

## Course Name: Microeconomic Theory-I. Course Code: BSCHECOC101

### Model Questions:

#### Multiple Choice Type

1. Indifference curves are a) Negatively sloped b) Convex to the origin c) don't intersect each other d) all of these
2. When total utility is highest the value of marginal utility is a) 1 b) Zero c) Negative d) none of these.
3. Slope of the budget line is equal to the negative of the commodity price ratio a) True b) false c) Can't be said without additional information d) none of these.
4. Cardinal utility theory was developed by a) Alfred Marshall b) Adam Smith c) David Ricardo d) Hicks
5. In case of normal good, substitution effect is a) Negative b) positive c) Zero d) none of these
6. When two goods are perfect substitutes MRS is a) Constant b) decreasing c) increasing d) cannot be said without additional information.
7. In case of a rectangular hyperbolic demand curve, price elasticity of demand is equal to a) unity b) Zero c) 2 d) none of these.
8. Revealed Preference Hypothesis was developed by a) Samuelson b) Hicks c) Pareto d) Marshall
9. Marginal cost curve is a) U shaped b) L shaped c) S shaped d) Inverse S shaped
10. Along the upper ridge line a) MP of capital is zero b) MP of labour is zero c) both are zero d) None is zero
11. In case of Cobb-Douglas production function elasticity of substitution is a) Unity b) Zero c) 2 d) 3
12. The price elasticity of demand for gold flake cigarettes is a) greater than the elasticity of demand for cigarette in general b) less than the elasticity of demand for cigarette in general c) equal to the elasticity of demand for cigarette in general d) none of the above.
13. Law of Equi-Marginal utility states that a) Marginal utility of all commodities are the same b) Total utility of all commodities are the same c) marginal utility of the last unit of money spent on all commodities are the same d) none of these.
14. Monomania occurs if a) two goods are perfect substitutes b) two goods are perfectly complementary c) Consumer always prefers a minimum quantity of some goods d) none of these .
15. In case of a rectangular hyperbolic demand curve price elasticity of demand is a) unity b) zero c) 2 d) none of these.

16. The price elasticity of demand for Dove soap is a) Less than the price elasticity of demand for soap in general b) greater than the price elasticity of demand for soap in general c) equal to the price elasticity of demand for soap in general d) none of these
17. Demand curve of an inferior good is a) straight line b) negatively sloped c) curvilinear d) concave.
18. Veblen effect occurs when the individual a) judges' quality by price b) judges' quantity by price c) wants to differentiate himself by his purchase d) cannot be said without additional information.
19. Shut down point occurs when a)  $P = AVC$  b)  $P = AFC$  c)  $P = SMC$  d)  $P = SAC$ .
20. "In a two-commodity world, both goods can be inferior at the same time". a) true b) false c) cannot be said without additional information d) none of these.
21. In case of a Giffen good a) income effect with respect to price change is positive and stronger than substitution effect b) substitution effect is stronger than income effect with respect to price change c) both effects are in equal strength d) none of these.

### **Objective type, Very Short Type, Short Type and Essay Type Questions**

22. what is the value of marginal utility when total utility is maximum?
23. What is price elasticity of demand?
24. What is the difference between firm and industry?
25. State the law of diminishing marginal utility.
26. What do you mean by isoquant?
27. What will be the sign of cross elasticity of demand in case of substitute goods?
28. What is the shape of AFC curve?
29. Define inferior good.
30. Define Monopoly.
31. What is shut down point?
32. What can be said about the degree of homogeneity of the ordinary demand function?
33. What is the value of price elasticity of demand if the quantity of demand remains unchanged in response to a price change?
34. Which measure of utility is specified from the statement  $C = D = 20$ ?
35. What would be the shape of the Engel curve for a Giffen good?
36. Does elasticity of substitution depend on the unit of measurement?
37. What is the sign of income effect in case of Giffen goods?
38. What is the shape of AVC curve?
39. What do you mean by Veblen effect?
40. What do you mean by law of equi- marginal utility?
41. Define income consumption curve.
42. Define elasticity of substitution.
43. State the relation between average productivity and marginal productivity.
44. What is Giffen's paradox?
45. Distinguish between cardinal and ordinal utility.
46. When is price discrimination possible?

47. What do you mean by stability of equilibrium?
48. What is the expansion path?
49. What is bandwagon effect?
50. What do you mean by monomania?
51. Define price consumption curve.
52. Why is demand curve for an inferior good negatively sloped?
53. State the law of variable proportions in production.
54. What will be shape of the expansion path if the production function is homogeneous?
55. Why are all buyers identical from the sellers' point of view in a perfectly competitive market?
56. Define ridge line.
57. Why is the demand curve of a firm horizontal in a perfectly competitive market.
58. Discuss the relation between price elasticity of demand and total expenditure.
59. Show that indifference curve is convex to the origin.
60. Show that price effect is negative under revealed preference hypothesis.
61. Discuss the short run equilibrium of a perfectly competitive firm.
62. Distinguish different stages of production in terms of a single input.
63. Discuss briefly the principal characteristics of monopoly. What is the price elasticity of demand at equilibrium in this market?
64. Decompose price effect into substitution and income effects in terms of Hicks approach and Slutsky approach.
65. Discuss the relationship between long run average cost curve and short run average cost curve.
66. State and prove any three properties of Cobb –Douglas production function.
67. How do you get a negatively sloped demand curve in the cardinal utility theory?
68. 'Substitution effect is always negative' - Explain
69. Define average cost curve. Why is average cost curve U shaped?
70. Discuss the characteristics of a perfectly competitive market.
71. Show that elasticity of substitution is unity in case of Cobb-Douglas production function.
72. How do you measure price elasticity of demand at a point on a linear demand curve? Explain graphically.
73. Discuss the equilibrium of a firm willing to maximize output subject to cost constraint.
74. Do you think that a perfectly competitive firm will continue production in the short run even if it incurs loss? Justify your answer.
75. Derive the short run supply curve of a perfectly competitive firm.