



campus handouts

MULTIPLE CHOICE QUESTIONS (1 pt each)

CHOOSE THE BEST ANSWER FROM THE SUGGESTED OPTIONS AND WRITE THE LETTER OF YOUR CHOICE ONLY ON THE ANSWER SHEET.

1. The choice of proportion of labor and capital, and the type of technology used to produce a commodity refers to the question of:
A) What to produce
B) For whom to produce
C) How to produce
D) Where to produce
E) B and D
2. Which one of the following is true about the circular flow of economic activity?
A) Households buy goods and services in the product market
B) Households incur expenditure in the factor market
C) Firms represent the demand-side in factor market
D) A and C are answers
E) None of the above
3. The production possibility frontier (PPF) is downward sloping and concave to the origin. This implies:
A) The concept of choice and scarcity
B) The opportunity cost of a given commodity increases
C) There is specialization in inputs
D) All of the above
E) A and B are answers
4. A capitalist system is characterized by
A) Price mechanism and existence of negative externalities
B) Coexistence of state and private property ownership
C) Income redistribution by the government
D) Balanced economic growth
E) None
5. Decrease in input price and advancement of technology
A) Will shift the demand curve inward
B) Will shift the supply curve to the right
C) Will shift the supply curve to the left
D) Will shift the demand curve outward
E) None

6. If X is a normal good and the average income of the consumers of commodity X increases, what will happen to equilibrium price and quantity of X, ceteris paribus?

- A) Equilibrium price increases while quantity decreases
- B) Both equilibrium price and quantity increases
- C) Equilibrium price decreases while quantity increases
- D) Both equilibrium price and quantity decreases
- E) None of the above

7. Reason/s for differences in price elasticity of demand is/are

- A) The nature of the good
- B) Availability of substitutes
- C) Adjustment time
- D) All of the above
- E) A and B are answers

8. If an economy moves from producing 10 metric tons of Wheat and 4 metric tons of Maize to producing 7 metric tons of Wheat and 5 metric tons of Maize, then the opportunity cost of producing one more metric ton of Maize is:

- A) 7
- B) 10
- C) 3
- D) 1
- E) None

9. One of the following results in a decrease in demand?

- A) An increase in income, if the good is normal.
- B) A decrease in the price of a complement to the good.
- C) An increase in the price of a substitute for the good.
- D) An increase in the number of buyers
- E) None of the above.

10. The sacrifice involved when you choose a particular course of action is called the:

- A) Alternative
- B) Opportunity cost
- C) Consumer cost
- D) Producer cost
- E) B and D

11. All of the following are features of mixed economic system except:

- A) Instability
- B) Economic welfare
- C) Red tapism
- D) Economic planning
- E) C and D

12. Suppose the price of good X increases. If X and Y are substitutes, then, in the market for good Y, we would expect, ceteris paribus

- A) An increase in both the equilibrium price and quantity.
- B) A decrease in the equilibrium price and an increase in the equilibrium quantity.
- C) An increase in the equilibrium price and a decrease in the equilibrium quantity.
- D) A decrease in both the equilibrium price and quantity.
- E) None of the above

13. In which instance will both the equilibrium price and quantity rise?

- A) When demand and supply increase, but the rise in demand exceeds the rise in supply.
- B) When demand and supply increase, but the rise in supply exceeds the rise in demand.
- C) When demand and supply decline, but decline in the demand exceeds the decline in supply.
- D) When demand and supply decline, but the decline in supply exceeds decline in the demand.
- E) C and D

14. Given a market demand function $Q_D = 10 - 2P$ and a market supply function $Q_S = 5 + 3P$, answer question 14 and 15. What are the equilibrium price and the equilibrium quantity respectively?

- A) 5 and 1
- B) 8 and 1
- C) 1 and 5
- D) 1 and 8
- E) None of the above

15. What is the price elasticity of demand at the equilibrium point and its interpretation?

- A) 0.5 and inelastic
- B) 1.5 and elastic
- C) 0.25 and inelastic
- D) 0 and perfectly inelastic

16. The free market involves:

- A) Free provision of products by the state
- B) Subsidizing of products by the government
- C) Market forces of supply and demand
- D) All trade occurring via barter
- E) C and D

17. Which of the following statements is INCORRECT?

- A) Normal goods have positive income elasticity
- B) Inferior goods have negative income elasticity
- C) Luxury goods have high income elasticity of demand
- D) Necessity goods must also be inferior goods.
- E) None of the above

29. When a society cannot produce all the goods and services people wish to have it is said that the economy is experiencing

- A) Scarcity
- B) Communism
- C) Externalities
- D) Market failure
- E) Inefficiency

30. When the price elasticity of demand is perfectly inelastic,

- A) The elasticity is zero and the demand curve is vertical
- B) The elasticity is zero and the demand curve is horizontal
- C) The elasticity approaches infinity and the demand curve is vertical
- D) The elasticity approaches infinity and the demand curve is horizontal
- E) None of the above

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