

LADY DOAK COLLEGE, MADURAI

(An Autonomous Institution Affiliated to Madurai Kamaraj University)

Department of Economics

MULTIPLE CHOICE QUESTIONS

COURSE TITLE: Essential Concepts of Economics

COURSE CODE: ECO1302FM

UNIT - I

- 1) Economics is the study of
- A. how society manages its unlimited resources.
  - B. how to reduce our wants until we are satisfied/
  - C. how society manages its scarce resources.
  - D. how to fully satisfy our unlimited wants.

Ans: C Level : U

- 2) Banking belongs to the \_\_\_\_\_ sector.
- A. primary
  - B. secondary
  - C. tertiary
  - D. industrial

Ans: C Level : A

- 3) Which of these is a secondary sector?
- A. Manufacturing of laptop
  - B. Transport.
  - C. Agriculture.
  - D. Construction.

Ans: A Level : U

- 4) The subject of Economics deals with
- A. limited wants and resources
  - B. limited wants and unlimited resources
  - C. limited resources and unlimited wants
  - D. unlimited resources and wants

Ans: C Level : K

- 5) Combining natural resources, \_\_\_\_\_, and capital are all part of the production process.

- A. Land
- B. Human resources
- C. Tools
- D. Supplies

Ans: B Level : K

- 6) For an individual, the problem of scarcity means
- A. unlimited income and limited wants
  - B. there is no saving for some individuals
  - C. due to high taxes individuals cannot buy all products
  - D. limited income and unlimited wants

Ans: D Level : U

- 7) Which one of the following is not one of the basic economic questions?
- A. What to produce
  - B. Whom to produce
  - C. How to minimize economic growth
  - D. How to produce

Ans: C Level : K

- 8) Which one of the following is not the factor of production?
- A. workers
  - B. farm land
  - C. currency
  - D. machinery

Ans: C Level : K

- 9) The decision to hire more labour instead of investing in machinery answers the question of
- A. where to produce
  - B. how to produce
  - C. what to produce
  - D. for whom to produce

Ans: B Level : K

- 10) "Government decided to allocate more plan expenditure to North-East India." Which one of the following questions is answered by this decision?
- A. for what
  - B. for why
  - C. for whom
  - D. when

Ans: C Level : U

- 11) The choice of what to produce is a problem of
- A. allocation
  - B. distribution
  - C. poverty

D. inequality

Ans: A Level : K

## UNIT - II

Choose the best answer

- 12) Which of the following is the result of political instability?
- A. Optimal allocation of resources.
  - B. Suboptimal short term macro economic policies.
  - C. Optimal macroeconomic policies.
  - D. Increase in national income.

Ans: B Level : U

- 13) In traditional economies, economic decisions are based on
- A. customs
  - B. demand
  - C. prices
  - D. supply

Ans: A Level : K

- 14) Which one of the following feature is found in a Planned economy?
- A. There is no poverty
  - B. All resources are owned by individuals
  - C. All resources are owned by the state
  - D. All resources are owned by private firms

Ans: C Level : K

- 15) An economy which changed from command to market economy will find an increase in
- A. more government owned businesses
  - B. choice
  - C. more interference of the government in business
  - D. price control

Ans: B Level : U

- 16) A country has businesses only owned by the government. It is
- A. mixed economy
  - B. market economy
  - C. planned economy
  - D. free market economy

Ans: C Level : K

- 17) E. Which of the following actions provides a clue that a country is planned economy?
- a. The finance ministry plans the annual budget
  - b. Central bank changes the interest rates
  - c. Government plans the allocation of all resources
  - d. Government builds a new motorway

Ans: C Level : A

- 18) Which of the following is not likely to be true in a command economy?
- A. Businesses may pursue social objectives
  - B. The profits of a business belong to the government
  - C. Market forces determine what to produce
  - D. Resources are allocated by government

Ans: C Level : U

- 19) In a free market economy the entrepreneur decides
- A. the combination of resources used
  - B. market price
  - C. legislations
  - D. demand for the product

Ans: A Level : U

- 20) Which of the following is prominent in market economy but not in planned economy?
- A. Division of labour
  - B. Public corporations
  - C. Central Banks
  - D. Profit motive

Ans: D Level : U

- 21) In the free market economy the decision about investment, saving and consumption are decided by
- A. price mechanism
  - B. central bank
  - C. planning commission
  - D. finance budget

Ans: A Level : U

- 22) Market forces are associated with
- A. command
  - B. socialist
  - C. market
  - D. mixed ... economy.

Ans: C Level : K

- 23) Which one of the following is an advantage of the market economic system?
- A. It reduces pollution
  - B. It ensures there is no poverty
  - C. It aims for equality of income
  - D. It gives an incentive to produce

Ans: D Level : K

- 24) A feature of market economy is the presence of
- A. the public sector
  - B. the private sector
  - C. the agriculture sector
  - D. both private and public sector

Ans: B Level : K

- 25) The free market involves
- A. the free provision of products by the government
  - B. forces of demand and supply
  - C. the subsidising of products by the government
  - D. trade occurring via barter

Ans: B Level : K

- 26) Which of the following country is an example for market economy?
- A. India
  - B. USA
  - C. China
  - D. Cuba

Ans: B Level : A

- 27) Which of the following country is an example for market economy?
- E. India
  - F. USA
  - G. China
  - H. Cuba

Ans: A Level : K

- 28) What is always a feature of a mixed economy?
- A. There is hyperinflation
  - B. Resources are used by both private and public sector
  - C. Resources are used by only private sector\
  - D. There is no interference of government in the economy

Ans: B Level : K

- 29) A mixed economy is allocating resources via
- A. supply but not demand
  - B. demand but not supply
  - C. supply and demand

D. market forces and government intervention

Ans: D Level : K

- 30) When there is a co-existence of public and private sector, the system is called
- A. capitalist
  - B. mixed
  - C. communist
  - D. socialist

Ans: B Level : K

### UNIT - III

Choose the best answer

- 31) For which of the following reason economists make assumption?
- A. to simplify complex situation
  - B. to know the demand
  - C. to know the price
  - D. to calculate demand

Ans: A Level : U

- 32) Ceteris paribus means
- A. holding demand constant.
  - B. holding supply constant.
  - C. price being constant.
  - D. other things being constant.

Ans: D Level : K

- 33) Induction is the process of reasoning from
- A. whole to a part
  - B. particular to general
  - C. universal to individual
  - D. general to particular

Ans: B Level : K

- 34) Deductive method descends from
- A. general to the particular
  - B. particular to the general
  - C. experiments
  - D. data

Ans: A Level : K

- 35) A theory is
- A. an assumption
  - B. a hypothesis
  - C. a validated hypothesis
  - D. an if-then proposition

Ans: C Level : K

- 36) "In India, wages are fixed based on Minimum Wage Act." This is an example of
- A. positive economics
  - B. normative economics
  - C. negative economics
  - D. prescriptive economics

Ans: A Level : K

- 37) "During inflation, the government should increase tax." This is an example of
- A. positive economics
  - B. normative economics
  - C. negative economics
  - D. prescriptive economics

Ans: B Level : K

- 38) Price increase leads to increase in wages. Wage increase leads to price increase is an example for
- A. reverse causality
  - B. vicious cycle
  - C. circular flow of income
  - D. trade cycles

Ans: A Level : U

- 39) What are the names of the two Sectors according to the circular flow of the economy?
- A. Household, Product
  - B. Household, Firms
  - C. Monetary, Services
  - D. Industries, Firms

Ans: B Level : K

- 40) In a closed economy which of the following condition is said to be equilibrium?
- A. Savings = Wages
  - B. Savings = Investments
  - C. Income = Investments
  - D. Wages = Consumption

Ans: B Level : K

- 41) Which of the following is an injection in the circular flow model?
- A. Tax

- B. Government purchases
- C. Imports
- D. Savings

Ans: B Level : K

- 42) In the circular flow model, which of the following is a government expenditure?
- A. Tax
  - B. Fees
  - C. Foreign exchange payments
  - D. Defence equipment imports

Ans: D Level : A

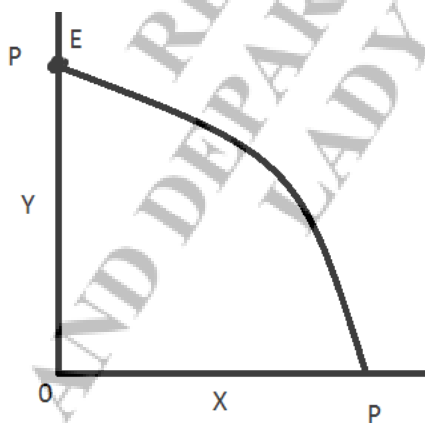
- 43) Which of the following economic principle is associated with the production possibility frontier?
- A. Marginal Revenue
  - B. Opportunity Cost
  - C. Marginal Cost
  - D. Total Cost

Ans: B Level : K

- 44) Production Possibility Curve shows various combinations of two goods which
- A. yield same level of satisfaction.
  - B. an economy can produce with a given amount of resources.
  - C. an economy can produce with a given budget.
  - D. an economy can produce with a given time.

Ans: B Level : U

- 45) In the below diagram, at point E the amount of Y produced is

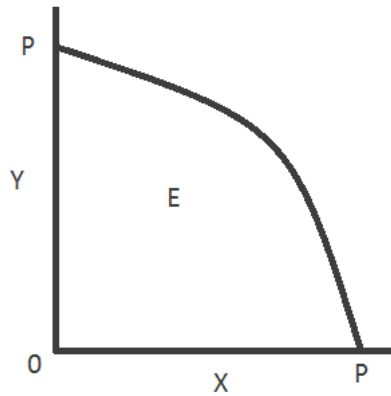


- A. 0
- B. 0P
- C. 0E
- D. 0Y

Ans: C Level : U



46) E. Point E in the below diagram refers to



- a. inefficient production
- b. unattainable production
- c. efficient production
- d. deficit production

Ans: A Level : U

47) Points on the production possibilities frontier are

- A. inefficient
- B. normative
- C. unattainable
- D. efficient

Ans: D Level : K

48) If an economy is employing its resources fully it can increase output only by

- A. lowering the interest rates
- B. increasing competition
- C. increasing the supply of money
- D. improving technology

Ans: D Level : U

49) In the following table find out the missing combination of Production Possibility Point.

| Alternate Production Possibilities | Calculators | Radios |
|------------------------------------|-------------|--------|
| A                                  | 75          | 0      |
| B                                  | 50          | 50     |
| C                                  | ??          | ??     |
| D                                  | 0           | 150    |

- A. 20, 100
- B. 25, 100
- C. 30, 80
- D. 28, 88

Ans: B Level : U

- 50) The following table shows the various combinations of two commodities, Televisions and Mobiles that an economy can produce with a given amount of resources. These combinations lie on the same production possibility frontier.

| Combinations | Televisions | Mobiles |
|--------------|-------------|---------|
| A            | 0           | 20      |
| B            | 1           | 18      |
| C            | 2           | 15      |
| D            | 3           | 11      |
| E            | 4           | 6       |
| F            | 5           | 0       |

Based on the details given in the above table, the opportunity cost of increasing production of televisions from 3 to 4 units in combination E is

- A. 2
- B. 5
- C. 3
- D. 4 .... units of mobiles.

Ans: B Level : U

- 51) Which of the following is a macroeconomic concept?
- A. National income
  - B. Profit of a firm
  - C. Wage of a worker
  - D. Expenditure of a family

Ans: A Level : K

- 52) In which of the following government divisions, do economists play the most important role in policy making?
- A. Ministry of Youth Affairs and Sports.
  - B. Ministry of Finance.
  - C. Ministry of Defence.
  - D. External affairs.

Ans: B Level : K

#### UNIT - IV

Choose the best answer.

- 53) Choosing to work instead of going to watch a movie is an example of a
- A. trade-off
  - B. transaction
  - C. transfer

D. technique

Ans: A Level : U

- 54) Opportunity cost is
- A. the amount spend on making the purchase
  - B. resources used in producing a product
  - C. the price of the substitute goods
  - D. amount of the best alternative foregone while making a choice

Ans: D Level : K

- 55) A player attends badminton coaching to be better player instead of taking a vacation. What is the opportunity of this player?
- A. Infinity
  - B. Badminton
  - C. Vacation
  - D. Zero

Ans: C Level : A

- 56) As a manager, Radha get Rs. 75 an hour. Instead of working she goes to a concert lasts two hours. What is the opportunity cost of the concert for two hours of work?
- 150                      B. 25                      C. 75                      D. 100

Ans: A Level : U Status :

- 57) The sacrifice involved when you choose to play games instead of studying is called the
- A. Alternative
  - B. opportunity cost
  - C. consumer cost
  - D. producer cost

Ans: B Level : K

- 58) The below table gives total revenue and total cost for a firm producing cars. If the firm increases its output from 2 to 3 cars, the marginal revenue for the firms is \_\_\_\_\_

| Quantity (numbers) | Total revenue (Rs.) | Total cost (Rs.) |
|--------------------|---------------------|------------------|
| 1                  | 15                  | 13               |
| 2                  | 30                  | 24               |
| 3                  | 45                  | 39               |
| 4                  | 60                  | 58               |
| 5                  | 75                  | 81               |

- A. 11                      B. Rs. 45                      C. Rs. 30                      D. Rs. 15

Ans: D Level : U

- 59) Change in total cost due to addition of one unit of output is known as
- A. marginal cost
  - B. average cost

- C. opportunity cost
- D. producer cost

Ans: A Level : K

- 60) The cost of producing 5 ceiling fans is Rs. 10,000 and the cost of producing 6 ceiling fans is Rs. 11,500. The marginal cost of producing the 6<sup>th</sup> fan is
- A. 0
  - B. 1,500
  - C. 10,000
  - D. 11,500

Ans: B Level : U

- 61) The following table provides number of workers and output. The marginal product of labour as production moves from employing one worker to employing two workers is

| Number of Workers | Output |
|-------------------|--------|
| 0                 | 0      |
| 1                 | 23     |
| 2                 | 40     |
| 3                 | 50     |

- A. 10
- B. 0
- C. 23
- D. 17

Ans: D Level : U

- 62) Which of the following is not an export?
- A. Sales of cars abroad
  - B. Purchase of raw materials from abroad
  - C. Students from abroad studying in your country
  - D. Patients from abroad taking treatment in your country

Ans: B Level : A

- 63) The ability of a country to produce a good at a lower cost has a/an
- A. comparative advantage
  - B. monopolistic advantage
  - C. firm advantage
  - D. absolute advantage

Ans: D Level : U

- 64) Comparative advantage occurs when:
- A. A country can produce more goods than anyone else
  - B. A country has a lower opportunity cost in the production of a good than other countries
  - C. A country has more product techniques than other countries
  - D. The exchange rate appreciates

Ans: B Level : K

- 65) According to the theory of comparative advantage, countries gain from trade because
- A. firms behave more competitively, reducing their market power.
  - B. every country has an absolute advantage in producing something.
  - C. productivity in each firm increases.
  - D. world output can rise when each country specializes in what it does relatively best.

Ans: D Level : K

- 66) The following table shows the amount of output a worker can produce per hour in Germany and Poland.

| Countries | Pens | Pencils |
|-----------|------|---------|
| Germany   | 8    | 4       |
| Poland    | 8    | 2       |

Which of the following statements about free trade between Germany and Poland is true?

- A. Germany will export pencils and Poland will export pens.
- B. Germany will export pens and Poland will export pencils
- C. Germany will export both pens and pencils.
- D. Poland will export both pens and pencils.

Ans: B Level : A

- 67) If a worker in Brazil can produce 6 chairs or 2 tables in an hour while a worker in Mexico can produce 2 chairs or 1 table in an hour, then
- A. Brazil should export chairs and Mexico should export tables.
  - B. Brazil should export tables and Mexico should export chairs.
  - C. Brazil should export both chairs and tables.
  - D. Mexico should import both chairs and tables.

Ans: A Level : A

- 68) If international trade takes place as a result of comparative advantage, it will cause which of the following effects in the participating countries?
- A. Inequality among households will be increased.
  - B. All individuals in each country will be worse off.
  - C. The average well-being of people in both countries will increase.
  - D. Poverty in both countries will increase.

Ans: C Level : U

- 69) Which of the following is not an assumption of comparative advantage theory?
- A. Two countries
  - B. Two products
  - C. Free trade
  - D. Import tariff

Ans: D Level : K Status :

- 70) According to the theory of comparative advantage, which of the following is not a reason why countries trade?
- A. Costs are higher in one country than in another.
  - B. Prices are lower in one country than in another.
  - C. The productivity of labour differs across countries and industries.
  - D. Exports give a country a political advantage over other countries that export less.

Ans: D Level : U

- 71) If free trade is allowed and a country imports wheat, then
- A. domestic farmers will be better off before trade.
  - B. domestic buyers will be better off after trade.
  - C. domestic producers of wheat will be better off before trade.
  - D. domestic buyers will be worse off after trade.

Ans: B Level : U

- 72) Why a country chooses to specialise in a particular product?
- A. The country wants to diversify into different products.
  - B. Other countries have high tariffs on that product.
  - C. The opportunity cost of producing that product is very high.
  - D. The country have comparative advantage in that product.

Ans: D Level : K

- 73) One of the advantage of international specialisation is
- A. limited choice for consumers.
  - B. countries can charge higher prices for their products.
  - C. resources are used more efficiently.
  - D. Countries become less dependent on each other.

Ans: C Level : K

## UNIT - V

Choose the best answer.

- 74) When economic forces are balanced, it is called
- A. disequilibrium
  - B. equilibrium
  - C. demand and supply

D. market

Ans: B Level : K Status :

- 75) Market equilibrium of a commodity is determined by
- A. demand
  - B. supply
  - C. balancing of demand and supply position
  - D. government intervention

Ans: C Level : K Status : Selected

- 76) Which of the following factor will not disrupt the equilibrium?
- A. change in consumer preferences.
  - B. change in income of the consumer.
  - C. change in neighbour country's income.
  - D. change in taste of the consumer.

Ans: C Level : K Status :

- 77) Which does the government control directly?
- A. Spending on health
  - B. Spending on defence
  - C. Firms' investment decisions
  - D. Spending on education

Ans: B Level : A

- 78) Which of the following would an economist use to measure living standards?
- A. The average size of families
  - B. Percapita income of the country
  - C. The number of workers in agriculture
  - D. The size of cities

Ans: B Level : U

- 79) Which of the following is an incentive offered by the government to promote human resources?
- A. Free education
  - B. Free television
  - C. Free markets
  - D. Free fans

Ans: A Level : A

- 80) When the demand for higher education is not supplemented by an adequate number of colleges, the cost of education will be
- A. low
  - B. moderate

- C. high
- D. zero

Ans: C Level : U

- 81) Which of the following is an indicator of inflation?
- A. Reduced cost of living
  - B. Increased saving
  - C. Reduced price of products
  - D. Reduced purchasing power

Ans: D Level : U

- 82) A sustained increase in the general price level is called
- A. Deflation
  - B. Inflation
  - C. Elevation
  - D. stagflation

Ans: B Level : K

- 83) Inflation is
- A. increase in some prices
  - B. increase in the price of a specific commodity
  - C. sustained increase in the general price level
  - D. Sustained increase in the price of a specific service

Ans: C Level : K

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