**II SEMESTER; DEPARTMENT OF ECONOMICS;**

**OBJECTIVES**

 **NAME OF THE PAPER: MICROECONOMICS-II**

SECTION –A

**MULTIPLE CHOICE QUESTIONS (200X1=200)**

**UNIT-I**

1. Of ‘real wages’ and ‘money wages’

 a) The former is a wider concept than the latter b) The latter is a wider concept than the former

 c) Both concept mean the same thing d) All of the above

2. The concept of Quasi-rent mean

 a) The rent to the workers b) The rent shared by the Landlord and workers

 c) The interest paid to the entrepreneur

 d) The return to a factor of production which is fixed in supply in the short period

3. The return to a factor of production which is fixed in supply in the short period is called

 a) Scarcity rent b) Economic rent

 c) Quasi-rent d) Contractual rent

4.The marginal productivity theory of distribution was firstly formulated in its complete form by

 a) Adam Smith b) J. S. Mill

 c) J. B. Clark d) David Ricardo

5.The ‘iron law of wages’ is

a)The wage-fund theory b)The marginal productivity theory of wages

c)Collective bargaining d)The subsistence theory of wages

6.According to Prof Knight, profit is the reward for

 a) Innovation b) Capital

 c) Foreseeable risks d) Uncertainty bearing

7.The uncertainty-bearing theory of profit was propounded by

 a) F. H. Knight b) F. B. Hawley

 c) P. A. Samuelson d) Joseph Schumpeter

8.Which of the following is not included in the assumptions of Clark’s marginal productivity of distribution

 a) Perfect competition b) Constant population

 c) Constant amount of capital d) Labour is heterogeneous

9.Marginal productivity theory is also called

 a) Real theory b) Classical theory

 c) Monetary theory d)None of the above

10. Subsistence theory of wages was used by

 a) Karl Marx b) Robinson

c) J. S. Mill d) David Ricardo

11.Profit is also known as

 a) Contractual rent b) Residual income

 c) Net income d)None of the above

12. Changes in the rate of interest affect the amount of money held for

(a) transaction motive (b) precautionary motive

(c) speculative motive ( d)Normal Motive

13. The marginal productivity theory of distribution is associated with

 (a) Adam Smith (b) Lionel Robbins

1. J. B. Clark (d) Bergson

14. Who has contributed the modem theory of interest rate determination?

(a) Paul A. Samuelson (b) Gunnar Myrdal

(c) Knut Wicksell (d) J.R. Hicks

15. Whose name is associated with the “Uncertainty-bearing theory of profit”?

(a) J. Schumpeter (b) F.H. Knight

(c) J.B. Clark (d) F.W. Watker

16. Who has sought to measure Consumer’s Surplus with the help of indifference curve technique?

(a) Edgeworth (b) Alfred Marshall

(c) J.R. Hick (d) Pareto

17. Which among the following is NOT an assumption of Pareto optimality?

(a) Every consumer wishes to maximize his level of satisfaction.

(b) All the factors of production are used in the production of every commodity.

(c) Conditions of perfect competition exist making all the factors of production perfectly

 mobile

(d) The concept of utility is cardinal and cardinal utility function of every consumer is

 given.

18.When a firm’s average revenue is equal to its average cost, it gets \_\_\_\_\_\_\_\_.

(a) Sub normal profit (b) Normal profit

(c) Abnormal profit (d) Super profit

19.Given the price, if the cost of production increases because of higher price of raw materials, the supply

(a) Decrease (b) Increase

(c) Remains the same (d) Any of the above

20. Under \_\_\_\_\_\_, price is determined by the interaction of total demand and total supply in the market.

(a) Perfect competition (b) Monopoly

(c) Imperfect competition (d) Monopolictic Competition

21. Standard of living of workers depends upon their

(a) Nominal wages (b) Real wages

(c) Average product (d) Govt. policy

22. Under Marginal productivity Theory, reward for labour is determined by

(a) Owner (b) Labour

(c) Government (d) Marginal Product

23. The economist Ricardo argued that prices were \_\_\_\_\_ because land rents were \_\_\_\_\_\_\_

(a) High, High (b) Low, Low

(c) Low, High (d) High, Low

24. As for the cost of production of an individual farmer, the rent paid by him

(a) Enters into the price of his product (b) None of these

(c) Does not enter into price of his product (d) Is unjustified

25. He presented a theory of rent

(a) Malthus (b) Prof. Knight

(c) Ricardo (d) Marshall

26. The following affect rent EXCEPT

(a) Better location (b) Fertility of land

(c) Cleverness of landlords (d) Scarcity of land

27. These are kinds of rent EXCEPT

(a) Differential rent (b) Scarcity rent

(c) Mobility rent (d) Location rent

28. This is capital:

(a) Money (b) Forests

(c) Machinery (d) Trademarks

29. According to Keynes interest is a payment for

(a) Consumer's preference (b) Producer's preference

(c) Liquidity preference (d) State Bank's preference

30. Interest is paid because

(a) Capital is scarce (b) Capital is productive

(c) Capital is attractive (d) Capital is surplus

31. With decrease in price of bonds, rate of interest:

(a) Decreases b) Increases

(c) Does not change (d) None of the above

32. Every factor of production gets reward equal to its:

(a) Cost (b) Marginal product

(c) Price (d) Increasing return

33. According to Keynes, interest is a payment for:

(a) Use of durable goods (b) Use of capital

(c) Use of money (d) Use of land

34. In economics capital refers to:

(a) Money (b) High quality goods

(c) Trade mark (d) Machinery and factories

35. Professor Knight is famous for his theory of:

(a) Rent (b) Profit

 (c) Population (d) Wages

36. Profits:

(a) Are residual payment (b) Are pre-determined

 (c) Are fixed contract (d) Are always higher than wages

37. Profits:

(a) Are lower in the long run than in the short run (b) Can be negative

 (c) Are less in perfect competition than in monopoly (d)All of the above

38. Profits arise because an entrepreneur:

 (a) Prepares plan (b) Innovates

 (c) Lends money (d) Both (a) and (b)

39. Gross profit does NOT include:

(a) Rent of land owned by the firm (b) Pure profit

 (c) Interest on capital owned by firm (d) Taxes

40. Some economists say that profit earner is a kind of:

(a) Wage earner (b) Rent receiver

(c) Interest receiver (d) Govt. officer

41. Risks in the business arise because of:

(a) Introduction of the new products (b) Uncertain policy of rival firms

(c) Changes in tastes (d) All the above

42. According to Professor Knight risks are of \_\_\_\_\_ kinds:

(a) two (b) three

(c) four (d) many

43. This is not a function of the entrepreneur:

(a) Supervise (b) Innovate

(c) Lend money (d) Prepare plan

44. According to Modern Theory of Rent, rent accrues to

(a) Land only (b) Any factor

(c) Capital only (d) Labour only

45. An increase in the wage rate:

(a) Will usually lead to more people employed

(b) Will decrease total earnings of employees if the demand for labour is wage elastic

(c) Is illegal in a free market

(d) Will cause a shift in the demand for labour

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46. A decrease in the supply of labour is likely to lead to:

(a) A lower equilibrium wage and lower quantity of labour employed

(b) A lower equilibrium wage and higher quantity of labour employed

(c) A higher equilibrium wage and higher quantity of labour employed

(d) A higher equilibrium wage and lower quantity of labour employed

 **UNIT-II**

47. In order to maximize profits, a firm should produce at the output level for which

 (a) Average cost is minimised (b) Marginal cost equals marginal revenue

(c) marginal cost is minimised (d) All of the above

48. A market system where there is only one buyer, is known as.

 a) Monopoly b) Monopolistic competition

 c) Monopsony d) Monopsonistic competition

49.The market, where the services of factor of production are bought and sold is, is

 a) Product market b) Factor market

 c) Commodity market d) Monopoly market

50.Factor prices are determined in the market under forces of

 a) Elasticity of demand b) Elasticity of supply

 c) Elasticity and supply d)None of the above

51.The firm is in equilibrium in the factor market when it employs units of labour upto the point where a)The marginal revenue product of labour is equal to its marginal cost

 b) The marginal revenue product of labour is more than its marginal cost

c) The marginal revenue product of labour is less than its marginal cost

52. A market system, where there is only one seller is known as

 a) Monopoly b) Monopolistic competition

 c) Oligopoly d) Monopsony

53.Equilibrium in the factor market achieved at the factor price and factor quantity is given by

 a) The intersection of the factor demand curve and the factor supply curve

 b) The sum total of the elasticities of demand and supply

c) The product of the elasticities of demand and supply

54.Monopsony means

 a) A single seller b) A single buyer

 c) Large number of buyers d)None of the above

55.Monopoly means

 a) A single seller b) A single buyer

 c) Large number of buyers d)None of the above

56.Factor prices are determined in the factor market under the forces of

 a) Marginal productivity b) Elasticity of demand

c) Elasticity of supply d) Demand and supply

57.The labour market equilibrium determines the wage rate and

 a) Investment b) Employment

c) Savings d) Profits

58.Equilibrium conditions for factor market is

 (a)Demand for factors is equal to supply of factors

 (b) Demand for factors is less than supply of factors

 (c) Demand for factors is more than supply of factors

 (d) None of the above

59. Demand for factor of production is

 a) Supplementary demand b) Intermediate goods

 c) Derived demand d) Complementary demand

60. Factor market will be in equilibrium when

 a) Demand for factors is less than its supply

 b) Demand for factors is equal to supply of factors

 c) Supply of factors is less than for it

 d) All of the above

61. Which of the following is not a factor of production?

 a) Land b) Labour

 c) Money d) Capital

62. A monopolist maximizes profit by producing the quantity at which

 a) marginal revenue equals marginal cost. b) marginal revenue equals price.

c) marginal cost equals price. d) marginal cost equals demand.

63. The supply of a good refers to:

a) Stock available for sale

b) Total stock in the warehouse

c) Actual Production of the good

d) Quantity of the good offered for sale at a particular price per unit of time

64 The cost of one thing in terms of the alternative given up is called:

a) Real cost b) opportunity cost

c) Production cost d) Physical cost

65. The producer’s demand for a factor of production is governed by the \_\_\_ of that factor.

a) Price b) Marginal Productivity

c) Availability d) Profitability

66.Under conditions of perfect competition in the product market:

a) MRP=VMP b) MRP > VMP

c) VMP > MRP d) None of the above

67. In a perfectly competitive market a firm in the long run will be in equilibrium when:

a) AC =MC b) AR = MR

c) MR = MC d) Price=AR=MR=AC=MC

68. Which of the following is a characteristic of capital as a factor of production?

a) It is fixed in supply b) It never depreciates

c) It is a passive factor of production d) It is an active factor of production

69. On which law of consumption the concept of consumer’s surplus is based?

a) Engel’s law b) Law of demand

c) First law of Gossen d) Second law of Gossen

70. The relation that the law of demand for factor defines is.

 a) Income and quantity demanded of a factor b) Price and quantity of a factor

c) Income and price of a factor d) Quantity demanded and quantity supplied of a factor

71. Union leaders are in a better position to bargain for higher wages if demand for labour is

 a) Elasti b) Inelastic

 c) Very larg d) Permanent

72. Sometimes the supply curve of labour ends:

 a) Downward b) Upward

 c) Backward d) Firstly upward and then downward

73. A firm maximizes profit if:

 a) MRP = Wage rate b) MRP is rising

 c) MRP = ARP d) None of these

74. The opportunity cost of a machine which can produce only one product is:

 a) Low b) Infinite

 c) High d) Medium

75. When price is below equilibrium level, there will be:

 a) Surplus commodity in the market b) Supply curve will shift

c) Demand curve will shift d) Shortage of commodity in the market

76. If equilibrium price rises but equilibrium quantity remains unchanged, the cause is:

 a) Supply and demand both decrease equally b) Supply and demand both increase equally

 c) Supply decreases and demand increases d) Supply increases and demand decreases

77. A decrease in demand causes the equilibrium price to:

 a) Rise b) Fall

 c) Remain constant d) Indeterminate

78. Price of a product is determined in a free market:

 a) By demand for the product b) By supply of the product

 c) By both demand and supply d) By the government

79. In market equilibrium, supply is vertical line. The downward sloping demand curve shifts to the rights. Then

 a) Price will rise b) Quantity rises

 c) Price remains same d) Price will fall

80. A rise in supply and demand in equal proportion will result in:

 a) Increase in equilibrium price and decrease in equilibrium quantity

 b) Decrease in equilibrium price and increase in equilibrium quantity

 c) No change in equilibrium price and increase in equilibrium quantity

 d) Increase in equilibrium price and no change in equilibrium quantity

81. Every factor of production gets reward equal to:

 a) Value of average product b) Value of marginal product

 c) Value of total product d) Total revenue

82. Under perfect competition, demand for a factor is its:

 a) MRP curve b) ARP curve

 c) TRP curve d) TR – TC

83. We should employ units of a factor to a point where:

 a) MR is negative b) MP is equal to price of the factor

 c) MP is positive d) MP is rising

84. If marginal product of labour rises because of new technology:

 a) Wages will rise b) Wages will fall

 c) Wages will be unaffected d) May rise or fall

85. Increasing the minimum wage for workers will:

 a) Sole the unemployment problem b) Result in scarcity of workers

 c) Cause a substitution of capital for labour d) Decrease the MP of those workers

86. The price of capital is

(a) money (b) Interest

(c) profits (d) wages

87. If MRP > Price of the factor: firm should hire

(a) less factors (b) more factors

(c) the same factors (d) All of the above

88. If MRP = Price of the factor: firm should \_\_\_\_\_\_\_ at the unit of factor

(a) less factors (b) more factors

(c) stop hiring more (d) All of the above

89. If MRP < P of the factor, firm should hire

(a) less factors (b) more factors

(c) the same factors (d) All of the above

90. The labor market equilibrium determines the wage rate and

(a) market (b) employment

(c) money (d) interest

91. Union leaders are in a worse position to bargain for higher wages if demand for labour is

 a) perfectly Elastic b) perfectly Inelastic

 c) Very larg d) Permanent

 **UNIT-III**

92. The concept of social optimum was introduced in Welfare Economics by

 a) Vilfredo Pareto b) A. C. Pigou

 c) Adam Smith d) A. Marshall

93. An ethical or value judgement must be made in order to derive the

 a) Transformation curve b) Grand utility possibly curve

 c) Consumption contract curve d) Social welfare function

94.According to Kaldor-Hicks compensation criteria, the proposed change will increase the social welfare if

 a) The gains are equal to the losses b) The gains are greater than the losses

 c) The losses are greater than the gains d)None of the above

95.The concept of Social Welfare function was firstly introduced by

 a) Pareto b)Kaldor

 c) Bergson d) Samuelson

96. The first condition of which economist states that welfare is said to increase when national income increases

 a) Kaldor-Hicks b) Adam Smith

 c) A. C. Pigou d) Prof . Bergson

97.Compensation criterion principle is associated with the name of

 a)Kaldor-Hicks b)Vilfredo Pareto

 c) A. C. Pigou d) Prof . Bergson

98.Who proclaimed the ‘doctrine of invisible hand’?

 a) Adam Smith b) A. C. Pigou

 c)Kaldor-Hicks d) V. Pareto

99.Social Welfare function is a function of

1. All the individuals constituting the society b) All consumers excluding producers
2. Only sample of individuals in society (d) None of the above

100. “Social welfare increases when transfer of real income from the rich to poor increases” is a atement given by

 a)Kaldor-Hicks b) A. C. Pigou

 c) Pareto d) Prof . Bergson

101.Bergson’s name is associated with

(a) Social welfare function (b) Pareto Optimality criterion

(c) Compensation criterion (d) Welfare maximization criterion

**102. Which among the following is NOT a correct statement?**

(a) Welfare economics is based on value judgements.

(b) Welfare economics is also called ‘economics with a heart’.

(c) Welfare economics focuses on questions about equity as well as efficiency.

(d) The founder of Welfare economics was Alfred Marshall.

103. The statement "The unemployment rate for teens is higher than that for adults" is

(a) A normative statement. (b) A positive statement

(c) A political statement. (d) An ethical statement.

104. When the allocation of resources is Pareto efficient

(a) society is providing the greatest good to the greatest number.

(b) no consumer would prefer someone else's consumption bundle to his or her own.

(c) it is not feasible to make someone better off without making someone worse off.

(d) it is feasible to make someone better off without making someone worse off.

105. If some allocation of resources is Pareto efficient, then that allocation satisfies:

a) allocative efficiency and productive efficiency.

b) allocative efficiency and distributive efficiency.

c) productive efficiency and distributive efficiency.

d) allocative efficiency, productive efficiency, and distributive efficiency.

106. When two commodities X and Y must be allocated among consumers, a necessary condition for distributive efficiency is that:

a) all firms be price takers.

  b) all firms minimize cost.

  c) commodity X must be allocated to the consumers with the largest values of MRSXY

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  d) the marginal rates of substitution MRSXY for all consumers must be equal.

 107. The necessary condition for allocative efficiency is that each commodity be produced in an amount that makes the marginal benefit to society of the last unit produced equal to the marginal cost to society of that last unit. The satisfaction of this condition in a market economy relies on the assumptions of:

a) utility maximization, profit maximization, and perfect competition.

b) utility maximization and profit maximization, but not perfect competition.

c) profit maximization and perfect competition, but not utility maximization.

d) utility maximization and perfect competition, but not profit maximization.

108. The Fundamental Theorem of Welfare Economics:

  a) shows that the allocation of resources generated by a complete system of perfectly competitive markets results in all consumers attaining the same utility level.

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  b) refers to the biblical observation that "the poor ye shall always have with you."

 c) implies that no intervention in the workings of markets can be justified on efficiency grounds.

 d) holds that the allocation of resources generated by a complete system of perfectly competitive markets is Pareto efficient.

109. If an economy operates on its production possibility curve, then the allocation of resources in that economy satisfies:

 a) allocative efficiency. b) distributive efficiency.

 c) Pareto efficiency. d) productive efficiency.

110. If a brother and sister return home from trick-or-treating on Christmas and engage in a series of voluntary trades of candy, we can conclude that:

1. the initial allocation of candy between them was distributively inefficient.

 b) the initial allocation of candy between them was distributively efficient.

 c) their preferences must be different.

 d) the candy they collected around the neighborhood must have been different.

111. Growth of GNP as A Criterion of Welfare was advocated by

 a)Kaldor-Hicks b) Adam Smith

 c) A. C. Pigou d) Prof . Bergson

112. Welfare is improved when ‘the greatest good (is secured) for the greatest number’ is a statement given by

 a) Kaldor-Hicks b) Adam Smith

 c) Jeremy Bentham d) Prof . Bergson

113. A situation in which it is impossible to make anyone better-off without making someone worse-off is said to be

(a) bentham Optimal (b) Pareto-optimal

(c) Hicks Optimal (d) Bergson Optimal

114. The concept of ‘Social Welfare Function’ was propounded by A. Bergson in his article *‘A Re­formulation of Certain Aspects of Welfare Economics’ published in the year 1938*

(a) 1932 (b) 1935

(c) 1938 (d) 1942

115. The locus of the various physi­cally attainable utility combinations of two persons when the factor endowments, state of technology and preference orders of the individuals are given.

(a) grand utility possibility frontier (b) Maximum utility frontier

(c) Pareto Optimality frontier (d) Hicks Utility Frontier

116. A famous welfare economics book called, “Economics of Welfare” was written by

 a)Kaldor-Hicks b) Adam Smith

 c) A. C. Pigou d) Prof . Bergson

117. Who defines economic welfare as **“that part of social (general) welfare that can be brought directly or indirectly into relation with the measuring rod of money.”**

 a)Kaldor-Hicks b) A. C. Pigou

 c) Pareto d) Prof . Bergson

118. Kaldor-Hicks compensation principle can be explained with the help of

a)Utility possibility curve b) Indifference curve

c) Equal product curve (d) Kuznet’s curve

119. Welfare Economics is generally accepted as

 a) Positive science b) Normative science

 c) Both of the above d) None of the above

120.According to AC Pigou, any reorganization of the economy which increases the share of the poor without reducing the national income is also considered an

(a) decrease in social welfare (b) reduction in social welfare

(c) improvement in social welfare (d) None of the above

121.In Pareto welfare economics, Efficiency of distribution of commodities among consumers is related to

(a) efficiency in production (b) efficiency in exchange

(c) efficiency in product-mix (d) All of the above

122. In Pareto welfare economics, Efficiency in the allocation of factors among commodities is related to

(a) efficiency in production (b) efficiency in exchange

(c) efficiency in product-mix (d) All of the above

123. In Pareto welfare economics, Efficiency of the allocation of factors among firms is related to

(a) efficiency in production (b) efficiency in exchange

(c) efficiency in product-mix (d) All of the above

124. The marginal condition for a Pareto-optimal allocation of factors requires that the \_\_\_\_\_\_\_\_ between labour and capital be equal for all commodities produced by different firms.

(a) MRS (b) MRTS

(c) DMR (d) MC

125. The marginal condition for a Pareto-optimal or -efficient distribution of commodities among consumers requires that the MRS between \_\_\_\_\_\_ be equal for all consumers.

(a) Two factors (b) Two goods

(c) Two consumers (d) Two producers

126. If any policy change benefits any one section of the society (gainers) to such an extent that it is better off even after the payment of compensation to the other sections of the society (losers) out of the benefits received, then that change leads to

(a) decrease in social welfare (b) Neither decrease nor increase in social welfare

(c) increase in social welfare (d) None of the above

127. Who among the following economist accepted growth of GNP as a criterion of Social Welfare

 a) Nicholas Kaldor b) Adam Smith

 c) Jeremy Bentham d) Ohlin

 **UNIT –IV**

128. If inflation occurs, investment will be

 a) More profitable b) Less profitable

 c) More difficult (d) None of the above

129.Air pollution can be termed as a

 a) Social benefit b) Social cost

 c) Social security measure (d) All of the above

130.If the net present value is greater than zero, then the project is

 a) Accepted b) Rejected

c) Neither accepted nor rejected d) Postponed

131.The period of time required to recover initial cost of investment is called

 a) Payback period b) Annual average rate of return

c) Internal rate of return d) Net present value

132.The number of years required to recover initial cost of investment is called

 a) Recover period b) Take-back period

 c) Payback period d) Annual average rate of return

133.Internal rate of return is also identified as the

 a) Price and location criteria b) Physical and location criteria

 c) Price and physical criteria d)None of the above

134. In an investment project, the lower the rate of interest

 a) No significant change in the value of the project

 b) The lower the present value of the project

 c) The higher the present value of the project

 d) None of the above

135.The rate of discount which equilibrates the cost of capital good s and the expected future returns from the capital good is known as

 a) Internal rate of return b) Net present value

 c) Average annual rate of return d)None of the above

136.If the internal rate of return (IRR) is negative, then the investor

1. Loses money b) Gains money

c) Neither gains nor loses money d) None of the above

137.If the net present value (NPV) is more than one, then the project may be

a) Accepted b) Rejected

c) Accepted or rejected d) All of the above

138. If rate of interest is 10% the PV (present value) of Rs. 100 received in 1 years time is

(a) 90 (b) 90.9

(c) 95 (d) 110

## 139. The reason that finding the present value of a future sum of money requires us to discount it, is that:

(a) Waiting involves risk

(b) We don’t know when we shall receive it

(c) Inflation will reduce its purchasing power

(d) Waiting deprives us of its use

## 140. If interest rates rise, the present value of any future earnings is bound to:

(a) Suffer from inflation (b) Increase in risk

(c) Rise (d) Fall

141. **Projects with \_\_\_\_\_\_\_\_\_\_ are preferred**

(a) Lower payback period (b) Normal payback period

(c) Higher payback period (d) Any of the above

142. **-\_\_\_\_\_\_\_\_\_\_\_ on capital is called ‘Cost of capital’.**

(a) Lower expected return (b) Normally expected return

(c) Higher expected return (d) None of the above

143. **The values of the future net incomes discounted by the cost of capital are called**

(a) future income (b) Internal rate of return

(c) Net present values (d) Discounted capital cost

144. **Under Net present value criterion, a project is approved if**

(a) Its net present value is positive (b) The funds are unlimited

(c) Both (A) and (B) (d) None of the above

145. **The internal Rate of Return (IRR) criterion for project acceptance, under theoretically infinite funds is: accept all projects which have**

(a) IRR equal to the cost of capital (b) IRR greater than the cost of capital

(c) IRR less than the cost of capital (d) None of the above

146. **Which of the following criterion is often preferred**

(a) Net present value (b) Profitability index

(c) Internal Rate of Return (d) Payback period

147. **The project is accepted of**

(a) the profitability index is equal to one (b) The funds are unlimited

(c) the profitability index is greater than one (d) Both (B) and (C)

148. **Where capital availability is unlimited and the projects are not mutually exclusive, for the same cost of capital, following criterion is used**

(a) Net present value (b) Internal Rate of Return

(c) Profitability Index (d) All of the above

149. **A project is accepted when**

(a) Net present value is greater than zero (b) Profitability index will be greater than unity

(c) Internal Rate of Return will be greater than cost of capital (d) Any of the above

150. **With limited finance and a number of project proposals at hand, select that package of projects which has**

(a) The maximum net present value (b) Internal rate of return is greater than cost of capital

(c) Profitability index is greater than unity (d) Any of the above

151. **A project may be regarded as high risk project when**

(a) It has smaller variance of outcome but a high initial investment

(b) It has larger variance of outcome and high initial investment

(c) It has smaller variance of outcome and a low initial investment

(d) It has larger variance of outcome and low initial investment

152. What is the net present value?

(a) the future value of a project’s cash flows plus its initial cost

(b) the present value of a project’s cash flows plus its initial cost

(c) the future value of a project’s cash flows minus its initial cost

(d) the present value of a project’s cash flows minus its initial cost

153. Why are projects with negative net present values (NPVs) unacceptable to a firm?

(a) Returns lower than the cost of capital result in firm failure.

(b) Returns with negative NPVs cause an equal profit ratio.

(c) Returns with negative NPVs are acceptable to a firm

(d) Returns lower than the cost of capital result in higher profit ratios

154. The Internal Rate of Return is defined as

(a) the discount rate which causes the payback to equal one year.

(b) the discount rate which causes the NPV to equal zero.

(c) the ROE when the NPV equals 0.

(d) the ROE associated with project maximization

155. Each of the following techniques use discounted cash flows to incorporate the time value of

money into their analysis except

(a) payback method (b) internal rate of return (IRR)

(c) net present value (NPV) (d) modified internal rate of return

156. A manager can presume that the project will enhance shareholder wealth only if its NPV

based on the risk adjusted rate is

(a) equal (b) zero.

(c) negative. (d) positive.

## 157. The higher the interest rate

(a) The more valuable revenue today is in comparison with revenue in the future.

(b) The less valuable revenue today is in comparison with revenue in the future

(c) The less costs today should be considered in capital budgeting

(d) The less concerned you should be about the timing of a stream of revenue.

## 158. The net present value

(a) Is calculated by discounting all cash flows to present value and subtracting outflows from inflows

(b) Calculates the rate of return which leaves you indifferent between undertaking the project, and not undertaking the project.

(c) Leads to the same decisions as the use of the payback period.

(d) Would suggest that we accept projects with a negative net present value.

## 159. When using the net present value and the internal rate of return to evaluate capital projects:

(a) The IRR is preferred because it more closely reflects the firm's goal of maximization of shareholder wealth.

(b) Both will lead to the same decision if projects are mutually exclusive.

(c) The two techniques may give different answers if the initial costs of the projects differ.

(d) Both assume that the firm can reinvest earnings at the same rate.

160. if the internal rate of return (r) is less than the cost of capital,the project should be

(a) accepted (b) rejected

(c) neither accept nor reject (d) none of the above

 **UNIT-V**

161. The basis of trade between countries lies in the

 a) Difference in monetary standard b) Difference in political system

 c) Difference in resource endowment d)None of the above

162. One similarity between international trade and inter-regional trade is that in general both must overcome

 a) The difference in language b) Tariffs

 c) Distance or space d)The difference in currencies

163.The basis of trade between countries lies in the

 a) The difference in factor endowment b) The difference in money standard

 c) Difference in political system d)All of the above

164.The absolute advantage theory of international trade is associated with

 a) David Ricardo b) Adam Smith

 c) Samuelson d)Heckscher-Ohlin

165. Trade between nations occur due to

 a) Difference in monetary b) Difference in resource endowment

 c) Difference in political status d) Difference in population

166. Adam Smith propounded the theory of

 a) Comparative cost b) Opportunity cost

 c) Absolute advantage in international trade d)None of the above

167. David Ricardo propounded theory of

 a) Law of reciprocal demand b) Absolute theory of international trade

 c) Comparative theory of international trade d)None of the above

168. In Heckscher-Ohlin model, factor abundance have been defined in two terms. Those are

 a) Price and location criteria b) Physical and location criteria

 c) Price and physical criteria d)None of the above

169.The absolute advantage theory of international trade is associated with

 a) David Ricardo b) Adam Smith

c) Alfred Marshall d)Heckscher-Ohlin

170.Trade among different regions within the same country is known as

 a) International trade b) Interregional trade

c) Bilateral trade d)Trilateral trade

171.Heckscher-Ohlin theory of international trade is based on

 a) Factor price equalization b) Absolute advantage

 c) Factor endowment differentials d) Labour productivity

172.The main objective of international trade is

 a) To maximize production b) To remove political bondage

 c) To establish world bank d) To remove poverty

173. Import quota implies

(a) Physical limitation of quantities of goods traded to other countries

(b) Physical limitation of quantities of goods traded from other countries

(c) A duty imposed by the government upon the goods traded

(d) All of the above

174. According to Heckscher-Ohlin theory as a result of international trade, thedifference in factor price between nations

(a) diminishes (b) increases

(c) is constant (d) All of the above

175. The imposition of an import tariff by a nation usually

(a) improves the nation’s terms of trade and increases the volume of trade

(b) worsens the nation’s terms of trade but increases the volume of trade

(c) improves the nation’s terms of trade but reduces the volume of trade

(d) None of the above

176. If a nation has a comparative advantage in the production of a good,

(a) it can produce that good at a lower opportunity cost than its trading partner.

(b) it can benefit by restricting imports of that good

(c) it can produce that good using fewer resources than its trading partner.

(d) it must be the only country with the ability to produce that good

177. According to the principle of comparative advantage,

(a) countries should specialize in the production of goods that they enjoy consuming.

(b) countries should specialize in the production of goods for which they have a lower

 opportunity cost of production than their trading partners.

(c) countries with a comparative advantage in the production of every good need not specialize.

(d) countries should specialize in the production of goods for which they use fewer resources in

 production than their trading partners.

178. Suppose a country's workers can produce 4 watches per hour or 12 rings per hour. If there is no trade,

(a) the domestic price of 1 ring is 1/4 of a watch.

(b) the domestic price of 1 ring is 3 watches.

(c) the domestic price of 1 ring is 1/3 of a watch.

(d) the domestic price of 1 ring is 12 watches

 179. Suppose the world consists of two countries: the UK and Spain. Further, suppose there are only two goods--food and clothing. Which of the following statements is true?

(a) If the UK has an absolute advantage in the production of food, then Spain must have an absolute advantage in the production of clothing.

(b) If the UK has a comparative advantage in the production of food, Spain might also have a comparative advantage in the production of food.

(c) If the UK has a comparative advantage in the production of food, it must also have a comparative advantage in the production of clothing

(d) If the UK has a comparative advantage in the production of food, then Spain must have a comparative advantage in the production of clothing

180. Who propounded the opportunity cost Theory of international trade?

(a) Ricardo (b) Marshall

(c) Heckscher & Ohlin (d) Haberler

181. ‘Infant industry argument’ in international trade is given in support of:

(a) Granting Protection (b) Free trade

(c) Curbing export (d) None of the above

182. The Heckscher-Ohlin approach to international trade provides important insights, in

(a) Gains from trade

(b) Effect of trade on production and consumption

(c) Effect of trade on the incomes of production factors

(d) All of the above

183. Which of the following trade policies limits specified quantity of goods to be imported at one tariff rate.

(a) Quota (b) Import tariff
(c) Specific tariff (d) All of the above

184. In the 2-factor, 2 good Heckscher-Ohlin model, the two countries differ in

(a) Military capabilities
(b) labour productivities
(c) relative availabilities of factors of production
(d) tastes

185. According to Ricardo, a country will have a comparative advantage in:

(a) Industries in which there are neither imports nor exports

(b) import competiting industries
(c) Industries that sell to domestic and foreign buyers
(d) industries that sell to only foreign buyers

186. Nations conduct international trade because:
 (a) Some nations prefer to produce one thing while others produce other things.
 (b) Resources are not equally distributed among all trading nations.
 (c) Trade enhances opportunities to accumulate profits.
 (d) Interest rates are not identical in all trading nations

187. Which of the following is a determinant of trade?

(a) Tastes (b) Per capita income
(c) Technological change (d) All of the above

188. Which of the following is not a benefit of international trade?

 (a) High wage levels for all domestic workers

(b) Lower domestic prices
(c) Development of more efficient methods and new products.
(d) A greater range of consumption choices.

189. Who benefits from tariff protection?

(a) Domestic consumers on the good produced

(b) Domestic producers of the good produced

(c) Foreign producers of the good produced

(d) Foreign consumers of the good produced.

190. A closed economy is one in which:

 (a) Imports exactly equal exports, so that trade is balanced.

(b) Domestic firms invest in industries overseas.

(c) The home economy is isolated from foreign trade

(d) Saving exactly equals investment at full employment.

191. What determines the pattern of specialisation and trade in industries with external economies of scale?
 (a) Product differentiation (b) Monopolistic competition

(c) Historical competition (d) None of the above

192. David Ricardo's trading principle emphasis the:

(a) Demand side of the market (b) supply side of the market

(c) role of comparative costs (d) role of absolute costs

193. Under Heckscher-Ohlin Model, international trade can lead to increases in:

(a) Consumer welfare only if output of both products is increased

(b) Output of both products and consumer welfare in both countries

(c) Total production of both products, but not consumer welfare in both countries

(d) Consumer welfare in both countries, but not toal production of both products.

194. A main advantage in specialisation results from:
 (a) Economies of large-scale production

(b) The specializing country behaving as monopoly

(c) Smaller production runs resulting in lower unit costs.

(d) High wages paied to foreign workers.

195. The exchange of goods and services are known as

(a) International Trade (b) Trade

(c) None of these (d) Domestic Trade

196. Which is not an advantage of international trade:

(a) Export of surplus production (b) Import of defence material

(c) Dependence on foreign countries (d) Availability of cheap raw material

197. The first classical theory of International Trade is given by

(a) Friedman (b) Keynes

(c) Adam Smith (d) Heckscher-Ohlin

198. In classical theory of International Trade, the exchange of goods and services takes on the basis of ………….. system?

(a) Barter (b) Money

(c) Labour (d) Capital

199. If capital is available in large proportion and labour is less, then that economy is known as

(a) Capital Intensive (b) Labour Intensive

(c) Both a. and b (d) None of above

200.. In Heckscher Ohlin theory, what is assumed to be same across the countries?

(a) Capital (b) Labour

(c) Transportation cost (d) Technology

  **SECTION –B**

**FILL IN THE BLANKS (100X1=100)**

 **UNIT-I**

1. The concept of quasi-rent was introduced by \_\_\_\_\_\_\_\_.

2. The subsistence theory of wages is also known as the \_\_\_\_\_\_\_\_ law of wages’.

3. According to Prof Knight, \_\_\_\_\_\_\_\_\_\_\_ is the reward for Uncertainty bearing.

4. David Ricardo uses the \_\_\_\_\_\_\_\_\_\_\_\_\_\_theory of wages.

5. J.R. Hicks contributed the \_\_\_\_\_\_\_\_\_\_\_\_ theory of interest rate determination.

6. When a firm’s average revenue is equal to its average\_\_\_\_\_\_\_\_\_, it gets Normal profit.

7. Under Perfect competition, price is determined by the interaction of total demand and \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ in the market.

8. The economist \_\_\_\_\_\_\_\_\_\_\_ argued that prices were high because land rents were low.

9. David Ricardo presented \_\_\_\_\_\_\_\_\_\_\_\_ theory.

10. According to \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ interest is a payment for Liquidity preference.

11. Ricardian theory of rent is also called \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ rent.

12. Keynes is famous for his theory of \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

13. According to \_\_\_\_\_\_\_\_\_\_\_\_\_\_Theory of Rent, rent accrues to Any factor.

14. According to \_\_\_\_\_\_\_\_\_\_\_\_ risks are of two kinds.

**15. Under the liquidity trap conditions, an increase in money supply will**\_\_\_\_\_\_\_ the rate of interest.

16. The liquidity trap occurs when the demand for \_\_\_\_\_\_\_\_\_\_\_\_is perfectly interest elastic.

17. The Marginal Revenue Product is usually \_\_\_\_\_\_\_\_\_\_\_sloping due to the law of diminishing returns.

18. The supply of \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_is inelastic.

19. Land that do not rent is called \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_land according to Ricardo.

20. Wage-fund theory was propounded by \_\_\_\_\_\_\_\_\_\_\_.

21. When prices of other goods increase, real wage\_\_\_\_\_\_\_\_\_\_\_.

22. Quasi rent occurs in the \_\_\_\_\_\_\_\_\_\_ run.

23.With a given wage fund, wages can be increased by \_\_\_\_\_\_\_\_\_\_ the number of workers.

24. Nominal wage is normally expressed in terms of \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

25. Interest is purely a monetary phenomenon is stated by \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

26. Loanable fund theory is also called \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ theory.

27. The payment foe the use of capital without risk in lending is called \_\_\_\_\_\_\_\_\_\_\_\_ interest.

28. According to Keynes, interest is the reward for parting with \_\_\_\_\_\_\_\_\_\_\_\_\_\_.

29. Loanable theory was first formulated by \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

30. Liquidity preference theory is also known as \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ theory.

31. Keynesian theory of\_\_\_\_\_\_\_\_\_\_\_\_\_\_ is a stock concept.

32. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ fund theory is a flow concept.

33. FW Taussing originated the \_\_\_\_\_\_\_\_\_\_\_\_\_\_theory of profit.

34. JB Clarkn introduced the \_\_\_\_\_\_\_\_\_theory of profit.

35. Accoring to modern theory, the difference between the actual earnings and the transfer earnings of

 factors of production is called \_\_\_\_\_\_\_\_\_\_\_\_\_\_ rent.

 **UNIT-II**

36. The the additional revenue generated by employing an additional unit of a factor is called \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

37. Under perfect competition, Marginal revenue productivity curve of labor cuts the marginal cost curve {marginal wage) from \_\_\_\_\_\_\_\_\_\_\_\_\_.

38. In a perfectly competitive market, an individual firm cannot influence the market \_\_\_\_\_\_\_\_\_\_\_\_ of a factor

39. Monopolist is a price \_\_\_\_\_\_\_\_\_\_\_.

40. A monopoly is the sole seller of a product with no \_\_\_\_\_\_\_\_\_\_\_\_\_\_ substitutes.

41. In the real world, the \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_market is imperfect.

42. In monopsony, there is only one buyer of factors of production and a large number of \_\_\_\_\_\_\_\_\_\_.

43. Factor market refers to markets where services of the factors of production are \_\_\_\_\_\_\_\_ and sold.

44. \_\_\_\_\_\_\_\_\_\_\_ is the funds that firms use to buy and operate their production process.

45. Monopsony is the buying-side equivalent of a selling-side \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

46. \_\_\_\_\_\_\_\_\_\_\_\_\_ is the combination of a monopoly market on the selling side and a monopsony market on the buying side.

47. \_\_\_\_\_\_\_\_\_\_\_\_ supply is the willingness and ability of scarce resources or factors of production to offer their services for use in productive activities.

48. \_\_\_\_\_\_\_\_\_\_\_\_ relates to the willingness and ability of productive activities (that is, businesses) to hire or employ factors of production.

49. firm should stop hiring more factors at the point where \_\_\_\_\_\_\_\_\_\_\_= Price of the factor.

50. Monopsony is a market system where there is only one \_\_\_\_\_\_\_\_\_\_\_\_\_.

51. Monopoly is a market system, where there is only one \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ .

52. In a perfectly competitive market, a firm in the\_\_\_\_\_\_\_\_\_\_\_ run will be in equilibrium when: Price=AR=MR=AC=MC.

53. The equilibrium price falls when there is a/an \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ in demand.

54. Under perfect competition, the MRP curve represents the \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ for a factor.

55. Firm should hire more factors if \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ > Price of the factor:

 **UNIT-III**

56. Adam Smith implicitly accepted the growth of the wealth of a society, that is, the growth of the gross \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ product, as a welfare criterion.

57. Jeremy Bentham, an English economist, argued that welfare is improved when ‘the greatest good is secured for the greatest \_\_\_\_\_\_\_\_\_\_\_\_\_\_’.

58. Producer surplus is the area above the supply curve and below the \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

59. According to Pareto, any change that makes at least one indivi­dual better-off and no one worse-off is an \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ in social welfare.

60.According to Pareto ,a change that makes no one better-off and at least one worse-off is a \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ in social welfare.

61. Nicholas \_\_\_\_\_\_\_\_\_and John Hicks suggested the compensation approach to establish­ing a welfare criterion.

62. If the amount of money of the ‘gainers’ is greater than the amount of the ‘losers’, the change constitutes an \_\_\_\_\_\_\_\_\_\_\_\_\_ in social welfare.

63.If the amount of money of the ‘gainers’ is lesser than the amount of the ‘losers’, the change constitutes an \_\_\_\_\_\_\_\_\_\_\_\_\_\_ in social welfare.

64.Every point on the grand utility possibility curve represents a \_\_\_\_\_\_\_\_\_\_\_\_\_\_ and as we move from one point to another.

65.In his book, “Economics of Welfare”, AC Pigou distinguishes between the social welfare and \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ welfare.

66. According to AC Pigou, Each individual tries to maximise his \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ from his expenditure on different goods and services.

67. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_regard economic welfare and national income as essentially coordinate.

68.For the attainment of a Pareto-efficient situation in an economy, \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_marginal conditions must be satisfied.

69. In Pareto welfare economics, efficiency in production is also known as Efficiency of the allocation of factors among \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

70. In Pareto welfare economics, efficiency in exchange is also called Efficiency of distribution of commodities among \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

71. The marginal condition for a Pareto-optimal or -efficient distribution of commodities among consumers requires that the \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_between two goods be equal for all consumers.

72. The marginal condition for a Pareto-optimal allocation of factors requires that the MRTS between labour and capital be equal for all\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ produced by different firms.

 73. Popular methods of capital budgeting include net present value (NPV), internal rate of return (IRR),

 discounted cash flow (DCF) and \_\_\_\_\_\_\_\_\_\_\_\_\_period.

 74. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ was the first economist to give a welfare criterion based on compensating payments.

 **UNIT-IV**

75. The \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_value of money is sometimes referred to as the net present value (NPV) of money.

76. \_\_\_\_\_\_\_\_\_\_ value is the current value of a future sum of money or stream of cash flows given a specified rate of return.

77. \_\_\_\_\_\_\_\_value is the value of a current asset at a future date based on an assumed rate of growth.

78.\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ refers to the difference between the value of cash now and the value of cash at a future date

79. Net present value (NPV) is the sum of the present values of the project’s future cash flows minus the \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_of the project.

80. IRR is the rate of return(r) which renders the net present value (NPV) equal to \_\_\_\_\_\_\_\_\_\_\_\_\_.

81. IRR is also called Marginal Efficiency of \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

82. According to the internal rate of return method, if the internal rate of return (r) of a capital project is greater than the cost of capital, the project should be \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

83. The concept of cost benefit analysis was introduced in the year 1848 by \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

 **UNIT-V**

84. International Trade means trade between \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ .

85.\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_, not absolute advantage, determines the decision to specialize in production.

86. Comparative advantage is a comparison based on\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ cost.

87. The \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ from trade can be measured by the increase in total production that comes from specialization.

88. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_trade means one country comes into trade with more than one country.

89. When two countries trade with each other, it is called \_\_\_\_\_\_\_\_\_\_\_\_\_ trade.

90. A tariff that maximises a country’s welfare is called \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ tariff.

91. Ricardo has supplemented \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ theory.

92. An economy that does not trade with other countries is called\_\_\_\_\_\_\_\_\_\_\_\_\_\_ country.

93. Trade between two states in an economy is known as \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ trade.

94. Absolute advantage theory is given by \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

95. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ cost is also known as Next Best alternative.

96. The largest item of Indian import list is \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

97. 2×2×2 model of International Trade is known by \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ model.

98. The economist\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ advocated free trade.

99. Reduced\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ encourages trade between two countries.

100. Transformation cost is also known as \_\_\_\_\_\_\_\_\_\_\_cost.

**ANSWER KEY**

**SECTION-A MULTIPLE CHOICE**

1. a) The former is a wider concept than the latter

2. d) The return to a factor of production which is fixed in supply in the short period

3. c) Quasi-rent

4. c) J. B. Clark

5. d)The subsistence theory of wages

6. d) Uncertainty bearing

7. a) F. H. Knight

8. d) Labour is heterogeneous

9. a) Real theory

10. d) David Ricardo

11. b) Residual income

12. (c) speculative motive

13. (c) J. B. Clark

14. (d) J.R. Hicks

15. (b) F.H. Knight

16. (c) J.R. Hick

17. (d) The concept of utility is cardinal and cardinal utility function of every consumer is

 given.

18. (b) Normal profit

19.(a) Decrease

20. (a) Perfect competition

21. (b) Real wages

22. (d) Marginal Product

23. (d) High, Low

24. (a) Enters into the price of his product

25. (c) Ricardo

26. (c) Cleverness of landlords

27. (c) Mobility rent

28. (c) Machinery

29. (c) Liquidity preference

30. (a) Capital is scarce

31. (b) Increases

32. (b) Marginal product

33. (c) Use of money

34. (d) Machinery and factories

35 (b) Profit

36. (a) Are residual payment

37 .(d)All of the above

38. (d) Both (a) and (b)

39. (d) Taxes

40. (a) Wage earner

41. (d) All the above

42.(a) two

43. (c) Lend money

44. (b) Any factor

45. (b) Will decrease total earnings of employees if the demand for labour is wage elastic

46. (d) A higher equilibrium wage and lower quantity of labour employed

47. (b) Marginal cost equals marginal revenue

48. c) Monopsony

49. b) Factor market

50. d)None of the above

51. a)The marginal revenue product of labour is equal to its marginal cost

52. a) Monopoly

53. a) The intersection of the factor demand curve and the factor supply curve

54. b) A single buyer

55. a) A single seller

56. d) Demand and supply

57. b) Employment

58. (a)Demand for factors is equal to supply of factors

59. c) Derived demand

60. b) Demand for factors is equal to supply of factors

61. c) Money

62. a) marginal revenue equals marginal cost.

63. d) Quantity of the good offered for sale at a particular price per unit of time

64 . b) opportunity cost

65. b) Marginal Productivity

66.a) MRP=VMP

67. d) Price=AR=MR=AC=MC

68. c) It is a passive factor of production

69. c) First law of Gossen

70.b) Price and quantity of a factor

71. b) Inelastic

72. c) Backward

73. a) MRP = Wage rate

74. a) Low

75. d) Shortage of commodity in the market

76. c) Supply decreases and demand increases

77. b) Fall

78. c) By both demand and supply

79. a) Price will rise

80. c) No change in equilibrium price and increase in equilibrium quantity

81. b) Value of marginal product

82. a) MRP curve

83. b) MP is equal to price of the factor

84. a) Wages will rise

85. c) Cause a substitution of capital for labour

86. (b) Interest

87. (b) more factors

88. (c) stop hiring more

89. (a) less factors

90. (b) employment

91. a) perfectly Elastic

92. a) Vilfredo Pareto

93. d) Social welfare function

94. b) The gains are greater than the losses

95. c) Bergson

96. c) A. C. Pigou

97. a)Kaldor-Hicks

98. a) Adam Smith

99. a) All the individuals constituting the

100. b) A. C. Pigou

101. (a) Social welfare function

**102.** (d) The founder of Welfare economics was Alfred Marshall.

103. (b) A positive statement

104. (c) it is not feasible to make someone better off without making someone worse off.

105. d) allocative efficiency, productive efficiency, and distributive efficiency.

|  |
| --- |
|  |
|  |

106. d) the marginal rates of substitution MRSXY for all consumers must be equal.

107. a) utility maximization, profit maximization, and perfect competition.

108. d) holds that the allocation of resources generated by a complete system of perfectly competitive markets is Pareto efficient.

109. d) productive efficiency.

110. a) the initial allocation of candy between them was distributively inefficient.

111. b) Adam Smith

112. c) Jeremy Bentham

113. (b) Pareto-optimal

114. (c) 1938

115. (a) grand utility possibility frontier

116. c) A. C. Pigou

117. b) A. C. Pigou

118. a)Utility possibility curve

119. b) Normative science

120.(c) improvement in social welfare

121. (b) efficiency in exchange

122. (c) efficiency in product-mix

123. (a) efficiency in production

124. (b) MRTS

125. (b) Two goods

126. (c) increase in social welfare

127. b) Adam Smith

128. b) Less profitable

129. b) Social cost

130. a) Accepted

131.a) Payback period

132.c) Payback period

133.a) Price and location criteria

134. c) The higher the present value of the project

135.a) Internal rate of return

136. Loses money

137.a) Accepted

138. (b) 90.9

## 139. (d) Waiting deprives us of its use

## 140. (d) Fall

141. (a) Lower payback period

142. (b) Normally expected return

143. (c) Net present values

144. (c) Both (A) and (B)

145. (b) IRR greater than the cost of capital

146. (a) Net present value

147. (d) Both (B) and (C)

148.(d) All of the above

149. (d) Any of the above

150. (a) The maximum net present value

151. (a) It has smaller variance of outcome but a high initial investment

152. (d) the present value of a project’s cash flows minus its initial cost

153. (a) Returns lower than the cost of capital result in firm failure.

154. (b) the discount rate which causes the NPV to equal zero.

155. (a) payback method

156. (d) positive.

## 157. (a) The more valuable revenue today is in comparison with revenue in the future.

## 158. (a) Is calculated by discounting all cash flows to present value and subtracting outflows from inflows

## 159. (c) The two techniques may give different answers if the initial costs of the projects differ.

160. (b) rejected

161. c) Difference in resource endowment

162. c) Distance or space

163. d)All of the above

164. b) Adam Smith

165. b) Difference in resource endowment

166. c) Absolute advantage in international trade

167. c) Comparative theory of international trade

168. c) Price and physical criteria

169. b) Adam Smith

170. b) Interregional trade

171.c) Factor endowment differentials

172.a) To maximize production

173. (b) Physical limitation of quantities of goods traded from other countries

174. (a) diminishes

175. (c) improves the nation’s terms of trade but reduces the volume of trade

176. (a) it can produce that good at a lower opportunity cost than its trading partner.

177.(b) countries should specialize in the production of goods for which they have a lower

 opportunity cost of production than their trading partners.

178. (c) the domestic price of 1 ring is 1/3 of a watch.

179. (d) If the UK has a comparative advantage in the production of food, then Spain must have a comparative advantage in the production of clothing

180. (d) Haberler

181. (a) Granting Protection

182. (d) All of the above

183. (a) Quota

184. (c) relative availabilities of factors of production

185. (c) Industries that sell to domestic and foreign buyers

186. (b) Resources are not equally distributed among all trading nations.

187. (d) All of the above

188. (a) High wage levels for all domestic workers

189. (b) Domestic producers of the good produced

190. (c) The home economy is isolated from foreign trade

191. (c) Historical competition

192. (c) role of comparative costs

193. (b) Output of both products and consumer welfare in both countries

194. (a) Economies of large-scale production

195. (b) Trade

196. (c) Dependence on foreign countries

197. (c) Adam Smith

198. (a) Barter

199. (a) Capital Intensive

200. (d) Technology

 **SECTION –B**

**FILL IN THE BLANKS (100X1=100)**

1. Marshall

2. ‘iron

3. profit

4. Subsistence

5. modern

6. cost

7. total supply

8. Ricardo

9. rent

10. Keynes

11. Differential

12. interests

13. Modern

14. Knight

**15.** reduce

16. money

17. downward

18. land

19. marginal

20. Mill

21. falls

22. short

23. reducing

24. Money

25. JM Keynes

26. neo-classical

27. net

28. liquidity.

29. Robertson.

30. Monetary

31. interest

32. Loanable

33. wage

34. dynamic

35.economic

36. marginal revenue

37. above.

38. price

39. maker.

40. close

41. factor

42. sellers

43. bought

44. Capital

45. monopoly

46. Bilateral monopoly

47. Factor supply

48. Factor demand

49. MRP

50. buyer.

51. seller

52. long

53. decrease

54. demand

55. MRP

56. national

57. number’.

58. price.

59. improvement/increase

60. decrease/reduction

61. Kaldor

62. improvement/increase

63. decrease/reduction

64. Pareto optimum/Optimum

65. economic

66. satisfaction

67. Pigou

68. three

69. firms/industry.

70. consumers.

71. MRS

72. commodities

73. payback

74. Nicholas Kaldor

75. time

76. Present

77. Future.

1. The higher the interest rate:
2. a. The greater the present value of a future amount
3. B. The smaller the present value of a future amount
4. c. The greater the level of inflation
5. d. None of the statements associated with this question are correc

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a. Tuition

b. Cost of books and supplies

c. Room and board

D. Foregone wages

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78. Net present value

79. cost

80. zero

81. Investment

82. accepted

83. [Jules Dupuit](https://en.wikipedia.org/wiki/Jules_Dupuit)

84. Countries

85.Comparative advantage

86. opportunity

87. gains

88. Multilateral

89. bi-lateral

90. optimum

91. Absolute advantage

92. closed

93. inter-regional

94. Adam Smith

95. Opportunity

96. Petroleum

97. Heckscher Ohlin model

98. Adam Smith

99. tariffs.

100.opportunity