

# Sample questions



**ASSIGN  
BUSTER**

Chapter-1 MANAGERIAL ECONOMICS Multiple Choice Questions 1 Which of the following is a characteristic of a perfectly competitive market? a. Firms are price setters. b. There are few sellers in the market. c. Firms can exit and enter the market freely. d. All of these 2 If a perfectly competitive firm currently produces where price is greater than marginal cost it a. will increase its profits by producing more. b. will increase its profits by producing less. c. is making positive economic profits. d. is making negative economic profits. 3 When a perfectly competitive firm makes a decision to shut down, it is most likely that a.

Price is below the minimum of average variable cost. b. Fixed costs exceed variable costs. c. Average fixed costs are rising. d. Marginal cost is above average variable cost. 4 In the long run, a profit-maximizing firm will choose to exit a market when a. Fixed costs exceed sunk costs. b. Average fixed cost is rising. c. Revenue from production is less than total costs. d. marginal cost exceeds marginal revenue at the current level of production. 5 When firms have an incentive to exit a competitive market, their exit will a. Drive down market prices. b. Drive down profits of existing firms in the market. . Decrease the quantity of goods supplied in the market. d. All of the above are correct. 6 In a perfectly competitive market, the process of entry or exit ends when a. Firms are operating with excess capacity. b. Firms are making zero economic profit. c. Firms experience decreasing marginal revenue. d. Price is equal to marginal cost. 7 Equilibrium quantities in markets characterized by oligopoly is a. Lower than in monopoly markets and higher than in perfectly competitive markets. b. Lower than in monopoly markets and lower than in perfectly competitive markets.

Higher than in monopoly markets and higher than in perfectly competitive markets. d. Higher than in monopoly markets and lower than in perfectly competitive markets. 8 In economics the central problem is: a. b. c. d. e. Allocation. Consumption. Scarcity. Money. Production. c. 9 Indicate below what is NOT a factor of production. a. Land. b. A bank loan. c. Labor. d. Capital. 10 Macroeconomics deals with: a. The behavior of firms. b. Economic aggregates. c. The activities of individual units. d. The behavior of the electronics industry. 11 Microeconomics is not concerned with the behavior of: a. Aggregate demand. . Consumers. c. Industries. d. Firms. 12 The study of inflation is part of: a. Normative economics. b. Macroeconomics. c. Microeconomics. d. Descriptive economics. 13 Aggregate supplies is the total amount: a. Produced by the government. b. Of products produced by a given industry. c. Of labor supplied by all households. d. Of goods and services produced in an economy. 14 The total demand for goods and services in an economy is known as: a. National demand. b. Economy-wide demand. c. Gross national product. d. Aggregate demand. 15 If marginal benefit is greater than marginal cost, a rational choice involves: a.

More of the activity. b. Less of the activity. c. No more of the activity. d. More or less, depending on the benefits of other activities. 16 A student chooses to study because the marginal benefit is greater than the \_\_\_\_\_ cost. a. average b. total c. marginal d. expected 17 Periods of less than full employment correspond to: a. b. c. d. Points outside the production possibility curve. Points inside the production possibility curve. Points on the production possibility curve. Either points inside or outside the production

possibility curve. 18 The circular flow of goods and incomes shows the relationship between: a.

Income and money. b. Wages and salaries. c. Goods and services. d. Firms and households. 19 In a free market system, the amount of goods and services that any one household gets depends upon its: a. Income. b. Wage and interest income. c. Wealth. d. Income and wealth. 20 In a planned or command economy, all the economic decisions are taken by the: a. Consumers. b. Workers. c. Government. d. Voters. Answers for Multiple

Choice Questions 1 (c) 2 (a) 3 (a) 6 (b) 7 (d) 8 (c) 11(a) 12(b) 13(d) 16(c) 17(b) 18(d) 4 (c) 9 (b) 14(d) 19(d) 5 (c) 10 (b) 15(a) 20(c) Chapter-2  
PRINCIPLES OF MANAGERIAL ECONOMICS

Multiple Choice Questions 1 The word that comes from the Greek word for “one who manages a household is a. Market. b. Consumer. c. Producer. d. Economy. 2 Economics deals primarily with the concept of a. Scarcity. b. Poverty. c. Change. d. Power. 3 Which of the following is NOT included in the decisions that every society must make? a. what goods will be produced b. who will produce goods c. what determines consumer preferences d. who will consume the goods 4 In a market economy, characterized by Capitalism, there is full interference by the State in the economic activities of consumers and producers. a) True (b) False 5 In a market system of economy, there is no harmony between individual interests and interests of the community. (a) True (b) False 6 Efficiency is the relation between returns and cost. (a) True (b) False 7 The subject matter of macro-economic includes the theory of income and employment at an individual level. (a) True (b) False 8 Rational decision results in.....for the employees. a. Division of work. b.

Centralization. c. Discipline. d. Motivation9 A Theory Y approach is more suitable where a job offers: a. a high degree of intrinsic satisfaction. b.

The ability to exercise initiative. c. An element of problem solving. d. All of the above. 10 Breech identifies four main elements of management. They are planning, control, coordination and: a. The division of work. b.

Centralization. c. Discipline. d. Motivation. 11 Many well-known business economists participate in public debates. (a)True (b) False 12 Marginal Utility is the utility derived from the additional unit of a commodity consumed.

(a)True (b) False 13 Compared to the static model, the fishing effort in a dynamic model is likely to be a. Larger. b. Smaller. c. Similar. . Larger or smaller. 14 Land, labor, and money are the three categories of economic resources.

(a)True (b) False 15 Which of the following is not an interest rate derivative used for interest rate management? Interest rate guarantee a. Floor b. Swap c. Cap d. All of the above are interest rate derivatives 16 An agreement which guarantees an investor a minimum return on a principal amount is called a:

a. Cap b. Executive stock option c. Stock option d. Floor 17 Which of the factors listed below is not a reason for decision making in organizations being a complex process? a.

Modern information systems enable people to evaluate a range of possible outcomes b. Factors in the current context of the organization affect the decision c. Several stakeholders will have an interest in the decision d.

People have to make decisions in a historical context 18 The overall process of decision making in, for example, staff selection includes which of these stages? a. Deciding which candidate to appoint b. Identifying the need for a new member of staff c. Agreeing the job specification d. All of the above 19 A

manager who is helping a customer return some shoes they purchased last week is dealing with what type of decision? . Uncertainty b. Non-programmed decision c. Bounded rationality d. Programmed decision 20

Decision making situations can be categorized along a scale which ranges from: a. Uncertainty to certainty to risk b. Certainty to uncertainty to risk c.

Certainty to risk to uncertainty d. Certainty to risk to uncertainty to

ambiguity Answers for Multiple Choice Questions 1 (d) 2 (a) 3 (c) 6 (a) 7 (b) 8

(d) 11(a) 12(a) 13(a) 16(d) 17(a) 18(d) 4 (b) 9 (d) 14(b) 19(d) 5 (b) 10 (d)

15(d) 20(d) Chapter-3 CONCEPT OF DEMAND Multiple Choice Questions 1

The quantity demanded of Pepsi has decreased.

The best explanation for this is that: a. The price of Pepsi increased. b. Pepsi

consumers had an increase in income. c. Pepsi's advertising is not as

effective as in the past. d. The price of Coca Cola has increased. 2 Demand

curves are derived while holding constant: a. Income, tastes, and the price of

other goods. b. Tastes and the price of other goods. c. Income and tastes. d.

Income, tastes, and the price of the good. 3 When the decrease in the price

of one good causes the demand for another good to decrease, the goods are:

a. Normal b. Inferior c. Substitutes d.

Complements 4 Suppose the demand for good Z goes up when the price of

good Y goes down. We can say that goods Z and Y are: a. Substitutes. b.

Complements. c. Unrelated goods. d. Perfect substitutes. 5 If the demand for

coffee decreases as income decreases, coffee is: a. An inferior good. b. A

normal good. c. A complementary good. d. A substitute good. 6 Which of the

following will NOT cause a shift in the demand curve for compact discs? a. A

change in the price of pre-recorded cassette tapes. b. A change in income. c.

A change in the price of compact discs. d. A change in wealth. When excess demand occurs in an unregulated market, there is a tendency for: a. Quantity supplied to decrease. b. Quantity demanded to increase. c. Price to rise. d. Price to fall. 8 Market equilibrium exists when \_\_\_\_\_ at the prevailing price. a. b. c. d. quantity demanded is less than quantity supplied quantity supplied is greater than quantity demanded quantity demanded equals quantity supplied quantity demanded is greater than quantity supplied 9 A movement along the demand curve to the left may be caused by: a. A decrease in supply. b. A rise in the price of inputs. c.

A fall in the number of substitute goods. d. A rise in income. 10 The quantity demanded of a product rises whenever (a) The product's price falls. (b) Incomes increase. (c) Population increases. (d) The prices of substitute goods rise. (e) Consumer tastes and preferences change. 11 The equilibrium quantity must fall when (a) There is a decrease in demand. (b) There is a decrease in supply. (c) There is an increase in price. (d) There is an increase in demand and supply. (e) There is a decrease in demand and supply 12 The demand curve will shift to the left for most consumer goods when (a) Incomes decrease. b) The prices of substitutes fall. (c) The prices of complements increase (d) All of the above. 13 Producer goods, also called intermediate goods, in economics, goods manufactured and used in further manufacturing, processing, or resale. (a) True (b) False 14 Consumer goods are alternately called final goods, and the second term makes more sense in understanding the concept. (a) True (b) False 15 GDP stands for a. Gross Domestic Product b. Gross Domestic Product c. Gross dynamic product d. All of

these 16 GNP stands for a. Gross national product b. Gross natural product c. Both (a) and (b) d.

None of these 17 When the demand for a product is tied to the purchase of some parent product, its demand is called induced or derived. (a) True (b) False 18 An industry is the aggregate of firms (a) True (b) False 19 The 'law of demand' implies that: a. As prices fall, quantity demanded increases. b. As prices rise, quantity demanded increases. c. As prices fall, demand increases. d. As prices rise, demand decreases. 20 When the market operates without interference, price increases will distribute what is available to those who are willing and able to pay the most. This process is known as: a. Price rationing. b. Price fixing. c. Quantity adjustment. d. Quantity setting

Answers for Self Assessment Questions 1 (a) 2 (d) 3 (c) 6 (c) 7 (c) 8 (c) 11(d) 12(d) 13(a) 16(a) 17(a) 18(a) 4 (b) 9 (a) 14(a) 19(a) 5 (b) 10 (a) 15(a) 20(a)

Chapter-4 DETERMINATION OF DEMAND 1 The demand for a product or a service depends on a host of factors. (a) True (b) False 2 Demand curves may also be shifted by changes in expectations. (a) True (b) False 3 Quantity demand is a specific quantity that buyers are willing and able to buy at a specific demand price. (a) True (b) False 4 If the price of a complement increases, all else equal, a. Quantity demanded will increase. b. Quantity supplied will increase. c. Demand will increase. d. Demand will decrease. 5 Which of the following would lead to an INCREASE in the demand for golf balls? a. An increase in the price of golf balls. b. An increase in the price of golf clubs. c. A decrease in the cost of producing golf balls. d. An increase in average household income when golf balls are a normal good. 6 If input prices increase, all else

equal, a. Quantity supplied will decrease. b. Supply will increase. c. Supply will decrease. d. Demand will decrease. 7 Which of the following would decrease the supply of wheat? . 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. 8 When Sonoma Vineyards increases the price of its Chardonnay from \$15 per bottle to \$20 per bottle, the result is a decrease in... a. The quantity of this wine demanded. b. The quantity of this wine supplied. c. The demand for this wine. d. The supply of this wine. 9 Which of the following will cause a change in quantity supplied? a. Technological change. b. A change in input prices. c. A change in the market price of the good. d. A change in the number of firms in the market. 10 In which of the following cases will the effect on equilibrium output be indeterminate (i. e. , depend on the magnitudes of the shifts in supply and demand)? a. Demand decreases and supply decreases. b. Demand remains constant and supply increases. c. Demand decreases and supply increases. d. Demand increases and supply increases. 11 An increase in the number of firms selling pizza will cause, ceteris paribus, (a) an increase in supply. (b) an increase in demand. (c) a decrease in quantity demanded. (d) a decrease in the quantity supplied. 12 A change in demand is a change in the ENTIRE demand relation. a) True (b) False 13 The demand for a given product will rise if: a. Incomes rise for a normal good or fall for an inferior good b. The price of a complement falls c. The price of a substitute rises d. All of these 14 Two explanations for the law of demand are (a) Price and quantity effects. (b) Substitution and income effects. (c) Opportunity cost and substitution effects. (d) Substitutes and inferior goods. (e) None of the above. 15 An increase in demand, ceteris paribus, will usually cause (a) A decrease in

quantity demanded. (b) an increase in quantity supplied. (c) an increase in supply. d) a higher quantity and a lower price. 16. The quantity demanded of a product rises whenever (a) the product's price falls. (b) incomes increase. (c) population increases. (d) the prices of substitute goods rise 17 The demand curve is downward-sloping because at a higher price for a good (ceteris paribus) (a) people buy fewer substitutes. (b) people buy more complements. (c) people search for substitutes. (d) income rises. (e) substitutes become complements. 18 The supply curve is upward-sloping because at higher prices for a good (a) consumers search out more substitutes. (b) consumer income increases. c) demand is lower. (d) None of the above. 19 If the factors held constant along a supply or demand curve change, (a) the equilibrium may change. (b) the demand and supply equilibrium may be disrupted. (c) the supply or demand curve may shift. (d) All of the above. 20 If the price of crackers goes up when the price of cheese goes down, crackers and cheese are (a) inferior goods. (b) substitutes. (c) both substitutes and complements. (d) complements

Answers for Self Assessment Questions 1 (a) 2 (a) 3 (a) 6 (c) 7 (d) 8 (a) 11(a) 12(a) 13(d) 16(a) 17(c) 18(d) 4 (d) 9 (c) 14(b) 19(a) 5 (d) 10 (c) 15(b) 20(d)

Chapter-5 PRICE ELASTICITY OF DEMAND 1 If the price elasticity of demand for a good is .75, the demand for the good can be described as: a. normal b. elastic c. inferior d. inelastic. 2. 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: a. elastic b. inelastic c. cross-elastic. d. unitary elastic. 3. If the price elasticity of demand for a product is equal to 0.5, then a 10 percent decrease in price will: a. increase quantity demanded

by 5 percent. b. increase quantity demanded by 0. percent. c. decrease quantity demanded by 5 percent. d. decrease quantity demanded by 0. 5 percent. 4 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. 5. If 100 units of product K are sold at a unit price of \$10 and 75 units of product K are sold at a unit price of \$15, one can conclude that in this price range: a. demand for product K is elastic. b. demand for product K is inelastic. c. demand for product K has shifted to the right. d. consumers are sensitive to price changes of product K. 6 Total revenue falls as the price of a good increases if price elasticity of demand is: a. elastic. b. inelastic c. unitary elastic d. perfectly elastic. 7 The demand for Cheerios cereal is more price-elastic than the demand for cereals as a whole. This is best explained by the fact that: a. Cheerios are a luxury. b. cereals are a necessity. c. there are more substitutes for Cheerios than for cereals as a whole. d. consumption of cereals as a whole is greater than consumption of Cheerios. 8 What is the most likely effect of the development of television, videocassette players, and rental movies on the movie theater industry? a. b. c. d. decreased costs of producing movies increased demand for movie theater tickets movie theater tickets become an inferior good increased price elasticity of demand for movie theater tickets 9 The price elasticity of demand will increase with the length of the period to which the demand curve pertains because: a. consumers' incomes will increase. b. the demand curve will shift outward. . all prices will increase over time. d. consumers will be better able to find substitutes. 10. A state government wants to increase

the taxes on cigarettes to increase tax revenue. (a) True (b) False 11 This tax would only be effective in raising new tax revenues if the price elasticity of demand is: a. unity b. elastic c. inelastic d. perfectly elastic. 12. Sony is considering a 10 percent price reduction on its color television sets. If the demand for sets in this price range is inelastic: A) revenues from color sets will remain constant. B) revenues derived from color sets will decrease.

C) revenues derived from color sets will increase. D) the number of television sets sold will decrease 13 Elasticity of demand for a commodity

with respect to change in its price. (a) True (b) False 14 An elasticity alternative in which infinitesimally small changes in price cause infinitely large changes in quantity. (a) True (b) False 15 Three factors that affect the numerical value of the price elasticity of demand are the a. b. c. d.

availability of substitutes time period of analysis proportion of budget All of these 16 The price elasticity of demand is one of four common elasticity's used in the analysis of the market. a) True (b) False 17 Cross elasticity of demand is: a. negative for complementary goods b. unitary for inferior goods. c. negative for substitute goods d. positive for inferior goods. 18. A positive cross elasticity of demand coefficient indicates that: a. a product is an inferior good. b. a product is a normal good. c. two products are substitute goods. d. two products are complementary goods. 19 A market without legal prices is in equilibrium when: a. quantity demanded equals price. b. the demand curve remains constant. c. quantity demanded equals quantity supplied. d. quantity demanded is greater than quantity supplied. 20 A relatively small change, say 1% on an INR 100, 000 house, can make a BIG difference in the buyer's decision to buy. (a) True (b) False

Assessment Questions 1 (d) 2 (a) 3 (a) 4 (d) 5 (a) 6 (a) 7 (c) 8 (d) 9 (d) 10 (a) 11(d) 12(c) 13(a) 14(a) 15(d) 16(a) 17(a) 18(c) 19(c) 20(a) Chapter-6 TYPES OF ELASTICITIES OF DEMAND 1 If it is observed that, in a particular market, price has risen and quantity exchanged has increased, it is likely that: a. supply has increased. b. supply has decreased. c. demand has increased. d. demand has decreased. 2 The quantity of a good demanded rises from 1000 to 1500 units when the price falls from \$1.50 to \$1.00 per unit. The price elasticity of demand for this product is approximately: a. 1.0 b. 1.6 c. 2.5 d. 4.0 3 If the elasticity of demand for a commodity is estimated to be 1.5, then a decrease in price from \$2.10 to \$1.90 would be expected to increase daily sales by: a. 50% b. 1.5% c. 5% d. 15% 4 A long-run demand curve, as compared to a short-run demand curve for the same commodity, is generally: a. more elastic b. less elastic c. of the same elasticity d. none of the above. The price elasticity of demand is 5.0 if a 10 percent increase in the price results in a a. 2% decrease in quantity demanded. b. 5% decrease in quantity demanded. c. 10% decrease in quantity demanded d. 50% decrease in quantity demanded. 6 Demand for a good will likely be more elastic, a. The higher the level of income. b. The larger the proportion of monthly income spent on it. c. The fewer the good substitutes available. d. The higher the price of complementary goods. 7 Demand will be more elastic, a. The higher the income. b. The lower the price. c. The shorter the passage of time after a permanent price increase. . The more substitutes available for the good. 8 The price elasticity of demand measures the sensitivity of demand to price changes. (a) True (b) False 9 If a good has no close substitutes and is regarded as a necessity by many consumers, then demand for the good will be quite elastic. (a) True (b) False 10 Cross elasticity of demand is the ratio of

the percentage change in demand for a good to the percentage change in price for another. (a) True (b) False 11 A 50 percent increase in price that results in a 90 percent decrease in the quantity demanded indicates that demand is elastic in this price range. (a) True (b) False 12 Demands for most goods tend to become more elastic with the passage of time. (a) True (b) False 13 If two goods are substitutes, then an increase in the price of one good will lead to an increase in the demand for the other good. (a) True (b) False 14 If two goods are complements, then a decrease in the price of one good will result in a decrease in the demand of the other good. (a) True (b) False 15 The price elasticity of demand is the same as the slope of the demand curve. (a) True (b) False 16 If demand is price elastic, then: a. a rise in price will raise total revenue. b. a fall in price will raise total revenue. c. a fall in price will lower the quantity demanded. d. a rise in price won't have any effect on total revenues. 17 Complementary goods have: a. The same elasticity's of demand. b. very low price elasticity of demand. c. negative cross price elasticity of demand with respect to each other. d. positive income elasticity of demand. 18 The price elasticity of demand generally tends to be: a. smaller in the long run than in the short run. b. smaller in the short run than in the long run. c. larger in the short run than in the long run. d. unrelated to the length of time. 19 If the price elasticity of supply of doodads is 0.0 and the price increases by 3 percent, then the quantity supplied of doodads will rise by a. 0.60 percent. b. 0.20 percent c. 1.8 percent d. 18 percent. 20 If the cross-price elasticity between two commodities is 1.5, a. The two goods are luxury goods. b. The two goods are complements. c. The two goods are substitutes. d. The two goods are normal goods. Answers for Self Assessment Questions 1 (c) 2 (a) 3 (d) 6 (b) 7 (d) 8

(a) 11(a) 12(a) 13(a) 16(b) 17(c) 18(b) 4 (a) 9 (b) 14(b) 19(c) 5 (d) 10 (a) 15(b) 20(c) Chapter-7 SUPPLY ANALYSIS 1 The cost of factor inputs like land, labor, and capital has a major influence on supply. a) True (b) False 2 Which of the following factors will make the demand for a product more elastic? (Assume the product has a straight-line, downward sloping demand. ) a. The product has no close substitutes. b. A very small proportion of income is spent on the good. c. A long time period has elapsed since the product's price changed. d. A lower price 3 For a given normal supply curve, the amount of a tax paid by the buyer will be larger a. the more elastic the demand. b. the more inelastic the demand. c. the income elasticity is equal to zero d. when the price is high. With a perfectly elastic demand and a normal supply (upward-sloping) a. consumers will bear the entire tax burden. b. consumers will not bear any tax burden. c. consumers and producer will split the tax burden in half. d. producers will not bear any tax burden. 5 Which of the following leads to the producers paying all of a tax? a. The supply is perfectly elastic. b. The supply is perfectly inelastic. c. The demand is unit elastic. d. The demand is perfectly inelastic. 6 The incidence (split) of sales tax is determined by the a. level of government which imposes the tax. b. federal government in all cases. c. greed of the seller. d. price elasticity of supply and demand. 7 The market supply curve is the horizontal sum of the individual supply curve. (a) True (b) False 8 Supply determinants are five ceteris paribus factors that are held constant when a supply curve is constructed. (a) True (b) False 9 Supply is the willingness and ability of producers to make a specific quantity of output available to consumers at a particular price over a given period of time. (a) True (b) False 10 Individuals supply factors of production to firms. (a) True (b) False 11 The

supply curve for tomatoes is not thus more elastic in the short run than in the momentary period. (a)True (b)False 2 Macroeconomic studies are based on empirical evidence. (a)True (b)False 13 Demand curve slopes upwards from left to right. (a) True (b)False 14 In the market, anyone who agrees to pay the requisite price of a product would be excluded from their consumption. (a) True (b)False 15 Aglets are the metal or plastic tips on shoelaces that make it easier to lace your shoes. The demand for aglets is probably a. perfectly elastic. b. inelastic. c. elastic but not perfectly elastic. d. unit elastic. 16 The cross elasticity of demand measures the responsiveness of the quantity demanded of a particular good to changes in the prices of a. Its complements but not its substitutes. b. its substitutes but not its complements. c. its substitutes and its complements d. neither its substitutes nor its complements. 17 If goods are complements, definitely their a. income elasticity's are negative b. income elasticity's are positive. c. cross elasticity's are positive. d. cross elasticity's are negative. 18 If a rise in the price of good 1 decreases the quantity of good 2 demanded, a. the cross elasticity of demand is negative b. good 1 is an inferior good. c. good 2 is an inferior good d. the cross elasticity of demand is positive. 9 The price elasticity of demand generally tends to be: a. smaller in the long run than in the short run. b. smaller in the short run than in the long run. c. larger in the short run than in the long run. d. unrelated to the length of time. 20 The demand for your services becomes more elastic. (a)True (b)False Answers for Self Assessment Questions 1 (a) 2 (c) 3 (b) 6 (d) 7 (a) 8 (a) 11(b) 12(a) 13(b) 16(c) 17(d) 18(a) 4 (b) 9 (a) 14(b) 19(b) 5 (b) 10 (a) 15(b) 20(a) Chapter-8

PRODUCTION DECISION 1 Which of the following functions is not a core function of an organisation? a. The product/service development function b.

The operations function c. The accounting and finance function d. The marketing (including sales) function 2 Most operations produce a mixture of

both products and services. Which of the following businesses is closest to producing “ pure” services? a. IT company b. A Restaurant c.

Counsellor/therapist d. Steel company 3 Operations can be classified according to their volume and variety of production as well as the degree of

variation and visibility. Which of the following operations would be classified as high volume, low variety? a. A family doctor b. A carpenter c. A front office

bank d.

A fast food restaurant 4 Which of the following activities is not a direct responsibility of operations management? a. Designing the operation’s

products, services and processes b. Planning and controlling the operation c. Developing an operations strategy for the operation d. Determining the

exact mix of products and services that customers will want 5 Operations can be classified according to the degree of variation in demand and

visibility of the operation as well as their volume and variety of production. Which of the following operations would be classified as high variation and

high visibility? a. A front office bank b.

A family doctor c. A fast food restaurant d. A carpenter 6 The production function incorporates the technically efficient method of ..... a.

production. b. process c. function d. All of these 7 A fixed input is one whose quantity cannot be varied during the time under consideration. (a) True

(b) False 8 Economists find it convenient to distinguish between the .....

and the long run. a. short run b. large run c. big run d. None of these 9 The law of variable proportions states that as the quantity of one factor is increased, keeping the other factors fixed, the marginal product of that factor will eventually decline. a)True (b)False 10 MRP stands for a. Marginal Revenue Product b. Marginal Revenue process c. Both (a) and (b) d. None of these 11 The book value of old equipment is not a relevant cost in a decision. (a)True (b)False 12. One of the dangers of allocating common fixed costs to a product line is that such allocations can make the line appear less profitable than it really is. (a)True (b)False 13. A differential cost is a variable cost. (a)True (b)False 14. All future costs are relevant in decision making. (a)True (b)False 15. Variable costs are always relevant costs. (a)True (b)False 6 Only the variable costs identified with a product are relevant in a decision concerning whether to eliminate the product. (a)True (b)False 17 Managers should pay little attention to bottleneck operations because they have limited capacity for producing output. (a)True (b)False 18 A cost that does not affect a decision is called an a. opportunity cost b. incremental cost c. avoidable cost d. irrelevant cost 19. Costs that change between alternatives are called a. fixed costs. b. opportunity costs. c. relevant costs. d. sunk costs. 20. A cost incurred in the past that cannot be changed by any future action is a(n) a. opportunity cost b. sunk cost c. relevant cost d. avoidable cost

Answers for Self Assessment Questions 1 (c) 2 (c) 3 (d) 6 (a) 7 (a) 8 (a) 11(a) 12(a) 13(b) 16(b) 17(b) 18(d) 4 (d) 9 (a) 14(b) 19(c) 5 (b) 10 (a) 15(b) 20(b)

Chapter-9 ISOQUANT AND PRODUCTION FUNCTION 1 Economists typically assume that the owners of firms wish to a. produce efficiently. b. maximize sales revenues. c. maximize profits. d. All of these. 2 Efficient production occurs if a firm a. cannot produce its current level of

output with fewer inputs. b. given the quantity of inputs, cannot produce more output. c. maximizes profit. d. All of the above. Limited liability is a benefit to a. sole proprietorships. b. partnerships. c. corporations. d. all of the above. 4 Which of the following statements best describes a production function? a. the maximum profit generated from given levels of inputs b. the maximum level of output generated from given levels of inputs c. all levels of output that can be generated from given levels of inputs d. all levels of inputs that could produce a given level of output 5 With respect to production, the short run is best defined as a time period a. lasting about six months. b. lasting about two years. c. in which all inputs are fixed. d. in which at least one input is fixed. 6 In the long run, all factors of production are a. variable. b. fixed. c. materials. d. rented. 7 The short-run production functions for Albert's Pretzels. The marginal productivity of labor equals the average productivity of labor a. for all levels of labor. b. at none of the levels of labor. c. only for the first worker. d. only for the fifth worker. 8 the short-run production function for Albert's Pretzels. The law of diminishing marginal productivity a. appears with the second worker. b. has not yet appeared for any of the levels of labor. c. first appears with the fifth worker. d. is refuted by this evidence. 9 If the average productivity of labor equals the marginal productivity of labor, then a. the average productivity of labor is at a maximum. b. the marginal productivity of labor is at a maximum. c. Both A and B above. d. Neither A nor B above. 10 Average productivity will fall as long as a. marginal productivity is falling. b. it exceeds marginal productivity. c. it is less than marginal productivity. d. the number of workers is increasing. 11 Factors of production are a) inputs and outputs. b) outputs only c) inputs only d) the minimum set of inputs that can produce a certain

fixed quantity of output. 2 The set of all pairs  $(z_1, z_2)$  of inputs that yield the output  $y$  is the  $y$ -is quant. (a)True (b)False 13 L-shaped isoquants imply that production requires that the inputs are perfect substitutes. a. are imperfect substitutes. b. cannot be used together. c. must be used together in a certain proportion. d. None of these 14 Isoquants that are downward-sloping straight lines imply that the inputs a. are perfect substitutes. b. are imperfect substitutes. c. cannot be used together. d. must be used together in a certain proportion. 15 Isoquants that are downward-sloping straight lines exhibit a. n increasing marginal rate of technical substitution. b. a decreasing marginal rate of technical substitution. c. a constant marginal rate of technical substitution. d. a marginal rate of technical substitution that cannot be determined. 16 The profit maximization firm will choose the least cost combination of factors to produce at any given level of output. (a)True (b) False 17 The production function is useful in deciding on the additional value of employing a variable input in the production process. (a)True (b) False 18 The additional use of an input factor should be stopped when its marginal revenue productivity just equals its price. a)True (b) False 19 The least cost combination of-factors or producer's equilibrium is now explained with the help of ..... curves and iso costs. a. iso product b. iso process c. Both(a) and (b) d. None of these 20 MRTS stands for..... a. Marginal rate of technical structure b. Marginal rate of technical substitution c. Both(a) and (b) d. None of these

Answers for Self Assessment Questions 1 (d) 2 (d) 3 (c) 6 (a) 7 (c) 8 (a) 11(c) 12(a) 13(c) 16(a) 17(a) 18(a) 4 (b) 9 (a) 14(a) 19(a) 5 (d) 10 (b) 15(c) 20(b)

Chapter-10 THEORY OF COST 1 The cost of capital is critically important in finance. a)True (b)False An implicit cost is a. the cost of giving up an alternative b. the cost of a chosen alternative c. calculated by

subtracting the monetary cost. d. none of the above

3 The historical cost of an asset refers to the actual cost incurred at the time the asset was acquired. (a) True (b) False

4 An Explicit cost is a business expense accounted cost that can be easily identified such as wage, rent and materials. (a) True (b) False

5 Private is the cost that has to be paid by an individual who is directly involved in the production or consumption of a particular good. (a) True (b) False

6 Social cost or external cost is not the cost burden carried by individuals who are not directly involved in the production or consumption of that particular good (a) True (b) False

7 Average cost is the sum total of Average variable it and average fixed cost. (a) True (b) False

8 Cost-output relationship facilitates many managerial relationships such as: a. Formulating the standards of operations. b. Formulating the rational policy on plant size. c. Formulating a policy of profit prediction. d. All of these

9 Cost in the short-run can be classified into.....and variable cost. a. fixed cost b. sset c. both (a) and (b) d. None of these

10 Total fixed costs remained fixed irrespective of increase or decrease in production of activity. (a) True (b) False

11 Marginal costs is the change in total cost resulting from unit change in..... a. output b. input c. both(a) and (b) d. None of these

12 The ..... implies that the cost of production continues to be low till the firm reaches the optimum scale (Marginal cost = Average cost). a. V-shape b. Q-shape c. U-shape d. All of these

13 Scale economies and returns to scale generally produce a U-shaped long-run average cost curve, such as the one displayed to the right. (a) True (b) False

14 \_\_\_\_\_ is concerned with the branch of economics relating the behavior of principals and their agents. a. Financial management b. Profit maximization c. Agency theory d. Social responsibility

15 A concept that implies that the firm should consider issues

such as protecting the consumer, paying fair wages, maintaining fair hiring practices, supporting education, and considering environmental issues. a.

Financial management b. Profit maximization c. Agency theory d. Social

responsibility 16 Which of the following is not normally a responsibility of the

treasurer of the modern corporation but rather the controller? . Budgets and

forecasts b. Asset management c. Investment management d. Financing

management 17 The \_\_\_\_\_ decision involves determining the

appropriate make-up of the righthand side of the balance sheet. a. asset

management b. financing c. investment d. capital budgeting 18 A long-run is

also expressed as a series of short-runs. (a)True (b)False 19 Which of the

following are used in calculating opportunity costs? a. monetary costs b. the

cost of time c. preference d. all of the above 20 An explicit cost is a. the cost

of giving up an alternative b. the cost of a chosen alternative c. alculated by

subtracting the monetary cost of an alternative by the time invested d. none

of the above Answers for Self Assessment Questions 1 (a) 2 (a) 3 (a) 6 (b) 7

(a) 8 (d) 11(a) 12(c) 13(a) 16(a) 17(b) 18(a) 4 (a) 9 (a) 14(c) 19(d) 5 (a) 10

(a) 15(d) 20(b) Chapter-11 MARKET STRUCTURE, AND PRICING 1 Which of

the following cannot be classed as a market structure? a. Oligopoly. b.

Perfect competition. c. Communism. d. Monopolistic competition. 2 Income

and population are two variables that can be used in \_\_\_\_\_ segmentation: a.

psychographic b. demographic c. lifestyle d. behavioural 3 Strong exchange

rates can: a. help stimate consumer purchasing power. b. help predict

change in lifestyle across Europe. c. predict the evolution of sales for

particular brands. d. drive imports to become cheaper. 4 BERI stands for: a.

Business Economic Risk Index. b. Business Economic Rating International. c.

Business Education Rating Indicator. d. BusinessEnvironmentRisk Index. 5

The size and liquidity requirements are based on the minimum invest ability requirements for the MSCI Global Standard Indices. (a) True (b) False 6

Oligopoly is a market structure in which a small number of firms account for the whole industry's output. (a) True (b) False The number of firms and

product differentiation are extremely crucial in determining the nature of competition in a market. (a) True (b) False 8 type of market structure

represented by the constant returns to scale (CRS) technology includes a. Monopolistic competition b. Oligopoly c. Duopoly d. Perfect competition 9 In

industries in which there are scale economies, the variety of goods that a country can produce is constrained by a. the fixed cost b. the size of the

labor force c. the marginal cost d. the size of the market 10 A monopoly firm

engaged in international trade but enjoying a protected home market will a.

quate marginal costs with foreign marginal revenues. b. equate marginal costs with marginal revenues in both domestic and foreign markets c. equate

average costs in local and foreign markets d. none of the above 11 Minimum

efficient scale of production in relation to the overall industry output and market requirement sometimes play a major role in shaping the market

structure. (a) True (b) False 12 Price and output decisions of firms that want

to maximize profits always depend on costs. (a) True (b) False 13 Which of the following is NOT a financial objective of pricing? a. Corporate growth. b.

Return on investment. c. Profit maximization. d. None of these 14 Which of

the following is NOT a marketing objective? a. Cash flow. b. Positioning. c. Volume sales. d. None of these 15 Setting a price below that of the

competition is called: a. Skimming. b. Penetration pricing. c. Competitive pricing. d. None of these 16 Which of the following is NOT a reason for

cutting prices? a. Capacity utilisation. b. Increasing profit margins. c. Market defence. d. None of these

17 Which of the following is NOT a reason for increasing prices? a. Cost pressures. b. Price comparison. c. Curbing demand. d.

None of these

18 The costs that depend on output in the short run are: a. both total variable costs and total costs. b. total costs only. c. total fixed cost only. d. total variable costs only

19 A firm will shut down in the short run if: a. fixed costs exceed revenues. b. total costs exceed revenues. c. it is suffering a loss. d. variable costs exceed revenues.

20 In the long run, every cost is variable cost. In this period, all costs ever incurred by the firm must be recovered. (a) True (b) False

Answers for Self Assessment Questions 1 (c) 2 (b) 3 (d) 6 (a) 7 (a) 8 (d) 11(a) 12(a) 13(a) 16(b) 17(b) 18(a) (d) 9 (d) 14(a) 19(d) 5 (a) 10 (b) 15(b) 20(a)

Chapter-12 PERFECT COMPETITION

1. A perfectly competitive firm will maximize profit at the quantity at which the firm's marginal revenue equals a. price b. average revenue c. total cost d. marginal cost

2 Which of the following is not a valid option for a perfectly competitive firm? a. Increasing its output. b. Decreasing its output. c. Increasing its price. d. Increasing its resources.

3 In the long run, a perfectly competitive firm will achieve all but which of the following: a. Economic profit b. Allocative Efficiency c. Productive Efficiency d.

Normal profit

4 If the price a firm receives for its product is equal to the marginal cost of producing that product, the firm is: a. Always earning an economic profit b. Always productively efficient. c. Always allocatively efficient. d. Always experiencing an economic loss.

5 A firm that is producing at the lowest possible average cost is always: a. Earning an economic profit.

b. Productively efficient. c. Dominating the other firms in the market. d. Not producing enough output.

6 Which of the following is the best example of a perfectly competitive market? a. diamonds b. athletic shoes c. soft drinks d. arming

7 Perfect competition is an industry with a. a few firms producing identical goods. b. many firms producing goods that differ somewhat. c. a few firms producing goods that differ somewhat in quality. d. many firms producing identical goods.

8 In a perfectly competitive industry, there are a. many buyers and many sellers. b. many sellers, but there might be only one or two buyers. c. many buyers, but there might be only one or two sellers. d. one firm that sets the price for the others to follow.

9 In perfect competition, the product of a single firm a. is sold to different customers at different prices. b. as many perfect complements produced by other firms. c. has many perfect substitutes produced by other firms. d. is sold under many differing brand names.

10 In perfect competition, restrictions on entry into an industry a. do not exist. b. apply to labor but not to capital. c. apply to both capital and labor. d. apply to capital but not to labor.

11 Price for a firm under monopolistic competition is \_\_\_\_\_. a. equal to marginal revenue b. greater than marginal revenue c. less than marginal revenue d. greater than total revenue

12 In the long run, monopolistically competitive firms tend to experience \_\_\_\_\_. a. high economic profits b. ero economic profits c. negative economic profits d. substantial economic losses

13 Marginal revenue for a monopolist is \_\_\_\_\_ a. equal to price b. greater than price c. less than price d. equal to average revenue

14 Perfect competitions describes a market structure whose assumptions are extremely strong and highly unlikely to exist in most real-time and real-world markets. (a)True (b) False

15 Monopolistic competition is a market structure characterized by a

large number of relatively small firms. (a) True (b) False 16 A monopolist can sell more of his output only at a lower price and can reduce the sale at a high price. a) True (b) False 17 A monopoly is a market structure in which there is not only one producer/seller for a product. (a) True (b) False 18 A perfectly competitive firm produces the profit-maximizing quantity of output that equates marginal revenue and marginal cost. (a) True (b) False 19 A perfectly competitive firm faces ..... production alternatives based on a comparison of price, average total cost, and average variable cost. a. four short-run b. three short-run c. five short-run d. All of these 20 A perfectly competitive firm's marginal cost curve that lies above the ..... of the average variable cost curve is its supply curve. . minimum b. maximum c. both(a) and (b) d. None of these

Answers for Self Assessment Questions 1 (d) 2 (c) 3 (a) 6 (d) 7 (d) 8 (a) 11(a) 12(b) 13(a) 16(b) 17(b) 18(a) 4 (c) 9 (c) 14(a) 19(b) 5 (b) 10 (a) 15(a) 20(a)

Chapter-13 OLIGOPOLY AND PRICING STRATEGIES 1 A price- and quantity-fixing agreement is known as: a. game theory. b. price leadership. c. collusion. d. price concentration. 2 A group of firms that gets together to make price and output decisions is called: a. a cartel. b. price leadership. c. an oligopoly. d. a concentrated industry 3 Products produced by oligopolistic ? rms are: a. Homogeneous. b. Heterogeneous. . Differentiated. d. Heterogeneous or differentiated. 3 Oligopoly is the only market structure characterized by: a. Interdependence in pricing and output decisions. b. Differentiated products. c. Barriers to entry. d. Profit-maximizing behavior. 4 Oligopoly is characterized by all of the following except: a. A few large ? rms. b. Differentiated product. c. Difficult entry into the industry. d. Price competition 5 A major threat to longer term profits exists when barriers to entry into an industry are high.

(a) True (b) False 6 Under kinked demand theory the prices of oligopolists are predicted to be rather rigid or 'sticky'. a) True (b) False 7 In contestable markets, large oligopolistic firms end up behaving like: a. a monopoly. b. monopolistically competitive firms. c. a cartel. d. perfectly competitive firms 8 Which of the following types of oligopoly competition would you expect to result in the highest market output, other things equal? a. b. c. d. Stackelberg. Bertrand. Cournot. Collusion 9 The demand curve has a kink at the price which is equal to full cost price. (a) True (b) False 10. An profit maximizing, oligopolistic firms produces at an output level where: a.  $P = ATC$ . b.  $MR = MC$ . c.  $MR = ATC$ . d.  $AVC > MR$ . e.

$P = MR$  11 Cartels are most likely to arise in which of the following market structures? a. Perfect competition. b. Monopolistic Competition. c. Oligopoly. d. Monopoly. 12 A cartel is a formal collusive organization of the oligopoly firms in an industry. (a) True (b) False 13 Needs such as training the group, setting standards and maintaining discipline, and appointing sub-leaders may be called: a. team functions. b. work functions. c. individual functions. d. task functions. 14 The Hall and Hitch model of the kinked demand curve is based on an empirical survey of a sample of 38 well managed firms in England. a) True (b) False 15 The model uses the analytical tools of reaction functions of the duopolists derived on the basis of is not profit curves. (a) True (b) False 16 The important models of non-collusive oligopoly are: (a) Cournot model, (b) Kinked Oligopoly demand curve models. (a) True (b) False 17 Which of the following is not an operations strategy? a. response b. low-cost leadership c. differentiation d. technology 18 Which of the following is not one of the leadership styles identified in House's pathgoal theory? a.

Participative. b. Employee-centered. c. Directive. d. Achievement-oriented. 9 The petroleum industry is an example of a. monopolistic competition. b. pure oligopoly. c. duopoly. d. differentiated oligopoly. 20 The kinked demand curve model assumes that a. firms match price increases, but not price cuts. b. demand is more elastic for price cuts than for price increases. c. changes in marginal cost can never lead to changes in market price. d. None of the above is correct. Answers for Self Assessment Questions 1 (c) 2 (a) 3 (d) 6 (b) 7 (a) 8 (b) 11(b) 12(c) 13(a) 16(a) 17(d) 18(b) 4 (a) 9 (b) 14(a) 19(b) 5 (d) 10 (a) 15(b) 20(d) Chapter-14 PROFIT ANALYSIS 1.

A variable cost is a cost that a. varies per unit at every level of activity b. occurs at various times during the year c. varies in total in proportion to changes in the level of activity d. may not be incurred, depending on management's discretion 2. A cost which remains constant per unit at various levels of activity is a a. variable cost b. fixed cost c. mixed cost d. manufacturing cost 3. A fixed cost is a cost which a. varies in total with changes in the level of activity b. remains constant per unit with changes in the level of activity c. varies inversely in total with changes in the level of activity d. remains constant in total with changes in the level of activity 4. Cost behavior analysis is a study of how a firm's costs a. relate to competitors' costs b. relate to general price level changes c. respond to changes in activity levels within the company d. respond to changes in the gross national product 5. Cost behavior analysis applies to a. retailers b. wholesalers c. manufacturers d. all entities 6. The relevant range of activity refers to the a. geographical areas where the company plans to operate b. activity level where all costs are curvilinear c. levels of activity over which

the company expects to operate d. level of activity where all costs are constant

7. Which of the following is not a plausible explanation of why variable costs often behave in a curvilinear fashion?

- a. Labor specialization
- b. Overtime wages
- c. Total variable costs are constant within the relevant range
- d. Availability of quantity discounts

8. Firms operating constantly at 100% capacity

- a. are common
- b. are the exception rather than the rule
- c. have no fixed costs
- d. have no variable costs

9. Which one of the following is a name for the range over which a company expects to operate?

- a. Mixed range
- b. Fixed range
- c. Variable range
- d. Relevant range

10. The graph of variable costs that behave in a curvilinear fashion will

- a. approximate a straight line within the relevant range
- b. be sharply kinked on both sides of the relevant range
- c. be downward sloping
- d. be a stair-step pattern

11. A mixed cost contains

- a. a variable cost element and a fixed cost element
- b. both selling and administrative costs
- c. both retailing and manufacturing costs
- d. both operating and non-operating costs

12. The variable costing method is also known as the direct costing method

- a. indirect costing approach
- b. absorption costing method
- c. period costing approach
- d. direct costing approach

13.

The costing approach that charges all manufacturing costs to the product is referred to as

- a. variable costing
- b. contribution margin costing
- c. direct costing
- d. absorption costing

14. Variable costing is acceptable for

- a. financial statement purposes
- b. profit tax purposes
- c. internal use by management only
- d. profit tax purposes and for internal use by management

15. CVP analysis does not consider

- a. level of activity
- b. fixed cost per unit
- c. variable cost per unit
- d. sales mix

16. Which of the following is not an

underlying assumption of CVP analysis? a. Changes in activity are the only factors that affect costs b.

Cost classifications are reasonably accurate c. Beginning inventory is larger than ending inventory d. Sales mix is constant 17. Which of the following would not be an acceptable way to express contribution margin? a. Sales minus variable costs b. Sales minus unit costs a. b. c. d. c. d. Unit selling price minus unit variable costs Contribution margin per unit divided by unit selling price a. b. c. d. 18. The level of activity at which total revenues equal total costs is the variable point fixed point semi-variable point break-even point 19. The break-even point is where a. total sales equals total variable costs b. contribution margin equals total fixed costs c. total variable costs equal total fixed costs d. total sales equals total fixed costs 20. Gross profit also includes rent that arises from the entrepreneur's own land used in his production of output. a. True b. False

Answers for Self Assessment Questions  
 1. (c) 2. (a) 3. (d) 4. (c) 7. (c) 8. (b) 9. (d) 10. (a) 11. (a) 14. (c) 15. (b) 16. (b)  
 17. (b) 18. (d) 5. (d) 12. (a) 19. (b) 6. (c) 13. (d) 20. (a) Chapter-15 1. There are ..... methods which can be used to appraise any investment project: (a) 1 (b) 2 (c) 3 (d) 4 2.

National income is the total of the value of the goods and the services which are produced in an economy. (a) True (b) False 3. Which two of the following are likely to raise the equilibrium value of National Income? (a) Rise in savings. (b) Rise in imports. (c) Rise in government spending. (d) Rise in exports. 4. Which two of the following are excluded when measuring National Income? (a) Value added in the output method. (b) Value of intermediate

inputs in the output method. (c) Consumer spending in the expenditure method. (d) Transfer payments in the income method. 5.

The return on an investment comes in the form of a stream of earnings in the future. (a) True (b) False 6. Cost-benefit analysis is a process for evaluating the merits of a particular project or course of action in a systematic and rigorous way. (a) True (b) False 7. 'Real' investment is not (a) the amount that shareholders are willing to provide for shares in a company (b) the cost of development of a new product (c) expenditure on public relations, staff training or research and development (d) expenditure on non-current assets such as plant, machinery, land and buildings 8.

Which of the following statements about IRR and NPV is not correct? (a) NPV always gives the correct investment decision. (b) IRR gives an unreliable answer with non-conventional projects. (c) IRR can accommodate changes in the cost of capital. (d) IRR is a useful relative measure if comparing projects of differing sizes. 9. Gross Domestic Product (GDP) is the total market value of all final goods and services currently produced within the domestic territory of a country in a year. (a) True (b) False 10. Which of the following will not be a relevant factor when using the payback method of capital investment appraisal? a) The timing of the first cash inflow (b) The total cash flows generated by the asset (c) The cash flows generated by the asset up to the payback period (d) The cost of the asset 11. Why the payback method is often considered inferior to discounted cash flow in capital investment appraisal? (a) It is more difficult to calculate (b) It does not calculate how long it will take to recoup the money invested (c) It does not take account of the

time value of money (d) It only takes into account the future income of a project 12.

Gross National Product is the total market value of all final goods and services produced in a year. (a) True (b) False 13. In 2005..... was the least significant liability of U. S. nonfinancial businesses in terms of total value. (a) bonds and mortgages (b) bank loans (c) inventories (d) trade debt

14. .... are examples of financial intermediaries. (a) Commercial banks (b) Insurance companies (c) Investment companies (d) All of the above 15.

Financial assets ..... a) directly contribute to the country's productive capacity (b) indirectly contribute to the country's productive capacity (c) contribute to the country's productive capacity both directly and indirectly (d) do not contribute to the country's productive capacity either directly or

indirectly 16. The means by which individuals hold their claims on real assets in a welldevelopedeconomy are (a) investment assets. (b) depository assets.

(c) derivative assets (d) financial assets 17. Capital budgeting is the process of evaluating and selecting long-term investments that are consistent with

the goal of the firm. a) True (b) False 18. Although derivatives can be used as speculative instruments, businesses most often use them to (a) attract

customers. (b) appease stockholders. (c) offset debt. (d) hedge 19. The investment in fixed assets increases the fixed cost of the firm which must be

recovered from the benefit of the same project. (a)True (b) False 20. National Income is defined as the sum total of all the goods and services produced in

a country, in a particular period of time. (a) True (b) False Answer 1. (c) 2. (a) 3. (c) 4. (b) 5. (a) 6. (a) 7. (a) 8. (c) 9. (a) 10. (b) 11. (c) 12. (a) 13. (b) 14. (d)

15. b) 16. (d) 17. (a) 18. (d) 19. (a) 20. (a) Chapter-16 1. In period of

inflation, phantom or paper profits may be reports as a result of using the:

(a) FIFO costing assumption (b) Perpetual inventory method (c) LIFO costing assumption (d) Periodic inventory method

2. Inflation is: (a) an increase in the overall price level. (b) an increase in the overall level of economic activity. (c) a decrease in the overall level of economic activity. (d) a decrease in the overall price level.

3. Aggregate supply is the total amount: (a) produced by the government. (b) of goods and services produced in an economy. (c) of labour supplied by all households. (d) of products produced by a given industry.

4. The value of a dollar does not stay constant when there is inflation. (a) True (b) False

5. The inflation rate in India was recorded at 7. 23% in..... (a) April of 2009 (b) April of 2010 (c) April of 2011 (d) April of 2012

6. The function of money that helps assess the opportunity cost of an activity is money's use as a (a) medium of exchange. (b) store of value. (c) unit of account. (d) store of debt.

7. An official measure of money in the United States is M1, which consists of the sum of (a) currency plus traveler's checks. (b) currency plus checkable deposits. (c) currency plus traveler's checks plus checkable deposits. (d) currency plus traveler's checks plus time deposits.

8. Implies no trade-off between unemployment and inflation. (a) GDP deflator (b) Shoe leather' costs (c) Long-run Phillips curve (d) ' Menu' costs

9. The inflation rate is used to calculate the real interest rate, as well as real increases in wages. (a) True (b) False

10..... the quantity of money in the United States. (a) The State Department controls (b) The Department of Treasury controls (c) The Federal Reserve System controls (d) Commercial banks control

11.

There are broadly ..... ways of controlling inflation in an economy. (a) 2 (b) 3 (c) 4 (d) 5

12. The balance of payments of a country is said to be in equilibrium when the demand for foreign exchange is exactly equivalent to the supply of it. (a) True (b) False

13. A general decline in prices is often caused by a reduction in the supply of..... (a) money or debit (b) money or credit (c) money (d) None of these

14. The opportunity cost of holding money is the (a) inflation rate minus the nominal interest rate. (b) nominal interest rate. (c) real interest rate. (d) unemployment rate.

15.

If the Fed is worried about inflation and wants to raise the interest rate, it (a) increases the demand for money. (b) increases the supply of money. (c) decreases the demand for money. (d) decreases the supply of money.

16.

The circular flow of goods and incomes shows the relationship between: (a) income and money. (b) goods and services. (c) firms and households. (d) wages and salaries.

17. Fiscal measures to control inflation include taxation, government expenditure and public borrowings. (a) True (b) False

18.

Hyperinflation (a) occurs in the United States during each business cycle. (b) occurs only in theory, never in reality. (c) has never occurred in the United States. (d) happens in all countries at some time during their business cycle.

19.

Hyperinflation refers to a situation where the prices rise at an alarming high rate. (a) True (b) False

20. The inflation rate is used to calculate the real interest rate, as well as real increases in wages. (a) True (b) False

Answer 1. (b) 2. (a) 3. (b) 4. (a) 11. (a) 12. (a) 13. (b) 14. (c) 5. (d) 6. (c) 15. (d) 16. (c) 7. (c) 8. (c) 17. (a) 18. (c) 9. (a) 10. (c) 19. (a) 20. (a)