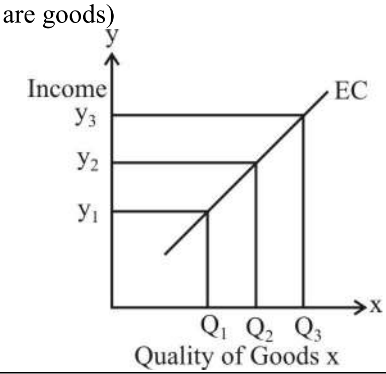
P_x = Price of goods x.
MU_x = Marginal utility of good x.
P_y = Price of good y.
MU_y = Marginal utility of good y.

86. Engel curve explains the relationship between which of the following?

(a) Consumption and utility
(b) Production and Productivity
(c) Income and consumption
(d) Income and production

Uttarakhand Assistant Prof. (GDC)- 2017

Ans. (c) : Engel curve explains the relationship between consumer's income and consumption. It show positive relationship between income and consumption. (except substand are goods)



87. With reference to giffen goods–

(a) The positive income effect is stronger than the negative substitution effect.
(b) The negative income effect is weaker than the positive substitution effect.
(c) The negative income effect is stronger than the positive substitution effect.
(d) The positive income effect is weaker than the negative substitution effect.

UPPSC 1999
Uttarakhand Assistant Prof. (GDC)- 2017

Ans. (a) : In the case of a giffen good, the substitution effect is negative and the income effect is positive, and the positive income effect is stronger (or greater) than the negative substitution effect. Therefore, when the price of a giffen good falls, its demand decreases and when its price increases, its demand increases. The law of demand does not apply to a giffen goods.

88. A curve which is X and Y in the edgeworth box passes through all the tangent points of the isomorphic curves, is called–

(a) Indifference curve
(b) Trade indifference curve
(c) Due curve
(d) Contract curve

Uttarakhand Assistant Prof. (GDC)- 2017

Ans. (d) : A curve which passes through all the points of contact of the x and y isometric curves in the edgeworth box is called a contract curve.

89. If a product is a veblen commodity, then

(a) Demand is inversely related to income
(b) Demand is directly related to price
(c) Demand is inversely related to the prices of substitutes.
(d) None of the above

Uttarakhand GIC- 2018, Set-A

Ans. (b) : If a product is a veblen goods, then demand is directly related to price. Veblen goods customer and the consumer displays his wealth by demanding these goods. This effect is related to a specific type of consumption pattern. There are some people who do not increase the demand for that item when the price falls, thinking that the higher price is due to the quality of the item, and the lower price means that its quality is decreasing. The extent to which the demand for a commodity increases because its price is high, we call it the Veblen effect. Lowenstein named the Veblen effect after Thrusting Veblen. The Veblen effect works in the opposite direction to the price effect.

90. Inferiror goods have an income effect.

(a) Negative (b) Positive
(c) Infinite (d) Zero

Uttarakhand GIC- 2018, Set-A

Ans. (a) : Inferior goods are those goods whose consumption increases when the income of the consumer decreases. Or decreases as income increases. That is, those goods for which the income effect is negative are called inferior goods.

91. At the satisfaction, level point Marginal utility tends to be–

(a) Positive (b) Negative
(c) Zero (d) None of the above

Uttarakhand GIC- 2018, Set-A

Ans. (c) : Marginal utility tends to zero at the level of satisfaction. Marginal utility refers to the utility derived by the consumer from the consumption of one additional unit of a commodity. Due to the law of diminishing marginal utility, the marginal utility derived from each additional unit consumed decreases and at the level of satisfaction where total utility is maximum, marginal utility becomes zero. There after it becomes negative.

92. Due to which of the following law the demand curve is downward sloping?

(a) Consumer's equilibrium
(b) Diminishing marginal utility
(c) Utility minimization
(d) Utility maximization

Uttarakhand GIC- 2018, Set-A

Ans. (b) : The demand curve is downward sloping due to the law of diminishing marginal utility. According to this law, as the consumer consumes additional units of a commodity, the marginal utility derived from it decreases and as a result the consumer reduces the demand for the commodity. The law of diminishing marginal utility, the income effect and the substitution effect explain the downward slope of the demand curve.

93. The consumer is in equilibrium when marginal utility is–

(a) Increasing/incremental
(b) Maximum/higher
(c) Equal
(d) Minimum

Uttarakhand GIC- 2018, Set-A

Ans. (c) : According to the law of equ-marginal utility, the consumer is in a state of equilibrium at a point where the marginal utility derived from each unit of money spent on two goods X and Y is the same, i.e,

$$\frac{MU_x}{P_x} = \frac{MU_y}{P_y}$$

$$\text{or } \frac{P_x}{P_y} = \frac{MU_x}{MU_y}$$

94. If the price of a good increases, then the income effect–

(a) Strengthens the substitution effect if the commodity is normal
(b) Neutralizes the substitution effect is the item of goods is null.
(c) Both (a) and (b)
(d) None of the the above

Uttarakhand GIC- 2018, Set-A

Ans. (c) : Income effect and substitution effect work in the same direction in the case of normal goods. When the price of a normal goods increases, the real income of the consumer decreases. therefore, the consumer will increases the consumption of the established commodity of that commodity which will be relatively cheaper than that commodity. (whose price has increased) thus in the case of a normal goods, the income effect strengthens the substitution effect work in opposite directions. Also the income effect is stronger than the substitution effect. Therefore, when the price of an inferior good increases, the income effect increases the demand for that good, neutralizing the substitution effect.

95. Expressed at each point on an indifference curve–

(a) Less satisfaction
(b) More satisfaction
(c) Equal satisfaction
(d) Unequal satisfaction

Uttarakhand GIC- 2018, Set-A

Ans. (c) : An indifference curve is the locus of various combination of two goods that give equal satisfaction to the consumer or towards which the consumer is neutral or indifferent. it is clear from this that equal satisfaction is expressed at each point of the indifference curve.

96. 'A' product will increase the price of the complementary good of the–

(a) Outward shift in demand for product 'A'
(b) Inward shift in demand for product 'A'
(c) Shift the supply of product 'A'
(d) Out wards shifting the supply of product 'A' inwards

Uttarakhand GIC- 2018, Set-A

Ans. (b) : If as a result of a decrease in the price of one commodity, there is an increase in the demand for the other commodity, then both the goods are said to complement each other. Like-chair–table, car–petrol, tea–sugar, etc. the cross elasticity of demand for complementary goods is negative.