Economic Analysis for Business Decisions
Multiple Choice Questions
Unit-2: Demand Analysis

1. The law of demand states that an increase in the price of a good:
   a. Increases the supply of that good.
   **b. Decreases the quantity demanded for that good.**
   c. Increases the quantity supplied of that good.
   d. None of these answers.

2. The law of supply states that an increase in the price of a good:
   a. None of these answers.
   **b. Increases the quantity supplied of that good.**
   c. Decreases the demand for that good.
   d. Decreases the quantity demanded for that good.

3. If an increase in consumer incomes leads to a decrease in the demand for camping equipment, then camping equipment is:
   a. A normal good.  
   b. None of these answers.  
   **c. An inferior good.**
   d. A substitute good  
   e. A complementary good.

4. Which of the following shifts the demand for watches to the right?
   a. An increase in the price of watches  
   b. None of these answers  
   c. A **decrease in the price of watch batteries if watch batteries and watches are complements**
   d. A decrease in consumer incomes if watches are a normal good

5. If the price of a good is above the equilibrium price,
   a. There is a surplus and the price will rise.
   b. There is a shortage and the price will fall.
   c. There is a shortage and the price will rise.
   d. The quantity demanded is equal to the quantity supplied and the price remains unchanged.
   **e. There is a surplus and the price will fall.**

6. If the price of a good is equal to the equilibrium price,
   a. There is a shortage and the price will fall.
   b. **The quantity demanded is equal to the quantity supplied and the price remains unchanged.**
   c. There is a surplus and the price will rise.  
   d. There is a shortage and the price will rise.
   e. There is a surplus and the price will fall.
7. An inferior good is one for which an increase in income causes a(n)

a. Decrease in supply.  b. Increase in demand.  c. Increase in supply.  d. **Decrease in demand.**

8. If a small percentage increase in the price of a good greatly reduces the quantity demanded for that good, the demand for that good is


9. The price elasticity of demand is defined as

a. The percentage change in the quantity demanded divided by the percentage change in income.

b. The percentage change in income divided by the percentage change in the quantity demanded.

c. **The percentage change in the quantity demanded of a good divided by the percentage change in the price of that good.**

d. None of these answers.

e. The percentage change in price of a good divided by the percentage change in the quantity demanded of that good.

10. In general, a flatter demand curve is more likely to be:

a. **Price elastic.**  b. Unit price elastic.  c. None of these answers.  d. Price inelastic.

11. In general, a steeper supply curve is more likely to be

a. Price elastic.  b. None of these answers.  c. Unit price elastic.  d. **Price inelastic.**

12. Which of the following would cause a demand curve for a good to be price inelastic?

a. The good is a luxury.  b. There are a great number of substitutes for the good.

c. **The good is a necessity.**  d. The good is an inferior good.

13. If the cross-price elasticity between two goods is negative, the two goods are likely to be:


14. If there is excess capacity in a production facility, it is likely that the firm's supply curve is:

a. Price inelastic.  b. None of these answers.  c. Unit price elastic.  d. **Price elastic.**

15. If the income elasticity of demand for a good is negative, it must be:

16. If consumers think that there are very few substitutes for a good, then

a. Supply would tend to be price elastic.
b. None of these answers.
c. **Demand would tend to be price inelastic.**
d. Demand would tend to be price elastic.
e. Supply would tend to be price inelastic

17. The sensitivity of the change in quantity demanded to a change in price is called:

a. Income elasticity.  b. Cross-elasticity.  c. **Price elasticity of demand.**
d. Coefficient of elasticity.

18. A product that is similar to another, and can be consumed in place of it is called

a. A normal good.  b. An inferior good.  c. A complementary good.  d. **A substitute good.**

19. Two goods are ____________ if the quantity consumed of one increases when the price of the other decreases.

a. Normal  b. Superior  c. **Complementary**  d. Substitute

20. If input prices increase, all else equal,

a. quantity supplied will decrease.  b. supply will increase.  c. **supply will decrease.**
d. demand will decrease.

21. Which of the following would decrease the supply of wheat?

a. A decrease in the price of pesticides.
b. An increase in the demand for wheat.
c. A rise in the price of wheat.
d. **An increase in the price of corn.**
e. None of the above

22. If the price elasticity of demand for a good is .75, the demand for the good can be described as:


23. When the price of a product is increased 10 percent, the quantity demanded decreases 15 percent. In this range of prices, demand for this product is:

24. Cross elasticity of demand is:
   a. **Negative for complementary goods**  b. Negative for substitute goods.
25. A 3 percent increase in the price of tea causes a 6 percent increase in the demand for coffee. The cross elasticity of demand for coffee with respect to the price of tea is:
   a. -0.5  b. +0.5  c. -2.0  d. **+2.0**
26. The price elasticity of demand for any particular perfectly competitive firm's output is
   a. Less than 1   b. Equal to zero   c. **Infinite**   d. 1
27. The economic profit of a perfectly competitive firm
   a. **Is less than its total revenue**  b. Is greater than its total revenue
   c. Equals its total revenue        d. Is less than its total revenue if its supply curve is inelastic and is greater than its total revenue if its supply curve is elastic.
28. When Sidney's Sweaters, Inc. makes exactly zero economic profit, Sidney, the owner
   a. **Makes an income equal to his best alternative forgone income.**
   b. Will boost output
   c. Will shut down in the short run.
   d. Is taking a loss
29. A perfectly competitive firm's marginal cost exceeds its marginal revenue at its current output. To increase its profit, the firm will
   a. Increase its output   b. raise its price   c. lower its price   d. **decrease its output.**
30. Demand for a commodity refers to
   a. Desire for the commodity   b. Need for the commodity
   c. Quantity demanded of that commodity
   d. **Quantity of the commodity demanded at a certain price during any particular of time**
31. Demand for a commodity depends on
   a. Price of that commodity   b. Price of related goods   c. Income   d. **All the above**
32. Law of demand establishes
   a. **Inverse relationship between price and quantity**
   b. Positive relationship between price and quantity
   c. Both   d. none
33. All but one of the following are assumed to remain the same while drawing an individual’s demand curve for a commodity. Which one is it?
   a. The preference of the individual   b. His monetary income   c. The price of the good under consideration   d. The prices of other good

34. Demand for a product should have the following pre-requisite
   a. Ability to buy   b. Willingness   c. Need   d. All of these

35. Cross elasticity of demand between two perfect substitutes will be
   a. Law   b. High   c. Zero   d. Infinity

36. Market demand is aggregation of individual demand
   a. Vertically   b. Horizontally   c. Both (a) and (b)   d. None

37. A single point on the demand curve shows
   a. Demand and supply relationship   b. Price and supply relationship   c. Price and demand relationship   d. None of these

38. The fall in the price of one commodity leads to fall in demand for other commodity and vice versa for
   a. Substitutes   b. Complementary   c. Both (a) and (b)   d. None of the above

39. Decrease or fall in the price of commodity leads to increase in demand because of
   a. Substitution Effect, i.e., Relatively cheaper than related goods   b. Income Effect, i.e., Consumer become better off   c. Both (a) and (b)   d. None of these

40. Generally the demand curve has
   a. A slope downward from left to right   b. A negative slope right   c. Both of these   d. None of these

41. The law of demand can be derived with the help of
   a. Law of D.M.U. (Diminishing Marginal Utility)   b. Law of EMU (Equi-Marginal Utility)   c. Any of these two   d. None of these

42. The value of elasticity of demand ranges from
   a. Zero to one   b. One to infinity   c. Zero to infinity   d. None of these
43. When the quantity demanded of goods increases by a larger percentage as compared with the income of the consumer, income elasticity of demand is high

   a. Unitary Income Elasticity   b. Low-Income Elasticity
c. Zero-Income Elasticity       d. High-Income Elasticity

44. The relation between price and supply in law of supply is

   a. Direct   b. Inverse   c. Proportional   d. None of these

45. Under perfect competition, price of the product

   a. Can be controlled   b. Cannot be controlled   c. Can be controlled within certain limit
d. None of the above

46. Perfect competition is a market situation where we have

   a. A single seller b. Two sellers    c. Large number of sellers    d. Few sellers

47. The firm can achieve equilibrium when its

   a. MC = MR   b. MC = AC   c. MR = AR   d. MR = AC

48. A firm and industry are one and the same under

   a. Perfect competition   b. Duopoly   c. Oligopoly   d. Monopoly

49. Homogeneity of product is characteristic of

   a. Monopoly   b. Oligopoly   c. Perfect competition   d. None of the above

50. In case of perfect competition, elasticity will be

   a. 0   b. 2   c. 3   d. Infinity

51. Under which of the following forms of market structure a firm does has no control over the price of its product?

   a. Monopoly   b. Monopolistic competition   c. Oligopoly   d. Perfect competition

52. Who is the price-leader under oligopoly?

   a. any unit with efficient production capabilities
   b. there is no firm that can be termed as price leader under oligopoly
   c. the largest firm   d. the smallest firm
53. In this one firm assumes the role of price leader and fixes the price of the product for the entire industry

a. **Price leadership**   b. Cartel   c. Kinked demand curve   d. None of these

54. It is the art of translating into quantitative terms (rupees and paise) the value of the product or a unit of a service to customers at point in time

a. Costing   b. **Pricing**   c. Profit analysis   d. All of the Above

55. For a monopoly, the industry demand curve is the firm's

a. Profit function   b. marginal revenue curve   c. supply curve   d. **demand curve**

56. If the price elasticity of demand is greater than 1, a monopoly's

a. Marginal revenue is zero   b. Total revenue decreases when the firm lowers its price   c. Marginal revenue is negative   d. **Total revenue increases when the firm lowers its price**

57. Consumer surplus is


58. An increase in income will:

a. Lead to a movement along the demand curve   b. Shift the supply curve   c. **Shift the demand curve**   d. Lead to an extension of demand

59. A shift in supply will have a bigger effect on price than output if demand is


60. Assuming a downward sloping demand curve and upward sloping supply curve, a higher equilibrium price may be caused by:

a. A fall in demand   b. An increase in supply   c. Improvements in production technology   d. **An increase in demand**

61. A movement along the supply curve may be caused by:

a. A change in technology   b. A change in the number of producers   c. **A shift in demand**   d. A change in costs
62. A subsidy paid to producers

a. Shifts the supply curve  b. Shifts the demand curve
c. Leads to a contraction in supply  d. Leads to an extension of supply

63. Which would definitely not be an example of price discrimination?

a. A theater charges children less than adults for a movie.
b. Universities charge higher tuition for out-of-state residents.
c. A doctor charges for services according to the income of patients.
d. An electric power company charges less for electricity used during off-peak hours when production costs are lower.

64. If shortly after Kellogg’s Company has announced price increases on its ready-to-eat cereals, the other cereal manufacturers announce identical price increases on their products, this is likely to be:

a. The essence of competition
b. A cartel  c. Price leadership  d. a coincidence.

65. Price discrimination is

a. Charging different prices to different customers because it costs the firm more to serve some customers than others.
b. Changing the firm’s price frequently to respond to market conditions
c. Charging different prices to different customers when the price differences are not based on cost differences.
d. Charging the same price to all customers

66. Monopolies and oligopolies are:

a. Price takers, as are competitive firms
b. Price takers, in contrast to competitive firms which are price makers
c. Price makers, in contrast to competitive firms which are price takers.
d. Price makers, as are competitive firms.

67. Concentration ratios may:

a. Overstate the extent of competition because they ignore imported products
b. Understate the extent of competition because they ignore imported products
c. Either overstate or understate the extent of competition because they ignore imported products.
d. None of the above.
68. If new firms enter a monopolistically competitive market, the demand curves for the existing firms will:

a. Shift to the left and become more price inelastic.
b. Shift to the left and there will be no change in price elasticity.
c. **Shift to the left and become more price elastic.**
d. Shift to the right and there will be no change in price elasticity.

69. In the long run, monopolistically competitive firms maximize profit at the output where:

a. **They earn zero economic profit.**
b. \( P = MC \).
c. Marginal cost = the minimum of the long-run average total cost curve.
d. All of the above.

70. Suppose that an economy wants to eliminate the resource waste associated with excess capacity in monopolistically competitive markets. Which of the following actions would achieve this goal?

a. Allow monopolistically competitive firms to create more significant barriers to entry.
b. Encourage more competition in monopolistically competitive markets.
c. **Require all the firms in a given monopolistically competitive market to produce identical products.**
d. Require all the firms in a given monopolistically competitive market to charge the same price.

71. Which best describes a demand curve?

a. The quantity consumers would like to buy in an ideal world
b. The quantity consumers are willing to sell
c. The quantity consumers are willing and able to buy at each and every income all other things unchanged
d. **The quantity consumers are willing and able to buy at each and every price all other things unchanged**

72. A fall in price:

a. Will cause an inward shift of demand  
b. Will cause an outward shift of supply  
c. **Leads to a movement along a demand curve**  
d. Leads to a higher level of production

73. Demand for a normal product may shift outwards if:

a. Price decreases  
b. **The price of a substitute rises**  
c. The price of a complement rises  
d. Income falls
74. According to the law of diminishing marginal utility:

a. Utility is at a maximum with the first unit
b. Increasing units of consumption increase the marginal utility
c. Marginal product will fall as more units are consumed
d. Total utility will rise at a falling rate as more units are consumed

75. If marginal utility is zero:

a. Total utility is zero
b. An additional unit of consumption will decrease total utility
c. An additional unit of consumption will increase total utility
d. Total utility is maximized

76. A decrease in income should:

a. Shift demand for an inferior product inwards
b. **Shift demand for an inferior product outwards**
c. Shift supply for an inferior product outwards
d. Shift supply for an inferior product inwards

77. An increase in the price of a complement for product A would:

a. Shift demand for product A outwards
b. **Shift demand for product A inwards**
c. Shift supply for product A outwards
d. Shift supply for product A inwards

78. An increase in price, all other things unchanged, leads to:

a. Shift demand outwards  b. Shift demand inwards
c. **A contraction of demand**  d. An extension of demand

79. If a product is a Veblen good:

a. Demand is inversely related to income  b. Demand is inversely related to price
c. **Demand is directly related to price**  d. Demand is inversely related to the price of substitutes

80. If a product is an inferior good:

a. Demand is inversely related to income  b. Demand is inversely related to price
c. **Demand is directly related to price**  d. Demand is directly related to the price of substitutes
81. Average income increases from £20,000 p.a. to £22,000 p.a. Quantity demanded per year increases from 5000 to 6000 units. Which of the following is correct?

a) Demand is price inelastic   b) The good is inferior
   c) Income elasticity is -2   d) The product is normal

82. The price decreases from £2,000 to £1,800. Quantity demanded per year increases from 5000 to 6000 units. Which of the following is correct?

a. The price elasticity of demand is -2   b. The good is inferior
   c. Income elasticity is + 0.5   d. Income elasticity is + 2

83. If the price elasticity of demand is unit then a fall in price:

a. Reduces revenue   b. Leaves revenue unchanged
c. Increases revenue d. Reduces costs

84. If the cross elasticity of demand is -2:

a. The products are substitutes and demand is cross price elastic
b. The products are substitutes and demand is cross price inelastic
   c. The products are complements and demand is cross price elastic
d. The products are complements and demand is cross price inelastic

85. The income elasticity is +2 and income increases by 20%. Sales were 5000 units, what will they be now?

a. 3000   b. 7000   c. 5500   d. 4500

86. The price elasticity of demand is a negative number this means:

a. Demand is price elastic   b. Demand is price inelastic
   c. The demand curve is downward sloping
d. An increase in income will reduce the quantity demanded

87. If demand is price inelastic:

a. An increase in price must raise profits   b. An increase in price decreases revenue
   c) An increase in price increases revenue   d. A decrease in price reduces sales

88. For an inferior good:

a. The price elasticity of demand is negative; the income elasticity of demand is negative.
b. The price elasticity of demand is positive; the income elasticity of demand is negative.
c. The price elasticity of demand is negative; the income elasticity of demand is positive.
d. The price elasticity of demand is positive; the income elasticity of demand is positive.
89. For a normal good:

a. The price elasticity of demand is negative; the income elasticity of demand is negative.
b. The price elasticity of demand is positive; the income elasticity of demand is negative.
c. The price elasticity of demand is negative; the income elasticity of demand is positive.
d. The price elasticity of demand is positive; the income elasticity of demand is positive.

90. Which of the following characterizes monopolistic competition?

a. Many interdependent firms sell a homogeneous product.
b. A few firms produce a particular type of product.
c. Many firms produce a particular type of product, but each maintains some independent control over its own price.
d. A few firms produce all of the market supply of a good.

91. Monopolistically competitive industries are characterized by:

a. Low concentration ratios.  
   c. Independent production decisions.
b. Low entry barriers.  
   d. All of the above.

92. In monopolistic competition, a firm:

a. Has no market power.
b. Captures significant economies of scale
c. Has a downward-sloping demand curve.
d. Has a standardized product that all firms produce.

93. If there are many firms in an industry producing goods that are similar but slightly different, this is an example of:

a. Perfect competition.  
   B. Monopolistic competition.  
   C. Oligopoly.  
   D. Monopoly.

94. Large cities typically have many drug stores which have different qualities of service and selections of product. The drug store market in big cities can best be classified as:

a. A competitive market.
b. Monopolistic competition.
c. Oligopoly.
d. Monopoly

95. A major difference between monopoly and monopolistic competition is:

a. One maximizes profits by setting MR equal to MC, and the other does not.
b. The number of firms in the market.
c. One type of firm has market power, and the other does not.
d. One has a downward-sloping demand curve, and the other does not.
96. Entry into a market characterized by monopolistic competition is generally:

a. Entirely blocked by existing firms.
**b. Very easy because few barriers exist.**
c. As difficult as in oligopoly.
d. More difficult than entry into monopolized markets.

97. Which of the following characterizes monopolistic competition?


98. Product differentiation refers to:

**a. Features that make one product appear different from competing products in the same market.**
b. Different prices for the same product in a certain market.
c. The selling of identical products in different markets.
d. The charging of different prices for the same product in different markets.

99. Which of the following is an example of product differentiation?

a. **Two bars of soap differ only in their label, but consumers pay 50 paisa more for the label they recognize.**
b. Sugar can be made from sugar beets or sugar cane which consumers cannot differentiate when looking at sugar.
c. Consumers substitute vans in place of cars because vans accommodate more passengers.
d. Some sawmills specialize in producing softwood and others specialize in producing hardwood, but the two types of wood are used for very different purposes.

100. Perfect competition and monopolistic competition are best distinguished by:

**a. The degree of product differentiation.**
b. The long-run economic profits that are expected.
c. The number of firms in the market.  d. The ease of entry and exit.

101. A monopolistically competitive firm can raise its price somewhat without fear of great change in unit sales because:

a. The demand for its product is typically very price-elastic.
b. Its demand curve is horizontal.
**c. Of product differentiation and brand loyalty.**
d. Of the gap in its marginal revenue curve.
102. A monopolistically competitive firm can raise its price somewhat without fear of great change in unit sales because of:

a. Brand loyalty  
b. Economies of scale.  
c. Inelastic demand.  
d. Large market shares of firms in the market.

103. When a monopolistically competitive firm advertises, it is attempting to increase:

a. The demand and decrease the price elasticity of demand for its product.  
b. The demand and increase the price elasticity of demand for its product.  
c. Long-run profits.  
d. Market demand.

104. Brand loyalty usually makes the demand curve for a product:

a. More price elastic.  
b. **Less price elastic.**  
c. Unitary elastic.  
d. More income elastic.

105. Both monopoly and monopolistic competition:

a. Maximize profit where \( MR = MC \).  
b. Have high concentration ratios.  
c. Use advertising to differentiate their product.  
d. Have high barriers to entry.

106. A monopolistically competitive firm maximizes profits or minimizes losses in the short run by:

a. Using marginal cost pricing.  
b. Producing output at the level where \( ATC \) is minimized.  
c. Producing output at the level where price equals \( ATC \).  
d. **Producing output at the level where \( MC = MR \).**

107. In monopolistic competition, a firm's demand is tangent to the long-run average cost curve in the long run because:

a. Barriers to entry are very high.  
b. **Entry eliminates economic profit, and exit eliminates losses.**  
c. Advertising is ineffective in differentiating a product.  
d. All of the above.

108. The demand for wheat from farm A is perfectly elastic because wheat from farm A is a(n)

a. Perfect complement to wheat from farm B.  
b. **Perfect substitute for wheat from farm B.**  
c. Normal good.  
d. Inferior good.

109. The price elasticity of demand for any particular perfectly competitive firm's output is

a. Less than 1.  
b. Equal to zero.  
c. **Infinite.**  
d. 1.
110. The market for fish is perfectly competitive. So, the price elasticity of demand for fish from a single fishery

a. Sometimes greater than and sometimes less than the elasticity of demand for fish overall.
**b. Greater than the elasticity of demand for fish overall.**
c. Less than the elasticity of demand for fish overall.
d. Equals the elasticity of demand for fish overall.

111. In perfect competition, the price of the product is determined where the industry

a. Elasticity of supply equals the industry elasticity of demand.
**b. Supply curve and industry demand curve intersect.**
c. Fixed cost is zero.
d. Average variable cost equals the industry average total cost.

112. Total economic profit is

a. **Total revenue minus total opportunity cost.**
b. Marginal revenue minus marginal cost.
c. Total revenue divided by total cost.
d. Marginal revenue divided by marginal cost.

113. The economic profit of a perfectly competitive firm

a. **Less than its total revenue.**  
b. Greater than its total revenue.  
c. Its total revenue.  
d. Less than its total revenue if its supply curve is inelastic and is greater than its total revenue if its supply curve is elastic.

114. When Sidney's Sweaters, Inc. makes exactly zero economic profit, Sidney, the owner,

a. **Makes an income equal to his best alternative forgone income.**
b. Will boost output.  
c. Will shut down in the short run.  
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115. Law of Demand explains relation between quantity demanded and .....

a. Quantity supplied  
b. **Price**  
c. Need  
d. Want

116. Income Elasticity established relation between Income and .....

a. Price  
b. Supply  
c. **Quantity Demanded**  
d. Income

117. Market Equilibrium relates to .....

a. **Demand & Supply**  
b. Production and Raw Material  
c. Demand and Price  
d. Supply and Production