

ISC SEMESTER 1 EXAMINATION
SPECIMEN QUESTION PAPER
ECONOMICS
PAPER 1
(THEORY)

Maximum Marks: 80

Time allowed: One and a half hours

(Candidates are allowed additional 15 minutes for only reading the paper.)

ALL QUESTIONS ARE COMPULSORY

Each question/subpart of a question carries 1 mark.

Select the correct option for each of the following questions.

Question 1

What is the formula for calculating M.U.?

- (a) $TU_N + TU_{N+1}$
- (b) $TU_N - TU_{N+1}$
- (c) $TU_N - TU_{N+1}$
- (d) $TU_N - TU_{N-1}$

Question 2

When a consumer consumes two goods, then he will be in equilibrium at:

- (a) $MU_x = P_x$
- (b) $\frac{MU_x}{P_x} = \frac{P_y}{M U_y}$
- (c) $\frac{MU_x}{P_x} = \frac{M U_y}{P_y}$
- (d) None of these

Question 3

What relation do you notice between Price and Demand in the table given below:

Price	Demand (Units)
10	20
8	25

- (a) Increase in demand
- (b) Decrease in demand
- (c) Extension in demand
- (d) Contraction in demand

Question 4

When demand curve is parallel to X-axis, what would be its Elasticity of demand?

- (a) $E = \alpha$
- (b) $E = 1$
- (c) $E = >1$
- (d) $E = <1$

Question 5

Which of the given options shows the effects of Elasticity of demand?

- (a) Nature of good
- (b) Level of Income
- (c) Availability of substitutes
- (d) All

Question 6

What is the nature of relationship between price and demand in case of Elasticity of demand?

- (a) Qualitative
- (b) Quantitative
- (c) Competitive
- (d) None of these

Question 7

How will you calculate the Total product?

- (a) $\sum AP$
- (b) $\sum TP$
- (c) $\sum MP$
- (d) Any of these

Question 8

Which of the given options shows the application of increasing returns?

- (a) Specialization
- (b) Efficiency of factors
- (c) Indivisibility of factors
- (d) All

Question 9

When supply increases due to improvement in technology, it is known as

- (a) Extension in supply
- (b) Increase in Supply
- (c) Contraction in supply
- (d) Decrease in supply

Question 10

The Elasticity of Supply is always positive because there is:

- (a) Direct relation between supply and price
- (b) Inverse relation between demand and price
- (c) Both(a)and (b)
- (d) Neither (a) nor (b)

Question 11

Cost of exertion, pains and sacrifices is known as:

- (a) Opportunity costs
- (b) Production costs
- (c) Real costs
- (d) Explicit Costs

Question 12

What is the nature of the expenditure on raw material, power and labour?

- (a) Fixed
- (b) Variable
- (c) Production costs
- (d) Explicit

Question 13

What is the correct formula for calculating the Total variable cost?

- (a) $TVC = \sum MC$
- (b) $TVC = TC - TFC$
- (c) $TVC = AVC \times Q$
- (d) All

Question 14

What is the relationship between AR and MR under Perfect competition?

- (a) $AR > MR$
- (b) $AR < MR$
- (c) $AR = MR$
- (d) $AR \neq MR$

Question 15

Which of the following statements is true?

- (a) $AR = \frac{MR}{Q}$
- (b) $TR = MR \times Q$
- (c) $TR = \sum MR$
- (d) All

Question 16

A competitive firm will be in equilibrium when:

- (a) $MR = MC$ and MC cuts MR from below
- (b) $AR = AC$; AC cuts AR from above
- (c) $TR = TC$
- (d) None of these

Question 17

In a Perfectly competitive market, who decides the price?

- (a) A firm
- (b) An Industry
- (c) Both A and B
- (d) None of these

Question 18

What is determined at the point where market demand and market supply curves intersect each other?

- (a) Equilibrium Price
- (b) Equilibrium Quantity
- (c) Both of these
- (d) None of these

Question 19

What will be the effect upon equilibrium price, when an increase in demand is more than increase in supply?

- (a) Equilibrium Price remains constant
- (b) Equilibrium price rises
- (c) Equilibrium price falls
- (d) None of these

Question 20

What does *Floor Price* refer to?

- (a) Controlled Price
- (b) Maximum Ceiling Price
- (c) Minimum Support Price
- (d) Any of these

Question 21

An Indifference curve is convex to the origin because of:

- (a) Increasing MRS
- (b) Law of DMU
- (c) Diminishing MRS
- (d) Constant MRS

Question 22

AVC and AC curves cannot intersect each other because:

- (a) MC starts falling
- (b) $TC - TVC = TFC$ which is constant
- (c) TC does not increase
- (d) None of the above

Question 23

Which of the given options is a reason of change in demand ?

- (a) Change in Consumer's Income
- (b) Change in Prices of Related Goods
- (c) Population increase
- (d) All the above

Question 24

What is the basic reason for operation of the Law of Diminishing return?

- (a) Scarcity of factors
- (b) Imperfect substitution between factors
- (c) Both (a) and (b)
- (d) None of the above

Question 25

What is the reason for the U shape of short run average cost curves?

- (a) Law of Demand
- (b) Law of DMU
- (c) Law of variable proportions
- (d) Law of supply

Question 26

The reason for decrease in demand is:

- (a) Rise in price
- (b) Increase in the price of substitute goods
- (c) Increase in the price of complementary goods
- (d) Decrease in income in case of inferior goods

Question 27

The demand for a certain brand of fruit juice is elastic because:

- (a) It falls under luxuries
- (b) Its consumption can be postponed
- (c) Its substitutes are available in the market.
- (d) It is a multiple use product.

Question 28

The reason for downward sloping demand curve is:

- (a) Inverse relation between price and demand
- (b) Inverse relation between income and demand
- (c) Direct relation between price and demand
- (d) Both (a) and (b)

Question 29

Which of the given options is the correct reason for a backward bending supply curve?

- (a) Labour first prefers work over leisure and then leisure over work
- (b) Labour first prefers leisure over work and then work over leisure
- (c) Both (a) and (b)
- (d) Neither (a) nor (b)

Question 30

What is the reason for the upward sloping supply curve?

- (a) Direct relation between price and quantity
- (b) Number of producers
- (c) Profit maximisation
- (d) All the above.

Question 31

Cross elasticity of demand is _____ for substitute goods. An increase in the price of one commodity leads to _____ in the demand for another commodity.

- (a) positive, increase
- (b) negative, increase
- (c) positive, decrease
- (d) negative, increase

Question 32

Opportunity cost of a good is the _____.

- (a) Anticipated cost
- (b) Next best alternative
- (c) Upcoming cost
- (d) Real cost

Question 33

If the price of petrol increases, the demand for cars will:

- (a) Increase
- (b) Decrease
- (c) Expand
- (d) Vary

Question 34

What is Ex-ante demand also known as?

- (a) Intended demand
- (b) Actual demand.
- (c) Effective demand.
- (d) Unplanned demand.

Question 35

The slope of the indifference curve is equal to:

- (a) One.
- (b) Marginal utility.
- (c) Marginal rate of substitution
- (d) None of these.

Question 36

Price effect is:

- (a) Income effect – Substitution effect
- (b) Substitution effect – Income effect
- (c) Income effect + Substitution effect
- (d) Income effect + Substitution effect - Negative effect

Question 37

Social cost is:

- (a) Implicit cost + Explicit cost
- (b) Explicit cost+ Opportunity cost
- (c) Private cost + External cost
- (d) Private cost + Real cost

Question 38

_____ is an example of goods of Snob Appeal.

- (a) Buying a Ferrari
- (b) Buying basic utilities.
- (c) Buying a car insurance.
- (d) Opening a bank account.

Question 39

The short run refers to the period of time when output can be increased by increasing ____ while keeping _____ constant.

- (a) Capital, land
- (b) Labour, capital
- (c) Labour, land
- (d) Land, entrepreneur

Question 40

When a fall in the price of the commodity results in increase in total expenditure, the elasticity of demand will be _____

- (a) $E_p = 1$
- (b) $E_p = 0$
- (c) $E_p < 1$
- (d) $E_p > 1$

Question 41

The demand for a commodity refers to:

- (a) desire for a commodity.
- (b) need for a commodity.
- (c) quantity demanded at the lowest prices during a particular period of time.
- (d) quantity demanded at various possible prices during a particular period of time.

Question 42

The demand for labour is:

- (a) independent of the demand for other inputs or resources.
- (b) independent of the demand for the products produced by labour.
- (c) independent of the availability of other inputs or resources.
- (d) derived from the demand for the products produced by labour.

Question 43

Giffen goods are:

- (a) Normal goods, whose demand falls with a rise in their price.
- (b) Inferior goods, whose demand falls with a rise in their real income.
- (c) Inferior goods, whose demand falls with a fall in their price.
- (d) Superior goods, whose demand falls with a rise in their real income.

Question 44

Total utility refers to the total satisfaction derived by the consumer from the consumption of:

- (a) An additional quantity of a commodity.
- (b) A minimum quantity of a commodity
- (c) A maximum quantity of a commodity.
- (d) A specific quantity of a commodity.

Question 45

Returns to a factor means:

- (a) Quantity of only one factor is changed.
- (b) Quantity of all factor inputs is changed.
- (c) Fixed factors are changed but variable factors are kept constant.
- (d) Fixed and Variable both factors are changed in equal proportion.

Question 46

Economic cost refers to the sum of both explicit cost and implicit cost:

- (a) Including excess profit.
- (b) Including normal profit.
- (c) Including net profit.
- (d) Including abnormal profit.

Question 47

Monopolistic Competition is a form of market in which there are large number of sellers of a particular product, with each seller selling:

- (a) Homogenous products.
- (b) Differentiated products which are entirely distinct from each other.
- (c) Perfect substitutes.
- (d) Differentiated products which are close substitutes to the product.

Question 48

Normal profit is defined as that amount of profit that is high enough so that firms in the industry are induced to remain in the industry, yet low enough so that:

- (a) New firms will want to enter the industry.
- (b) New firms will not want to enter the industry.
- (c) Old firms will want to expand their operations.
- (d) Old firms will not want to expand their operations.

Question 49

Firms maximise their profits by producing a level of output at which:

- (a) $MC = AFC$
- (b) $MC = MR$
- (c) $P = ATC$
- (d) $MR = AVC$

Question 50

The demand curve for the firm operating under perfect competition is:

- (a) Upward sloping to the right
- (b) Downward sloping to the right
- (c) Perfectly horizontal line
- (d) Perfectly vertical line

Study the given figures carefully and answer the following questions by choosing the correct option.

Question 51

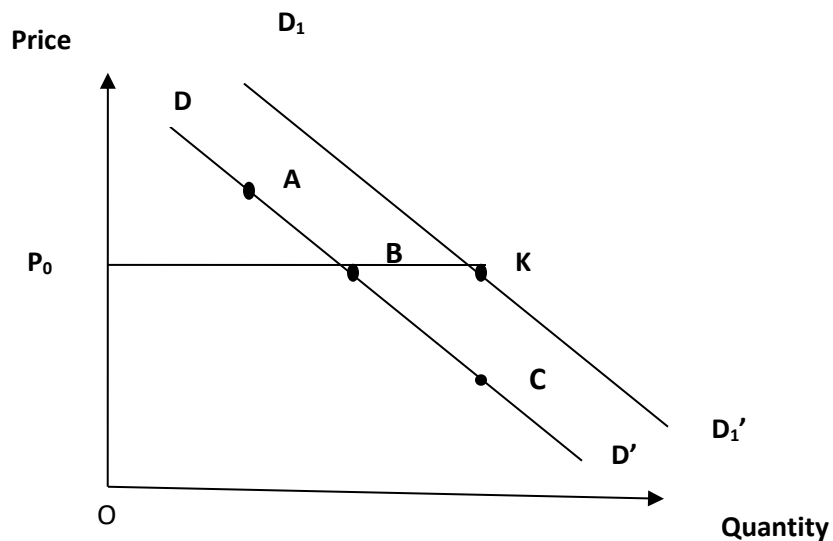


Figure 1

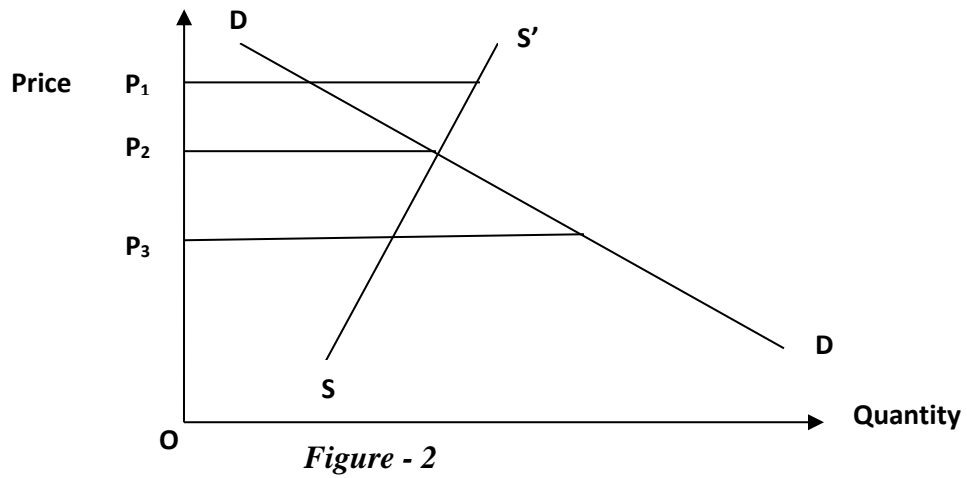
I. In figure 1, the:

- (a) Movement from A to B is contraction of demand.
- (b) Movement from B to C is extension of demand.
- (c) Movement from A to C is contraction of demand.
- (d) Movement from C to B is extension of demand.

II. In figure 1, the movement from B to K

- (a) is increase in demand.
- (b) indicates that demand rises at constant price.
- (c) takes place due to rise in demand caused by rise in money income of the consumer.
- (d) All of the above.

Question 52



I. In figure 2, the *Floor price* is:

- (a) OP_1
- (b) OP_2
- (c) OP_3
- (d) None of the above.

II. In figure 2, *Ceiling price* is:

- (a) OP_1
- (b) OP_2
- (c) OP_3
- (d) None of the above.

Question 53

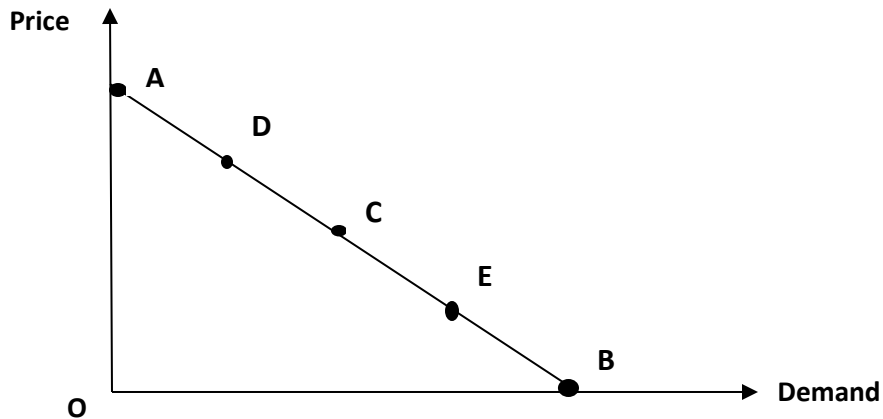


Figure 3

In figure 3, the demand is:

- (a) Perfectly elastic at A, unit elastic at B and relatively inelastic at E.
- (b) Relatively elastic at D, perfectly elastic at C and unit elastic at E.
- (c) Unit elastic at C, relatively inelastic at E and perfectly inelastic at B.
- (d) Relatively inelastic at D, unit elastic at C and perfectly elastic at B.

Question 54

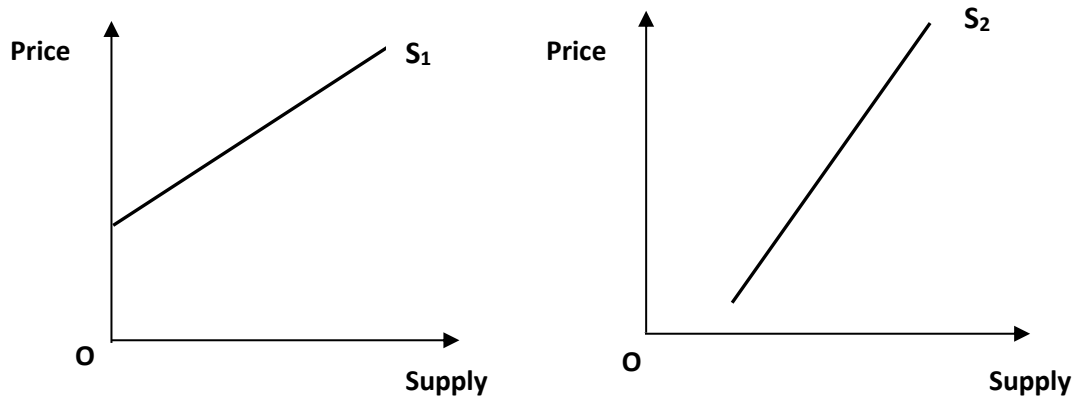


Figure 4

In figure 4:

- (a) S_1 supply curve indicates higher price elasticity of supply than S_2 .
- (b) S_1 indicates relatively elastic supply and S_2 is for inelastic supply.
- (c) S_1 is for elastic supply and S_2 indicates relatively inelastic supply.
- (d) All of the above.

Question 55

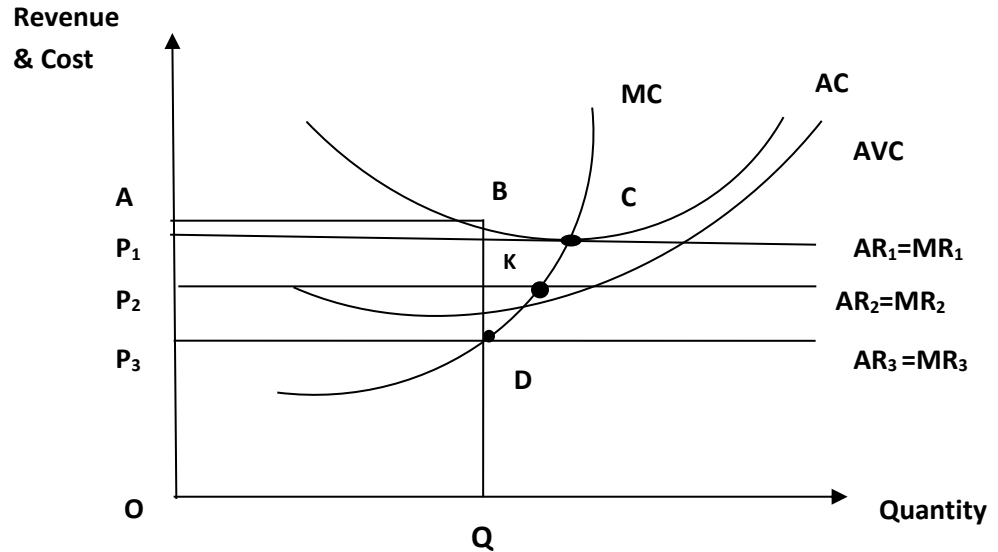


Figure 5

Choose the correct statements:

I. In figure 5:

- (a) C is an equilibrium point, but D is not.
- (b) C is shut down point, D is break-even point.
- (c) C is break-even point, D is shut down point.
- (d) None of the above.

II. In figure 5:

- (a) Firm enjoys normal profit at point C.
- (b) Firm enjoys normal profit at point D.
- (c) Firm enjoys supernormal profit at B
- (d) Firm enjoys supernormal profit at K

III. In figure 5:

- (a) Area $ABDP_3$ represents loss.
- (b) Area P_3DBA represents total fixed cost.
- (c) Area OP_3DQ represents total variable cost.
- (d) All of the above.

Question 56

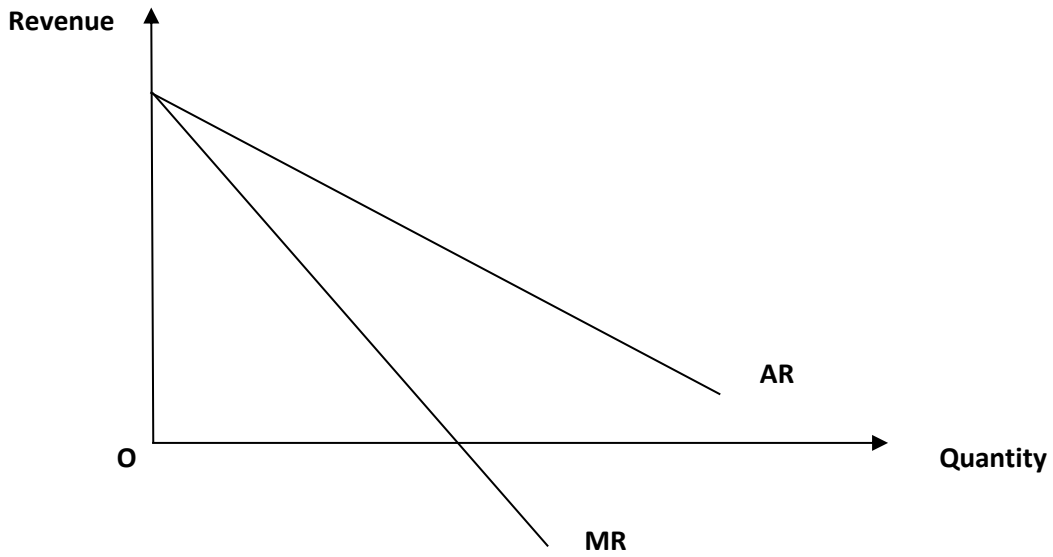


Figure 6

In figure 6, what is the slope of AR curve and MR curve?

- (a) $AR = 2MR$
- (b) $MR = 2AR$
- (c) Slope of $AR = 2 \times$ Slope of MR
- (d) Slope of $MR = 2 \times$ slope of AR

Question 57

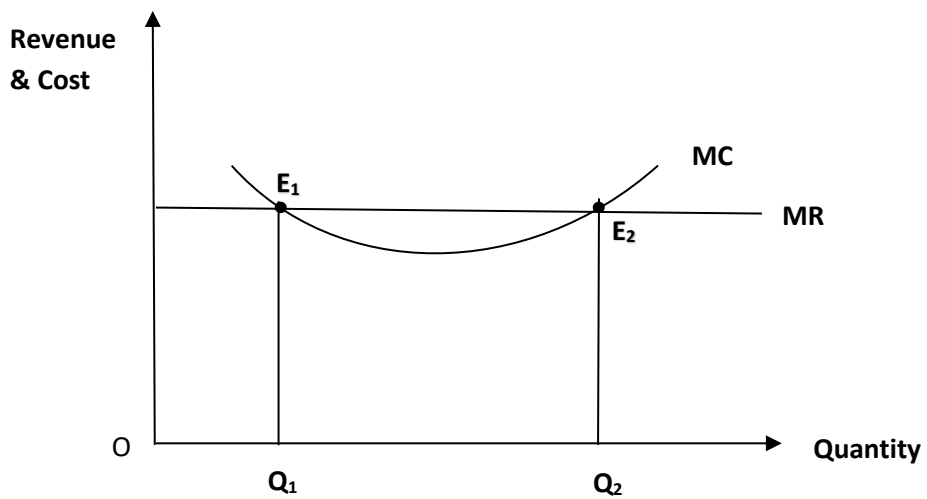


Figure 7

In figure 7, what is the condition of equilibrium?

- (a) Necessary condition of equilibrium has been satisfied at E_2 only.
- (b) Necessary and sufficient conditions of equilibrium have been satisfied at E_2 only.
- (c) Sufficient condition has been satisfied at E_1 only.
- (d) Necessary and sufficient conditions have been satisfied at E_1 only.

Question 58

When the price of a good falls by 7%, its quantity demanded rises from 40 units to 50 units. What will be the Price elasticity of demand for this good?

- (a) 2.84
- (b) 2.85
- (c) 2.86
- (d) 3.57

Question 59

When the price of a commodity falls by ₹ 2 per unit, its quantity demanded increases by 10 units. Its price elasticity of demand is (-) 1. Initial quantity demanded at previous price, ₹10, was –

- (a) 49 units
- (b) 50 units
- (c) 51units
- (d) 52 units

Question 60

The price elasticity of demand for a commodity is (-) 1.5. When its price falls by ₹1, its quantity demanded rises from 30 units to 33 units. What was its previous price?

- (a) ₹ 15.25
- (b) ₹ 15.50
- (c) ₹ 15.75
- (d) None of the above

Question 61

A consumer buys 200 units of a good at a price of ₹ 5 per unit. When the price changes, he buys only 100 units. If price elasticity of demand is 2, the changed price will be:

- (a) ₹ 5.75
- (b) ₹ 6.25
- (c) ₹ 6.75
- (d) ₹ 7.25

Question 62

A consumer buys 80 units of a good at a price of ₹ 8 per unit. Price falls to ₹ 6 per unit. How much quantity will the consumer buy at a new price if $e_p = (-) 2$?

- (a) 100 units
- (b) 110 units
- (c) 120 units
- (d) 130 units.

Question 63

Based on the data given in the table, calculate the AFC and AVC.

Units of Output	0	3	5
Total Cost (₹)	50	80	120

I. AFC for 0, 3 & 5 units will be -

- (a) 0, 16.67, 10.00
- (b) ∞ , 16.00, 10.67,
- (c) 0, 16.00, 10.67
- (d) ∞ , 16.67, 10.00

II. AVC for 0, 3 & 5 units will be –

- (a) ∞ , 10, 14
- (b) 0, 10.1, 14.01
- (c) ∞ , 10.1, 14,01
- (d) 0, 10, 14

Question 64

Based on the data given in the table, calculate the TC and MC.

Output (Units)	AC	TC	MC
1	20	_____	_____
2	15	_____	_____
3	20	_____	_____

I. TC will be –

- (a) 40, 60, 90 respectively.
- (b) 80, 60, 90 respectively.
- (c) 20, 30, 60 respectively.
- (d) 40, 60, 120 respectively.

II.MC will be –

- (a) 0, 10, 20 respectively.
- (b) 20, 10, 30 respectively.
- (c) 10, 20, 30 respectively.
- (d) ∞ , 10, 20 respectively.

Question 65

Based on the data given in the table below, find the product pricing.

Output (Units)	0	1	2	3	4
TR (₹)	0	12	24	36	48

The product price facing the firm is –

- (a) ₹ 6
- (b) ₹ 8
- (c) ₹ 10
- (d) None of the above.

Question 66

Ramu is a sole producer and a seller of AC. He sells the product at a high price in Delhi and at a low price in Mussoorie.

A. What kind of a market structure is this?

- (a) Monopolistic competition
- (b) Oligopoly
- (c) Monopoly
- (d) Monopsony

B. He is able to sell the product at a higher price in Delhi because:

- (a) Demand is elastic
- (a) Demand is inelastic
- (b) Unit elastic
- (c) None of the above

C. The characteristic of this market is:

- (a) Price discrimination
- (b) Product differentiation
- (c) None of the above
- (d) Both 1 and 2

Question 67

A famous English economist believed that agricultural output would eventually stop growing, as more labour is added to land that was fixed in quantity.

A) Which law is applicable in the given context?

- (a) Law of Variable proportion
- (b) Law of Diminishing marginal utility
- (c) Say's law.
- (d) None of the above

B) Which of the following statements is Correct in the given context?

- (a) This law is applicable when the state of technology is given and remains unchanged.
- (b) This law is applicable in long run.
- (c) Variable factors are not equally efficient.
- (d) All inputs can vary.

C) Which of the following is a variable factor in the context of the statement given above?

- (a) Land
- (b) Labour
- (c) Capital
- (d) Entrepreneur

Question 68

Due to the pandemic the prices of vegetables and fruits have increased but the demand for quantity has not fallen.

A) What is the reason for the demand remaining the same?

- (a) Demand for food is inelastic since food is a necessity.
- (b) Demand for food is elastic
- (c) Demand is for the inferior goods.
- (d) Demand is for the luxury goods.

B) What are the exceptions to the Law of Demand?

- (a) Emergences
- (b) Quality-Price relationship
- (c) Veblen goods
- (d) All of the above

C) Which of the following statements pertains to Law of Demand?

- (a) There is a direct relationship between price and quantity demanded.
- (b) There is an inverse relationship between price and quantity demanded.
- (c) There is a direct relationship between price and quantity demanded, other things remain the same.
- (d) There is an inverse relationship between price and quantity demanded, other things remain the same.