CA Foundation Economics Test

1. If we draw the supply curve for a farmer, which of the following will be held constant:
   i. Price of inputs
   ii. Price of commodity under consideration
   iii. weather conditions
   iv. Technology

   Choose the correct option:

   A only ii **B** i, ii and iii
   C only i **D** i, iii and iv

2. A fall in the price of a commodity where everything else is held constant is referred to as:

   A An increase in quantity demanded **B** A decrease in demand
   C An increase in demand **D** A decrease in quantity demanded

3. The coefficient of price elasticity of demand between two points on a demand curve is:

   A Point elasticity **B** Arc elasticity
   C Geometric coefficient **D** Outlay elasticity

4. A movement along a curve can be measured by:

   A Income elasticity of demand **B** Cross elasticity of demand
   C Price elasticity of demand **D** Law of demand

5. When the price of petrol decreases, people reduce the consumption of diesel, then the goods are:

   A Mixed **B** Complementary
   C Superior **D** Substitutes

6. When the price of apples is Rs.120 per kg., Ram buys one kg of apples. Now other things remaining the same, the price of apples falls to Rs.90 per kg. and Ram buys 2kg of apples. This is called:

   A Contraction of demand **B** Expansion of demand
   C Increase in demand **D** Decrease in demand.

7. To determine the base price and quantity, which method of elasticity is suitable?

   A Arc elasticity **B** Point elasticity
   C Cross elasticity **D** Income elasticity

8. The price elasticity of demand for X is 1 and the original quantity demanded of X is 90 units. If the price of X decreases from Rs.300 to Rs.180 per unit, calculate the new quantity demanded of X.

   A 126 units **B** 36 units
   C 144 units **D** 120 units

9. If quantity supplied changes substantially in response to small changes in price of the good then it is:

   A Inelastic supply **B** Elastic supply
   C Unit elastic supply **D** Perfectly elastic supply

10. If indifference curve is L-shaped, it means the two goods are:

    A Unrelated to each other **B** Perfect Substitutes
    C Perfect Complements **D** Inferior

11. Let us assume that good A is measured along OY-axis and good B along OX-axis. If the price of good B increases by Re.1, price of good A and income of the consumer remaining constant, the budget line will shift:

    A Upward on OY axis **B** Downward on OY-axis
    C Rightward on OX axis **D** Leftward on OX axis

12. Purushottam is willing to pay Rs.60,000 to buy a particular laptop. The seller offers a discount and now Purushottam has to actually pay Rs.54,000 for it. Purushottam's consumer surplus is:
A Rs.54,000 **B** Rs.6,000
C Rs.60,000 **D** Rs.5,400

13. Indifference curves slope downward to the right as quantity of one product increases while that of another product decreases because they give:
A equal satisfaction **B** greater satisfaction
C lesser satisfaction **D** no satisfaction

14. Income elasticity of luxury goods is:
A zero **B** positive and greater than one
C positive and less than one **D** Negative

15. If quantity demanded of butter increases by 5% when the price of cheese increases by 20%, the cross-price elasticity of demand between butter and cheese is:
A – 0.25 **B** + 0.25
C – 4.0 **D** + 4.0

16. In a town Citivilla, a grocery shop sells 400 litres of fresh milk per month at price of Rs.20 per litre. After sometime, the price was raised to Rs.30 per litre. Following the price rise:
- only 200 litres of milk was sold every month.
- the number of boxes of cereal sold went down from 280 to 240.
- the number of powdered milk customers bought went up from 90 to 220 p.m.
Suppose income of residents of Citivilla increases by 50% and quantity demanded increases by 30%. We can say that fresh milk, in economic sense, is a/an:
A Luxury good **B** Inferior good
C Normal good **D** Nothing can be determined

17. As a result of 10% increase in price the quantity supplied does not change at all. It implies that the elasticity of supply is:
A zero **B** infinite
C one **D** greater than zero but less than one

18. X, Y and Z are three commodities such that X and Y are complements while X and Z are substitutes.
A shopkeeper sells X at Rs.40 per piece and is able to sell 100 pieces per month. After sometime he decreases the price of X to Rs.20. Following the decrease:
- He is able to sell 150 pieces of X per month.
- Demand for Y increases from 25 to 50 units.
- Demand for Z decreases from 150 to 75 units.
The price elasticity of demand when price of X decreases from Rs.40 to Rs.20 will be:
A 1.50 **B** 1.00
C 1.66 **D** 0.60

19. Elasticity of demand for goods in a very high price range is:
A elastic **B** inelastic
C zero **D** one

20. When the price of steel rises, the demand for cement in the construction sector decreases. Steel and cement are:
A complementary goods **B** substitute goods
C normal goods **D** unrelated goods

21. Ceteris paribus, if there is an improvement in the technology:
A supply curve shifts to the left
B supply curve shifts to the right
C downward movement along the supply curve takes place

D upward movement along the supply curve takes place

22. If two commodities are complementary, then a rise in the price of one commodity will induce
    A A rise in the price of the other commodity
    B An upward shift of demand curve
    C No shift in demand for the other commodity
    D A backward shift in demand for the other commodity

23. The following are causes of shift in demand except:
    A Change in income
    B Change in price
    C Change in fashion
    D Change in prices of substitutes

24. Which of the following is not the method of forecasting demand?
    A Collective opinion method
    B Total outlay method
    C Expert opinion method
    D Controlled opinion method

25. Price and demand are positively correlated in case of:
    A Necessities
    B Comforts
    C Giffen goods
    D Luxuries

26. A horizontal supply curve parallel to the quantity axis implies that the elasticity of supply is:
    A infinity
    B zero
    C one
    D negative

27. In the context of a straight line demand curve touching both the axes, which one of the following is correct?
    The demand is elastic:
    A below the mid-point
    B above the mid-point
    C at the mid-point of the curve
    D throughout the length of the demand curve

28. Total consumer expenditure on a good falls as its price falls, this indicates that its price elasticity is:
    A one
    B less than one
    C more than one
    D none of the above

29. Elasticity of Demand for which one of the following goods is highest:
    A Airconditioner
    B Car
    C Medical treatment
    D vacation on a hill station

30. If an increase in the supply of a product results in a decrease in the price, but no change in the actual quantity of the product exchanged, then:
    A the price elasticity of supply is zero.
    B the price elasticity of supply is infinite.
    C the price elasticity of demand is unitary.
    D the price elasticity of demand is zero.

31. Which of the following is a correct statement?
    A Decrease in input prices causes a leftward shift in the supply curve
    B The desire for a commodity backed by ability and willingness to pay is demand
    C When income increases, the demand for essential goods increases more than proportionately
    D The demand for a commodity is inversely related to the price of a substitute

32. From the following identify one which is not a property of Indifference curve ?
    A Indifference curves are downward sloping.
    B Indifference curves are concave to the origin.
    C Indifference curves are convex to the origin.
    D Indifference curves do not intersect each other.

33. When a consumer increases units of X-commodity by giving up some units of Y-commodity to attain the same level of satisfaction, the marginal rate of substitution will be calculated by :

A Change in X-Commodity divided by change in Y-commodity
B Change in X-commodity divided by marginal utility of Y-commodity
C Change in Y-Commodity divided by change in X-commodity
D Change in Y-Commodity divided by marginal utility of X-Commodity

34. Hicks and Allen believed that utility:
A Cannot be measured
B Cannot be expressed
C Can be measured cardinally
D Can be measured ordinally

35. As per indifference curve and price line, a consumer will not be in equilibrium when
A Ratios of marginal utilities and prices of the respective goods are equal
B Ratio of marginal utilities of the two goods is equal to the ratio of their respective prices.
C The marginal rate of substitution is equal to the ratio of prices of the two goods.
D The marginal rate of substitution is decreasing.

36. Which one of the following is not the assumption on which the theory of consumer behaviour is based on the cardinal utility approach?
A Rationality
B Constant marginal utility from successive units
C Constant marginal utility of money
D Utility is measurable

37. Law of diminishing Marginal Utility states that
A Total Utility diminishes with the consumption of every additional unit
B Utility always diminishes whether something is consumed or not
C Utility first increases and after that diminishes at every point
D The additional benefit which a person derives from a given increase of his stock of a thing diminishes with every increase in stock that already has.

38. At the point of satiety, marginal utility
A zero
B maximum
C one
D increasing

39. If a price decrease results in your expenditure on a good decreasing, your demand must be
A unit
B inelastic
C linear
D elastic

40. A 3 percent increase in price of a good causes a 10 percent decrease in quantity demanded. Which of the following statements is most likely applicable to this good?
A The good is a superior good
B The good is a giffen good
C There are many close substitutes for this good
D The good is a necessity

41. When budget line shifts parallel towards right, which of the following statement is true?
A The price of X increases and budget increases
B The price of Y increases and budget increases
C The price of X and Y remain constant and the budget increases.
D The price of X decreases and budget increases

42. A consumer's budget line is presently defined by income = Rs.100, price of X = Rs.1, price of Y = Rs.2 The consumer's budget line would have exactly the same position if:
A Income = Rs. 100, price of X = Rs. 2, price of Y = Rs. 1
B Income = Rs. 200, price of X = Rs. 2, price of Y = Rs. 4
C Income = Rs. 50, price of X = Rs. 1, price of Y = Rs. 2
D Income = Rs. 200 price, of X = Rs. 1, price of Y = Rs. 2

43. Two goods are perfect substitutes of each other when:

A MRS_{XY} is increasing.
B MRS_{XY} is decreasing.
C MRS_{XY} is constant.
D None of the above.

44. In case of two goods X and Y, following the utility approach, a consumer is in equilibrium when:
A $\frac{MU_X}{P_Y} = \frac{MU_Y}{P_X}$
B $\frac{MU_X}{MU_Y} = \frac{P_X}{P_Y}$
C $\frac{MU_X}{MU_Y} = \frac{P_Y}{P_X}$
D None of these

45. When marginal utility is negative then total utility:
A is zero
B declines
C increases
D is also negative

46. The arc elasticity of demand for a good is given by
A $\frac{p_1 + p_2}{q_1 + q_2} \cdot \frac{\Delta q}{\Delta p}$
B $\frac{q_1 + q_2}{p_1 + p_2} \cdot \frac{\Delta p}{\Delta q}$
C $\frac{p_1 + p_2}{q_1 + q_2} \cdot \frac{\Delta p}{\Delta q}$
D $\frac{q_1 + q_2}{p_1 + p_2} \cdot \frac{\Delta q}{\Delta p}$

47. In case of a straight line demand curve meeting the two axes, the price elasticity of demand at the mid-point of the line would be:
A zero
B 1.0
C 0.8
D 1.9

48. What is the original price of a commodity when price elasticity is 0.71 and demand changes from 20 units to 15 units and the new price is Rs. 10?
A Rs.15.40
B Rs.14.45
C Rs.7.40
D Rs.10.50

49. Under Total Outlay Method, the demand is less elastic when the total outlay increases with
A fall in price
B rise in price
C no change in price
D None of these

50. A forecasting method that obtains forecasts through "group consensus" is known as the
A Collective opinion method
B Survey of buyer’s intention method
C Delphi technique
D None of these