CA FOUNDATION

SUBJECT- ECONOMICS

Test Code – CFN 9269

(Date :)

(Marks - 50)

TOPICS: Theory of Production and Cost, Meaning and Types of Markets

1. Price Taker Firms _______
   (a) Advertise to increase the demand for their products.
   (b) Do not advertise because most advertising is harmful for the society.
   (c) Do not advertise because they can sell as much as they want at the current price.
   (d) Who advertise will get more profits than those who do not.

2. Who has argued that firms have 'satisfising' behaviour & strive for profits that are satisfactory.
   (a) Baumol (b) H.A. Simon (c) A. A. Berle (d) G.C. Means

3. The structure of the cold drink industry in India is best described as
   (a) perfectly competitive (b) monopoly
   (c) monopolistically competitive (d) oligopolistic

4. ________ economies are associated with the distribution of the product of a Firm.
   (a) Manufacturing (b) Inventory (c) Production (d) Selling

5. A monopolist is a ________.
   (a) Price maker (b) Price –taker (c) Price adjuster (d) None of the above

6. Identify the correct statement :
   (a) The average product is at its maximum when marginal product is equal to average product.
   (b) The law of increasing returns to scale relates to the effect of changes in factor proportions.
   (c) Economies of scale arise only because of indivisibilities of factor proportions.
   (d) Internal economies of scale can accrue when industry expands beyond optimum.

7. Homogeneous product are sold under-
   (a) Collusive oligopoly (b) Non-collusive oligopoly
   (c) Perfect oligopoly (d) Imperfect oligopoly

8. If total revenue of a firm increases by Rs. 65025 due to an increase in sale of good X from 60 units to 75 units, then marginal revenue will be _____.
   (a) 3000 (b) 4335 (c) 4000 (d) 3335

9. A market with one seller & one buyer is known as _______.
   (a) Duopoly (b) Monopsony
   (c) Oligopsony (d) Bilateral monopoly

10. The long run average cost curve is also called _________.
   (a) Envelope curve (b) Plant curve (c) Both a and b (d) None of these

11. Which one of the following is not an objective of price discrimination?
   (a) maximizing profit (b) enjoy diseconomies of scale
   (c) capture foreign market (d) dispose off surplus stock

12. The total cost of producing 30 units of output is Rs. 300. If average fixed cost at this level of output is Rs. 7, then the total variable cost will be _____.
   (a) Rs. 160 (b) Rs. 140 (c) Rs. 90 (d) Rs. 120

13. Assume that when price is Rs. 20, the quantity demanded is 15 units, and when price is Rs. 18, the quantity demanded is 16 units. Based on this information, what is the marginal revenue resulting from an increase in output from 15 units to 16 units ?

(a) Rs. 18 (b) Rs. 16 (c) Rs. 12 (d) Rs. 28

14. Which of the following cost curve is termed as a rectangular hyperbola-

(a) Total Variable Cost curve (b) Average Variable Cost Curve
(c) Total Fixed Cost curve (d) Average Fixed Cost curve

15. Marginal Cost curve of a firm in a Perfectly Competitive Industry is the same as its ______ curve.

(a) demand (b) fixed cost (c) average Cost (d) supply

16. Diminishing returns occur ______.

(a) When units of a variable input are added to a fixed input and total product falls
(b) When units of a variable input are added to a fixed input and marginal product falls
(c) When the size of the plant is increased in the long run.
(d) When the quantity of the fixed input is increased and returns to the variable input falls.

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

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

18. In Production Activity, one of the ways of creating Utility is _____.

(a) Form Utility (b) Marginal Utility (c) Total Utility (d) All of the above

19. For a discriminating monopolist, selling its product in two markets, A and B, equilibrium condition is _______

(a) $MR_A = MR_B > MC$ (b) $MR_A = MR_B = MC$
(c) $MR_A = MR_B = MC_{A+B}$ (d) $MR_A = MR_B < MC$

20. Stages I (Increasing Returns) and III (Negative Marginal Returns) are called ______

(a) Economic Achievement (b) Economic Nonsense
(c) Economic Optimality (d) Economic Rationality

21. When few firms of the oligopoly market come to a common understanding regarding price / output fixation it is called _______ oligopoly.

(a) pure (b) open (c) closed (d) collusive

22. The most important function of an entrepreneur is to _______.

(a) Innovate (b) Bear the sense of responsibility
(c) Finance (d) Earn profit

23. It is assumed in economic theory that

(a) decision making within the firm is usually undertaken by managers, but never by the owners.
(b) the ultimate goal of the firm is to maximise profits, regardless of firm size or type of business organisation.
(c) as the firm's size increases, so do its goals.
(d) the basic decision making unit of any firm is its owners.

24. In which of the following situations, the Law of variable Proportions will not apply ?

(a) Long – Run
(b) Same level of technology
(c) Change in proportions in which factors are used
(d) Short - Run

25. Allocative efficiency is best described by ______ equation.

(a) Average Cost = Average Revenue (b) Average Revenue = Marginal Revenue
(c) Average Revenue = Marginal Cost (d) Marginal Revenue = Marginal Cost

26. The law of variable proportions is drawn under all of the assumptions mentioned below except the assumption that :
   (a) the technology is changing.
   (b) there must be some inputs whose quantity is kept fixed.
   (c) we consider only physical inputs and not economically profitability in monetary terms.
   (d) the technology is given and stable.

27. Selling outlay is an essential part of which of the following market situation
   (a) Monopolistic Competition (b) Perfect Competition
   (c) Monopoly (d) Pure Competition

28. When LAC Curve is ______, it will be tangent to the falling portions of the SAC Curves.
   (a) Decreasing (b) Increasing
   (c) Both (a) and(b) (d) Neither (a) nor (b)

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

30. The marginal product of a variable input is best described as :
   (a) Total product divided by the number of units of variable input.
   (b) the additional output resulting from a one unit increase in the variable input.
   (c) the additional output resulting from a one unit increase in both the variable and fixed inputs.
   (d) the ratio of the amount of the variable input that is being used to the amount of the fixed input that is being used.

31. Under Monopolistic Competition, in the long-run, resources ________.
   (a) will be fully used (b) may be partially used
   (c) may not be used at all (d) will not be required at all

32. Opportunity Cost refers to ______ in accepting an alternative course of action.
   (a) Value of sacrifice made (b) Benefit of opportunity foregone
   (c) Both (a) and (b) (d) Neither (a) nor (b)

33. Imperfect oligopoly is based on ________.
   (a) product differentiation (b) product homogeneity
   (c) intense competition (d) existence of few firms

34. Which of the following statements is incorrect ?
   (a) The LAC curve is also called the planning curve of a firm
   (b) Total revenue = price per unit × number of units sold.
   (c) Opportunity cost is also called alternative cost.
   (d) If total revenue is divided by the number of units sold we get marginal revenue.

35. Firms have chronic excess production capacity in _________ market
   (a) Duopoly (b) Perfect competition
   (c) Monopolistic competition (d) Oligopoly

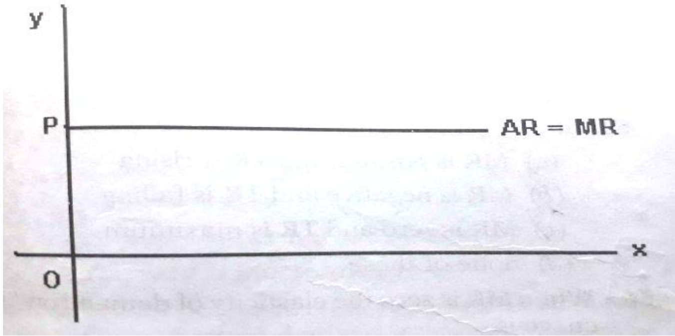
36. Diminishing marginal returns for the first four units of a variable input is exhibited by the total product sequence :
   (a) 50, 50, 50, 50 (b) 50, 110, 180, 260
   (c) 50, 100, 150, 200 (d) 50, 90, 120, 140

37. In economics the term market refers to _______.
   i. A particular place
   ii. A commodity
   iii. Buyers and sellers
   iv. Bargaining for a price

   (a) Only 1 (b) only 2 (c) 2 & 3 (d) 2, 3 and 4

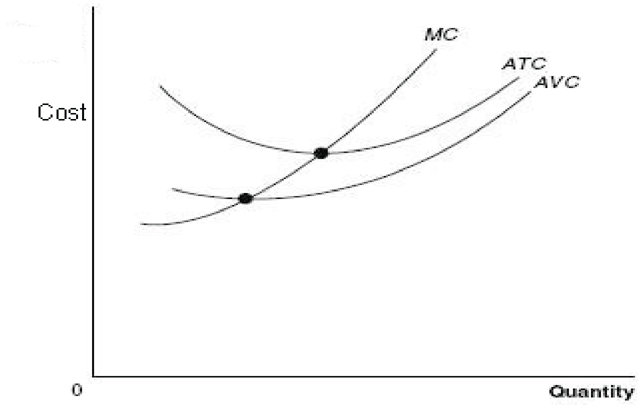
38. Marginal Revenue (MR) =
   (a) Will have positive values only
   (b) Will have negative values only
   (c) Can be positive or zero, but not negative.
   (d) Can be positive or zero or even negative

39. The figure shows that the firm belong to ________.



(a) Imperfect competitive market
(b) Monopoly
(c) Oligopoly
(d) Perfectly competitive market

40. In figure below, possible reason why the average variable cost curve approaches the average total cost curve as output rises is :



   (a) Fixed costs are falling while total costs are rising at rising output.
   (b) Total costs are rising and average costs are also rising.
   (c) Marginal costs are above average variable costs as output rises.
   (d) Average fixed costs are falling as output rises.

41. In which market, transactions involve contracts with a promise to pay and deliver goods at some future date ?
   (a) Forward (b) Futures (c) Both (a) and (b) (d) None of these

42. Which of the following statements is incorrect ?
   (a) If Marginal Revenue exceeds Marginal cost, the Firm should increase output.
   (b) If Marginal Cost exceeds Marginal Revenue the Firm should decrease output.
   (c) Economic profits are maximized when Total Costs are equal to Total Revenue.
   (d) Profits are maximized when Marginal Revenue equals Marginal Cost.

43. Under Monopoly, in the long-run, a Firm __________.
   (a) will always be an Optimal Firm.
   (b) will never be an Optimal Firm.
   (c) may or may not be an Optimal Firm.
   (d) will leave the industry.

44. Which of the following is an example of an “Implicit cost” ?

(a) Interest that could have been earned on retained earnings used by the firm to finance expansion.

(b) The payment of rent by the firm for the building in which it is housed.

(c) The interest payment made by the firm for the building in which it is housed.

(d) The payment of wages by the firm.

45. A firm should not produce at all if its __________.

(a) total variable costs are not met (b) total fixed costs are not met

(c) semi - variable costs are not met (d) all of the above

46. _______ represents all those combinations of inputs which are capable of producing the same level of output.

(a) Isoquant (b) Isocost (c) Isoprice (d) None of the above

47. Oligopolistic industries are characterized by :

(a) a few dominant firms and substantial barriers to entry.

(b) a few large firms and no entry barriers.

(c) a large number of small firms and no entry barriers.

(d) one dominant firm and low entry barriers.

48. A firm has a variable cost of Rs. 1000 at 5 units of output. If fixed costs are Rs. 400, what will be the average total cost at 5 units of output ?

(a) Rs. 280 (b) Rs. 60 (c) Rs. 120 (d) Rs. 1400

49. Discriminating monopoly implies that the monopolist charges different prices for his commodity :

(a) from different groups of consumers (b) for different uses

(c) at different places (d) any of the above

50. A firm encounters its “shutdown point” when-

(a) Average total cost equals price at the profit-maximising level of output

(b) Average variable cost equals price at the profit-maximising level of output

(c) Average fixed cost equals price at the profit-maximising level of output

(d) Marginal cost equals price at the profit-maximising level of output