

ECO402 Solved MCQs More Than 150

- 1. Which of the following will cause the demand curve for butter to shift to the left?**

Select correct option:

An increase in the price of the butter.

A decrease in consumers' incomes.

An increase in the price of margarine (a substitute).

All of the given options.

- 2. The slope of the budget line, faced by an investor deciding what percentage of her portfolio to place in a risky asset, increases when the:**

Select correct option:

Standard deviation of the portfolio gets smaller.

Rate of return on the risk-free asset gets larger.

Rate of return on the risky asset gets larger.

Rate of return on money gets larger.

- 3. Microeconomics is the branch of economics that deals with which of the following topics?**

Select correct option:

The behavior of individual consumers

Unemployment and interest rates

The behavior of individual firms and investors

The behavior of individual consumers, firms and investors

- 4. Jane is trying to decide which courses to take next semester. She has narrowed down her choice to two courses Microeconomics and Macroeconomics. Now she is having trouble. She just cannot decide which of the two courses to take. It's not that she is indifferent between the two courses, she just cannot decide. An economist would say that this is an example of preferences that:**

Select correct option:

Are not transitive.

Are incomplete.

Violate the assumption that more is preferred to less.

All of the given options.

5. **The law of diminishing returns assumes that:**

Select correct option:

There is at least one fixed input.

All inputs are changed by the same percentage.

Additional inputs are added in smaller and smaller increments.

All inputs are held constant.

6. **According to the law of diminishing returns:**

Select correct option:

The total product of an input will eventually be negative.

The total product of an input will eventually decline.

The marginal product of an input will eventually be negative.

The marginal product of an input will eventually decline.

7. **Which of the following is true regarding income along a price consumption curve?**

Select correct option:

Income is increasing.

Income is decreasing.

Income is constant.

The level of income depends on the level of utility

8. **The law of diminishing returns refers to diminishing:**

Select correct option:

Total returns.

Marginal returns.

Average returns.

All of the given options.

9. **The function which shows combinations of inputs that yield the same output is called a(n):**

Select correct option:

Isoquant curve.

Isocost curve.

Production function. Production possibilities frontier

10. **Moving down along a demand curve for apples:**

Select correct option:

Consumer well-being decreases.

The marginal utility of apples decreases.

The marginal utility of apples increases.

None of the given options.

11. **The concept of a risk premium applies to a person that is:**

Select correct option:

Risk averse.

Risk neutral.

Risk loving.

All of the given options.

12. **The risk premium is the amount of money that a risk-averse person would pay to avoid taking a risk. Technological improvement:**

Select correct option:

Can hide the presence of diminishing returns. Can be shown as a shift in the total product curve.

Allows more output to be produced with the same combination of inputs.

All of the given options are true.



Take a 10% chance at \$100 rather than a sure \$10.

Take a 50% chance at \$4 and a 50% chance at \$1 rather than a sure \$1.

Take a sure \$10 rather than a 10% chance at \$100.

Take a sure \$1 rather than a 50% chance at \$4 and a 50% chance at losing \$1.

15. **Suppose that the prices of good A and good B were to suddenly double. If good A is plotted along the horizontal axis:**

Select correct option:

The budget line will become steeper.

The budget line will become flatter.

The slope of the budget line will not change.

The slope of the budget line will change, but in an indeterminate way.

16. **Good A is a normal good. The demand curve for good A:**

Select correct option:

Slopes downward.

Usually slopes downward, but could slope upward. Slopes upward.

Usually slopes upward, but could slope downward.

17. **Recently, Pakistan has experienced a large growth in population. As a result, the demand curve for telephone service in Pakistan:**

Has shifted to the right.

Has shifted to the left.

Has shifted down.

None of the given options.

18. **The change in the quantity demanded of a good resulting from a change in relative price with the level of satisfaction held constant is called the _____ effect.**

Select correct option:

Giffen

Real price

Income

Substitution

19. **The function which shows combinations of inputs that yield the same output is called a(n):**

Select correct option:

Isoquant curve.

Isocost curve.

Production function.

Production possibilities frontier.

20. **The magnitude of the slope of an indifference curve is:**

Select correct option:

Called the marginal rate of substitution.

Equal to the ratio of the total utility of the goods.

Always equal to the ratio of the prices of the goods.

All of the given options.

22. **Boeing Corporation and Airbus Industries are the only two producers of long-range commercial aircraft. This market is not perfectly competitive because:**

Select correct option:

Each company has annual sales over \$10 billion.

Each company can significantly affect prices.

Airbus cannot sell aircraft to the United States government. All of the given options.

23. **Which of the following is NOT a factor of production?**

Select correct option:

Labour

Land

Capital

Demand

24. Question # 7 of 15 (Start time: 03:43:42 PM) Total Marks: 1

A Rolling Stones song goes: “You can’t always get what you want.” This echoes an important theme from microeconomics. Which of the following statements is the best example of this theme?

Select correct option:

Consumers must make the best purchasing decisions they can, given their limited incomes.

Workers do not have as much leisure as they would like, given their wages and working conditions.

Workers in planned economies, such as North Korea, do not have much choice over jobs. Firms in market economies have limited financial resources.

26. **Indifference curves are convex to the origin because of:**

Select correct option:

Transitivity of consumer preferences.

The assumption of a diminishing marginal rate of substitution.

The assumption that more is preferred to less.

The assumption of completeness.

27. **When the average product is decreasing, marginal product:**

Select correct option:

Equals average product.

Is increasing.

Exceeds average product.

Is less than average product.

29. **Indifference curves are convex to the origin because of:**

Select correct option:

Transitivity of consumer preferences.

The assumption of a diminishing marginal rate of substitution.

The assumption that more is preferred to less.

The assumption of completeness.

30. **If $P_x = P_y$, then when the consumer maximizes utility**

Select correct option:

X must equal Y.

$MU(X)$ may equal $MU(Y)$, but it is not necessarily so.

X and Y must be substitutes.

32. **Which of the following will NOT cause a shift to the right in the demand curve for beer?**

Select correct option:

A health study indicating positive health benefits of moderate beer consumption.

An increase in the price of French wine (a substitute).

A decrease in the price of potato chips (a complement).

33. **The law of diminishing returns applies to:**

Select correct option:

The short run only.

The long run only.

Both the short and the long run.

Neither the short nor the long run.

35. Any risk-averse individual would always:

Select correct option:

Take a 10% chance at \$100 rather than a sure \$10.

Take a 50% chance at \$4 and a 50% chance at \$1 rather than a sure \$1.

Take a sure \$10 rather than a 10% chance at \$100.

Take a sure \$1 rather than a 50% chance at \$4 and a 50% chance at losing \$1.

36. The weighted average of all possible outcomes of a project, with the probabilities of the outcomes used as weights, is known as the:

Select correct option:

Variance.

Standard deviation.

Expected value.

Coefficient of variation.

38. The expected value is the weighted average of the payoffs or values resulting from all possible outcomes. The budget line in portfolio analysis shows that:

Select correct option:

The expected return on a portfolio increases as the standard deviation of that return increases.

The expected return on a portfolio increases as the standard deviation of that return decreases.

The expected return on a portfolio is constant. The standard deviation of a portfolio is constant.

40. For an inferior good:

Select correct option:

The price elasticity of demand is negative; the income elasticity of demand is negative.

The price elasticity of demand is positive; the income elasticity of demand is negative.

The price elasticity of demand is negative; the income elasticity of demand is positive.

The price elasticity of demand is positive; the income elasticity of demand is positive.

41. Which of the following statements about markets and industries is TRUE?

Select correct option:

A market includes buyers but not sellers.

A market includes sellers but not buyers.

An industry includes buyers but not sellers.

An industry includes sellers but not buyers.

43. When the snob effect exists, a change in price is likely to:

Select correct option:

Change total revenue less than if there were no network externalities.

Change total revenue more than if there were no network externalities.

Change total revenue the same amount as if there were no network externalities.

Not change total revenue at all.

44. A production function in which the inputs are perfectly substitutable would have isoquants that are:

Select correct option:

Convex to the origin.

L shaped.

Linear.

Concave to the origin.

An increase in income, holding prices constant, can be represented as:

Select correct option:

46. A change in the slope of the budget line.

A parallel outward shift in the budget line.

An outward shift in the budget line with its slope becoming flatter.

A parallel inward shift in the budget line.

47. The rate at which one input can be reduced per additional unit of the other input, while holding output constant, is measured by the:

Select correct option:

Marginal rate of substitution.

Marginal rate of technical substitution.

Slope of the isocost curve.

Average product of the input.

48. Which of the following is NOT a factor of production?

Labor

Land

Capital

Demand

49. Oscar consumes only two goods, X and Y. Assume that Oscar is not at a corner solution, but he is maximizing utility. Which of the following is NOT necessarily true?

$MRS_{xy} = P_x/P_y$.

$MU_x/MU_y = P_x/P_y$.

$P_x/P_y = \text{money income}$.

$P_x/P_y = \text{slope of the indifference curve at the optimal choice}$.

50. The object of diversification is:

To reduce risk and fluctuations in income.

To reduce risk, but not to reduce fluctuations in income. To reduce fluctuations in income, but not to reduce risk.

Neither to reduce risk, nor to reduce fluctuations in income.

51. Due to capacity constraints, the price elasticity of supply for most products is: The same in the long run and the short run.

Greater in the long run than the short run.

Greater in the short run than in the long run.

Too uncertain to be estimated.

52. Salman would prefer a certain income of \$20,000 to a gamble with a 0.5 probability of \$10,000 and a 0.5 probability of \$30,000. Based on this information.

We can infer that Salman is risk neutral.

We can infer that Salman is risk averse.

We can infer that Salman is risk loving.

We cannot infer Salman's risk preferences.

53. Assume that two investment opportunities have identical expected values of \$100,000.

Investment A has a variance of 25,000, while investment B's variance is 10,000. We would expect most investors (who dislike risk) to prefer investment opportunity:

A because it has less risk.

A because it provides higher potential earnings.

B because it has less risk.

B because of its higher potential earnings.

54. The expected value is a measure of:

Risk.

Variability.

Uncertainty.

Central tendency.

55. Which of the following costs always declines as output increases?

Average cost

- Fixed cost
- Average fixed cost
- Average variable cost

56. Which of the following pairs of goods are NOT complements?

- Hockey sticks and hockey pucks
- Computer CPU's and computer monitors

On campus student housing and off campus rental apartments

All of the given options

57. If capital is measured on the vertical axis and labor is measured on the horizontal axis, the slope of an isoquant can be interpreted as the:

- Rate at which the firm can replace capital with labor without changing the output rate.
- Average rate at which the firm can replace capital with labor without changing the output

rate.

Marginal product of labor.

Marginal product of capital.

58. Which of the following is a positive statement?

The minimum wage should not be increased, because to do so would increase unemployment.

Smoking should be restricted on all airline flights.

All automobile passengers should be required to wear seat belts in order to protect them against injury.

None of the given options.

59. Which of the following is true regarding income along a price consumption curve? Income is increasing.

Income is decreasing.

Income is constant.

The level of income depends on the level of utility.

60. What happens if price falls below the market clearing price? Demand shifts out.

Supply shifts in.

Quantity demanded decreases, quantity supplied increases, and price falls.

Quantity demanded increases, quantity supplied decreases, and price rises.

61. If X and Y are perfect substitutes, which of the following assumptions about indifference curves is not satisfied?

Completeness.

Transitivity.

More is preferred to less.
Diminishing marginal rate of substitution.

62. The endpoints (horizontal and vertical intercepts) of the budget line: Measure its slope.

Measure the rate at which one good can be substituted for another.

Measure the rate at which a consumer is willing to trade one good for another.

Represent the quantity of each good that could be purchased if all of the budget were allocated to that

Any risk-averse individual would always:

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Production function. Production possibilities frontier.

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Ref: EXPECTED VALUE

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REF: When the income-consumption curve has a negative slope, the quantity demanded decreases with income. The income elasticity of demand is negative. The good is an inferior good

<http://vustudents.ning.com>

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When the snob effect exists, a change in price is likely to: Select correct option:

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THE SNOB EFFECT

If the network externality is negative, a snob effect exists. The snob effect refers to the desire to own exclusive or unique goods. The quantity demanded of a “snob” good is higher the fewer the people who own it.

A production function in which the inputs are perfectly substitutable would have isoquants that are:

Select correct option:

Convex to the origin.

L shaped.

Linear.

Concave to the origin.

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Risk loving.

All of the given options.

REF: The risk premium is the amount of money that a risk-averse person would pay to avoid taking a risk.

Technological improvement:

Select correct option:

Can hide the presence of diminishing returns. Can be shown as a shift in the total product curve.

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All of the given options are true.

The change in the quantity demanded of a good resulting from a change in relative price with the level of satisfaction held constant is called the _____ effect.

Select correct option:

Giffen

Real price

Income

Substitution

If a competitive firm's marginal cost always increases with output, then at the profit maximizing output level, producer surplus is:

Select correct option:

Zero because marginal costs equal marginal revenue.

Zero because price equals marginal costs.

Positive because price exceeds average variable costs.

Positive because price exceeds average total costs.

The concept of a risk premium applies to a person that is:

Select correct option:

Risk averse.

Risk neutral.

Risk loving.

All of the given options.

Governments may successfully intervene in competitive markets in order to achieve economic efficiency:

Select correct option:

At no time; competitive markets are always efficient without government intervention.

In cases of positive externalities only.



In cases of negative externalities only.

In cases of both positive and negative externalities.

What happens in a perfectly competitive industry when economic profit is greater than zero?
Select correct option:

Existing firms may get larger.

New firms may enter the industry.

Firms may move along their LRAC curves to new outputs.

All of the given options.

Which of the following is NOT true about price floors?
Select correct option:

Consumer surplus is always lower than it would be in the competitive equilibrium.

Producer surplus could be lower, higher, or the same as it would be in competitive equilibrium. Producer surplus could be negative as the result of a price floor.

Producers will often respond to a price floor by cutting production to the point at which price equals marginal cost.

Indifference curves that are convex to the origin reflect:

COMPOSED BY:

Arslan

Ahmed

