

Devaloped and Ceated by Cyberian  
From  
Www.Vuaskari.com/index.php

Q24. Define Consumer Surplus and describe its benefits briefly. (3)

The difference between the maximum amount a consumer is willing to pay for a good and the amount actually paid.

Q25. Describe the followings:

a) Marginal Cost and Marginal Revenues

Marginal revenue is the additional revenue from producing one more unit of output.

Marginal cost is the additional cost from producing one more unit of output.

b) Total Cost and Total Revenues

Total cost is the cost that has to bear by the producer to produce goods while total revenue is the monetary return for the producer after selling the produce goods.

Q26. Discuss the different preferences toward risk with the help of examples

Risk  
Averse  
Risk  
Nutral  
Risk  
Loving

Q27. When do the economics of scope exists? Spout your answer with the help of Example. Hw can u measure the degree of economics of scope? Explain with the help of Formula.

Question : Complete the following. (marks 5)

| Output | Total Cost | Variable Cost | Fixed Cost | Marginal Cost |
|--------|------------|---------------|------------|---------------|
| 0      | 50         | 0             | 50         | 0             |
| 1      | 60         | 10            | 50         | 10            |
| 2      | 75         | 15            | 50         | 15            |
| 3      | 100        | 50            | 50         | 25            |
| 4      | 150        | 100           | 50         | 50            |

Question: define snob effect and bandwagon effect. + what is NETWORK EXTERNALITIES ? (marks 5)

Devaloped and Ceated by Cyberian  
From  
Www.Vuaskari.com/index.php

Devaloped and Ceated by Cyberian

From

Www.Vuaskari.com/index.php

If the network externality is negative, a snob effect exists. The snob effect refers to the desire to own exclusive or unique goods.

This is the desire to be in style, to have a good because almost everyone else has it, or to

indulge in a fad. This is the major objective of marketing and advertising campaigns (e.g. toys, clothing).

Network externalities can be positive or negative.

A positive network externality exists if the quantity of a good demanded by a consumer increases in response to an increase in purchases by other consumers. Negative network externalities are just the opposite.

Question: A. How do we calculate the user cost of capital? B. Why isocost lines are straight lines? (Marks: 1+2)

User Cost of Capital = Economic Depreciation + (Interest Rate)(Value of Capital) Example

An Airline buys a Boeing 737 for \$150 million with an expected life of 30 years. Its Annual economic depreciation = \$150 million/30 = \$5 million and Interest rate = 10%

User Cost of Capital = \$5 million + (.10 )(\$150 million – depreciation) Year 1 = \$5 million + (.10)(\$150 million) = \$20 million  
Year 10 = \$5 million + (.10) (\$100 million) = \$15 million

Q23. Define the Diminishing Marginal Utility & Equi-Marginal Utility.(3)

Diminishing marginal utility means reduction in the utility after using each additional unit of a commodity. While Equi-Marginal Utility is the consumption of income on two goods in such a way that marginal utility of both the goods become equal.

If the price of a house is Rs. 200, 000 and there is 5% chances that the seller does not own the house. What amount risk neutral person will pay to buy a house? Select correct option:

Rs.10, 000

Rs 100, 000

Rs.190, 000  $0.95[200,000] + 0.05[0] = 190, 000$  page65

Rs. 210, 000

Coffee and tea are considered as substitutes, if price of tea increases then it will shift:

Select correct option:

Demand curve for tea towards right.

Demand curve for coffee towards right.

www.vuaskari.com

Devaloped and Ceated by Cyberian

From

Www.Vuaskari.com/index.php

Devaloped and Ceated by Cyberian

From

Www.Vuaskari.com/index.php

Supply curve for coffee towards left.  
Demand curve for coffee towards left.

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

Select correct option:

The short run.

The long run.

**Both the short and the long run.**

Neither the short nor the long run.

**When the cost of labor increases then it will lead to shift in:**

Select correct option:

**Supply curve towards right.**

Demand curve towards right.

Demand curve towards left.

Supply curve towards left.

**A person can earn Rs. 20,000 with 100% probability from a job "A" with utility level of 16. The person also can have a job "B" with 50% chance of earning Rs.30,000 and a 50% chance of earning Rs.10,000 with utility level of 14. What will be the decision of risk averse person?**

Select correct option:

**He will prefer job A.** as job A give him more units

He will prefer Job B.

He will not do any of these two jobs.

He will be indifferent between job A and B.

**The demand for books is:  $Q_d = 120 - P$  The supply of books is:  $Q_s = 5P$  Refer to the above scenario, if  $P = \$25$ , which of the following is true?**

Select correct option:

Quantity supplied is greater than quantity demanded.

Quantity supplied is less than quantity demanded.

Quantity supplied equals quantity demanded.

**None of the given options.**

**Suppose units of clothes are taken on X axis and units of food are taken on Y axis and price of food and consumer's income remains same. What will happen to the budget line if price of clothes decreases?**

Select correct option:

Devaloped and Ceated by Cyberian

From

Www.Vuaskari.com/index.php

Devaloped and Ceated by Cyberian

From

Www.Vuaskari.com/index.php

Shift inward only on X-axis.  
Shift inward only on Y-axis.  
**Shift outward only on X-axis.**  
Shift outward only on Y-axis.

**Consumer equilibrium is attained at a point where slope of indifference curve is tangent to the slope of:**

Select correct option:

**Budget line**

Total Utility.  
Supply curve.  
Demand curve.

**As more and more firms have acquired fax machines, the fax machine has become a standard means of business communication. The increase in demand for fax machines for business communication is an example of the:**

Select correct option:

Snob effect.  
Giffen good.

**Bandwagon effect.**

Inferior good.

**The marginal rate of technical substitution is equal to the:**

Select correct option:

Slope of the total product curve.  
Change in output minus the change in labor.  
Change in output divided by the change in labor.

**Ratio of the marginal products of the inputs.**

**Weighted average of the payoffs or values resulting from all possible outcomes is known as:**

Select correct option:

Probability.

**Expected value.**

Value of variance.

Standard deviation.

www.vuaskari.com

Devaloped and Ceated by Cyberian

From

Www.Vuaskari.com/index.php

Devaloped and Ceated by Cyberian

From

Www.Vuaskari.com/index.php

**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.

**As the price of good X increases from \$5 to \$8, quantity demanded falls from 100 to 80. Based upon this information we can conclude that the demand for X is:**

Select correct option:

Elastic.

**Inelastic.**

Unit inelastic.

Insufficient information for judgment.

**The assumption of transitivity is violated when indifference curves \_\_\_\_\_.**

Select correct option:

Touch X-axis

Become parallel

**Intersect each other**

Become perpendicular

**Labor minister addressed in the cabinet meeting that the minimum wage should not be increased further. Which category his statement falls in?**

Select correct option:

Positive

**Normative**

Negative

None of the given options.

**Marginal rate of substitution represents the slope of \_\_\_\_\_ curve.**

Select correct option:

Supply

Demand

Isoquant

**Indifference**

www.vuaskari.com

Devaloped and Ceated by Cyberian

From

Www.Vuaskari.com/index.php

Devaloped and Ceated by Cyberian

From

Www.Vuaskari.com/index.php

If Adeel buys a share of amount Rs. 150 and price of the share raises at a level of Rs.160. Adeel is now facing \_\_\_ profit.

Select correct option:

Implicit

Explicit

**Economic**

Accounting

An investment opportunity has two possible outcomes, and the value of the investment opportunity is \$250. One outcome yields a \$100 payoff and has a probability of 0.25. What is the probability of the other outcome?

Select correct option:

0

0.25

0.5

**0.75**

Amount of total money spent on a good having price P and quantity Q can be obtained by which of the following?

Select correct option:

**PQ**

P/Q

P+Q

P-Q

Indifference curves usually have \_\_\_ slope.

Select correct option:

Zero

Upward

Infinite

**Downward**

When the average product is decreasing, marginal product will:

Select correct option:

Increase.

Exceed average product.

Be equal to average product.

**Be less than average product.**

Devaloped and Ceated by Cyberian

From

Www.Vuaskari.com/index.php

Devaloped and Ceated by Cyberian

From

Www.Vuaskari.com/index.php

**Suppose the price of meat remains constant. Which of the following will happen as a result of decrease in consumer's income?**

Select correct option:

Supply curve of meat shifts towards left.

**Demand curve of meat shifts towards left.**

Supply curve of meat shifts towards right.

Demand curve of meat shifts towards right.

**In a production process, all inputs are increased by 10%; but output increases less than 10%. This means that the firm experiences:**

Select correct option:

**Decreasing returns to scale**

Constant returns to scale.

Increasing returns to scale.

Negative returns to scale.

**Marginal rate of substitution represents the slope of \_\_\_\_\_ curve.**

Select correct option:

Supply

Demand

Isoquant

**Indifference**

**If the interest rate prevailing in the market for the producers decreases then it will leads to shift in:**

Select correct option:

**Supply curve towards right.**

Supply curve towards left.

Demand curve towards right.

Demand curve towards left.

**If raza was willing to buy a hamburger at a price Rs. 150 but he came to know that price he has to pay to buy ham burger is Rs. 100 then what will be consumer surplus?**

Select correct option:

RS. 1.5

**Rs. 50**

Rs. 100

Rs. 150

www.vuaskari.com

**Which of the following is (are) assumption regarding people's preferences in the theory of consumer behavior?**

Devaloped and Ceated by Cyberian

From

Www.Vuaskari.com/index.php

Devaloped and Ceated by Cyberian

From

Www.Vuaskari.com/index.php

Select correct option:

- Preferences are complete.
- Preferences are transitive.
- Consumers prefer more of a good to less.
- All of the given options.

The assumption of transitivity is violated when indifference curves \_\_\_\_\_.

Select correct option:

- Touch X-axis
- Become parallel
- Intersect each other
- Become perpendicular

The demand for books is:  $Q_d = 120 - P$  The supply of books is:  $Q_s = 5P$  Refer to the above scenario, if  $P = \$15$ , which of the following is true?

Select correct option:

- There is a surplus equal to 30.
- There is a shortage equal to 30.
- There is a surplus, but it is impossible to determine how large.
- There is a shortage, but it is impossible to determine how

The assumption of transitivity is violated when indifference curves \_\_\_\_\_.

Select correct option:

- Touch X-axis
- Become parallel
- Intersect each other
- Become perpendicular

The demand for books is:  $Q_d = 120 - P$  The supply of books is:  $Q_s = 5P$  Refer to the above scenario, if  $P = \$15$ , which of the following is true?

Select correct option:

- There is a surplus equal to 30.
- There is a shortage equal to 30.
- There is a surplus, but it is impossible to determine how large.
- There is a shortage, but it is impossible to determine how

The factor(s) which cause a shift in budget line is/are:

Select correct option:

- Price.
- Income.
- Income and price.
- Utility and income.

Devaloped and Ceated by Cyberian

From

Www.Vuaskari.com/index.php



Devaloped and Ceated by Cyberian

From

Www.Vuaskari.com/index.php

**“A person shows no preference between a certain income and an uncertain one with the same expected value”. Which of the following best describe the statement?**

Select correct option:

Risk loving

**Risk neutral**

Risk averse

None of the given options.

**Indifference curves usually have \_\_\_\_\_ slope.**

Select correct option:

Zero

Upward

Infinite

**Downward**

**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

**Which of the following is NOT a generally accepted measure of the riskiness of an investment?**

Select correct option:

Standard deviation.

**Expected value.**

Variance.

None of the given options.

**The demand curve becomes vertical if the price elasticity of demand is:**

Select correct option:

**Zero.**

Infinite.

Positive.

Negative.

**It is a general behavior of the firms that when price of a product goes up firms produce more of it. Which type of economic statement is this?**

Select correct option:

Normative

**Positive**

Devaloped and Ceated by Cyberian

From

Www.Vuaskari.com/index.php

Devaloped and Ceated by Cyberian

From

Www.Vuaskari.com/index.php

Welfare  
Negative

**Since car and petrol are complements to each other, if price of petrol decrease then it will Shift the:**

Select correct option:

- Demand curve of car towards left.
- Demand curve of petrol towards left.
- Supply curve of car towards right**
- Demand curve of car towards right.

**The marginal rate of technical substitution is equal to the:**

Select correct option:

- Slope of the total product curve.
- Change in output minus the change in labor.
- Change in output divided by the change in labor.
- Ratio of the marginal products of the inputs**

**If two indifference curves cross each other then: Figure Based on figure given above, it can be inferred that:**

Select correct option:

- Consumers minimize their satisfaction.
- The assumption of transitivity is violated.
- The assumption of completeness is violated.
- The assumption of a diminishing marginal rate of substitution is violated.**

**Consider two goods X and Y available for consumption. Assume that the price of X changes while the price of Y remains fixed. For these two goods, the price-consumption curve illustrates the:**

Select correct option:

- Relationship between the price of X and consumption of Y.
- Utility-maximizing combinations of X and Y for each price of X.
- Relationship between the price of Y and the consumption of X**
- Utility-maximizing combinations of X and Y for each quantity of X.

**Since Tea and coffee are considered as substitutes, the cross price elasticity of demand for tea and coffee will be:**

Select correct option:

- Zero
- Infinity
- Positive**
- Negative

www.vuaskari.com

Devaloped and Ceated by Cyberian

From

Www.Vuaskari.com/index.php

Devaloped and Ceated by Cyberian

From

Www.Vuaskari.com/index.php

**If the percentage change in quantity demanded for milk is same as the percentage change in price of milk then the price elasticity of demand for milk is:**

Select correct option:

Elastic.

Inelastic.

**Unitary elastic.**

Perfectly elastic.

**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.

**If a person spend all of his income to acquire 40 units of a good having price 2. What will be his income?**

Select correct option:

20

38

42

**80**

**“A person prefers a certain income to a risky income with the equal expected value.” Which of the following best describe the statement?**

Select correct option:

Risk loving

Risk neutral

**Risk averse**

None of the given options.

**Which of the following is considered as tools of reducing risk?**

Select correct option:

Insurance

Diversification

Obtaining more information

**All of the given options.**

**Higher the standard deviation, higher will be the:**

Select correct option:

**Risk**

Outcomes.

Devaloped and Ceated by Cyberian

From

Www.Vuaskari.com/index.php

Devaloped and Ceated by Cyberian

From

Www.Vuaskari.com/index.php

Probability.  
Expected value.

**In the long run, new firms can enter into industry and so the elasticity of supply tends to be:**

Select correct option:

- Perfectly elastic.**
- Perfectly inelastic.
- Less elastic in long-run than in the short-run.
- More elastic in long-run than in the short-run.

**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.

Individual demand curve can be drawn from \_\_\_\_\_ curve.

Select correct option:

- Engel
- Indifference**
- Price consumption
- Income consumption

**All the points on the indifference curve give equal level of:**

Select correct option:

- Utility.**
- Supply.
- Demand.
- Marginal utility.

**Consumer equilibrium is attained at a point where slope of indifference curve is tangent to the slope of:**

Select correct option:

- Budget line.**
- Total Utility.
- Supply curve.
- Demand curve.

**Amount of total money spent on a good having price P and quantity Q can be obtained by which of the following?**

Select correct option:

Devaloped and Ceated by Cyberian

From

Www.Vuaskari.com/index.php

Devaloped and Ceated by Cyberian

From

Www.Vuaskari.com/index.php

PQ

P/Q

P+Q

P-Q

**The indifference curve between expected return and the standard deviation of return for a risk-averse investor:**

Select correct option:

Is downward-sloping.

**Is upward-sloping.**

Is horizontal.

Is vertical.

**Buying a product at a low price in one location and selling at a high price in another is known as \_\_\_\_\_ in economics.**

Select correct option:

**Arbitrage**

Market parameter

Consumer theory

Price discrimination

**Assume that the current market price is below the market clearing level. We would expect:**

Select correct option:

A surplus to accumulate.

Downward pressure on the current market price.

Upward pressure on the current market price.

Lower production during the next time period.

**Arifa in her recent address in National assembly said that poverty should be reduced in Pakistan. Which category her statement falls in?**

Select correct option:

Normative

Positive

Negative

None of the given options

**Engel curve shows the positive relationship between quantity demanded of normal good and:**

Select correct option:

Price.

Supply.

**Income.**

www.vuaskari.com

Devaloped and Ceated by Cyberian

From

Www.Vuaskari.com/index.php

Devaloped and Ceated by Cyberian

From

Www.Vuaskari.com/index.php

Money supply.

**The demand price of a customer for one unit of a good is Rs. 50 and the market price is Rs. 40, consumer surplus will be:**

Select correct option:

- Rs. 10
- Rs.-10
- Rs. 90
- Rs 1.20

**The optimal point of consumption is that point where consumer surplus becomes:**

Select correct option:

- Zero.
- Maximum.
- Minimum.
- Positive.

**The production possibility frontier (PPF) shows all combinations of goods that:**

Select correct option:

- Society most desires.
- Lie outside the curve.
- Reflect full production.

**An economy can produce with all available resources.**

**Suppose supply of agricultural products is price inelastic and government decides to increase taxes on agricultural products. More of the tax burden in this case would fall on:**

Select correct option:

- Producers.
- Consumers.
- Government.
- Both producers and consumers.

**Suppose Fauji Fertilizer Company Limited produces 5000 bags of Sona Urea and sells each bag at a price of Rs. 350. What is the average revenue this firm gets by selling all units?**

Select correct option:

- 350
- 1750
- 1425
- 1800

www.vuaskari.com

Devaloped and Ceated by Cyberian

From

Www.Vuaskari.com/index.php

Devaloped and Ceated by Cyberian

From

[Www.Vuaskari.com/index.php](http://www.Vuaskari.com/index.php)

**When we study market equilibrium, the primary influencing variable on production and purchasing decisions is:**

Select correct option:

- Price.
- Cost of production.
- The overall state of the economy.
- Consumer's income.



[www.vuaskari.com](http://www.vuaskari.com)

Devaloped and Ceated by Cyberian

From

[Www.Vuaskari.com/index.php](http://www.Vuaskari.com/index.php)