

# ECO401-Economics Midterm Special 2006

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## SHORT QUESTIONS:-

1. How would you differentiate shortage from surplus?
2. Define substitutes with two examples.
3. Write down formulas of total cost (TC), average cost (AC) and marginal cost (MC).
4. When point elasticity is used?
5. What are the pre-requisites of price discrimination?

## MCQ'S

☺ **The law of diminishing returns refers to diminishing**

- Total returns.
- MARGINAL RETURNS
- Average returns.
- All of the given options.

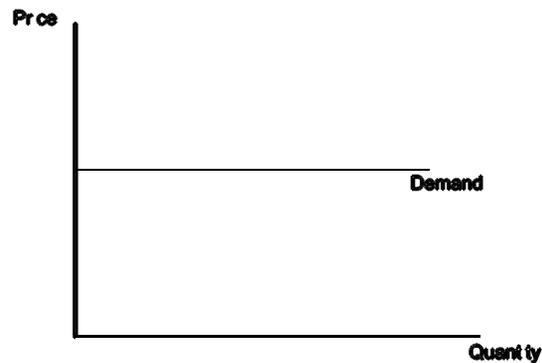
☺ **In a perfectly competitive market:**

- There are a few buyers.
- There is a single seller.
- There is a cartel.
- No single buyer or seller can significantly affect the market price.

☺ **Which of the following is a positive statement?**

- The President of the United States ought to be elected by a vote of the American people rather than the Electoral College.
- A fundamental assumption of the economic theory of behavior is that consumers always prefer having more of good to having less of it.
- Because many adults cannot afford to go to college, tax reduction should be provided.
- All of the given options.

☺ **Which of the following statements about the diagram below is true?**



- Demand is infinitely elastic.
- Demand is completely inelastic..
- Demand becomes more inelastic the lower the price.
- Demand becomes more elastic the lower the price.

**Economics is about the allocation of scarce resources. Which of the following is an example of economic scarcity?**

- If Steve goes to see the movie Master and Commander on Saturday, he will not be able to afford buying ice cream.
- If Jenny studies for her economics quiz this evening, she will not have to walk her dog.
- If General Motors increases its production of SUV's this year, it will have to spend more on advertising.
- If Borders Books increases the number of titles it carries, it will have to reallocate shelf space to accommodate the new

**If a 20% increase in price causes quantity supplied to increase by 50%, the price elasticity of supply is:**

- 5/2.
- 2/5.
- 5/4.
- 4/5.

**The income elasticity of demand is**

- Absolute change in quantity demanded resulting from a one unit increase in income.
- Percent change in quantity demanded resulting from the absolute increase in income.
- Percent change in quantity demanded resulting from a one percent increase in income.
- Percent change in income resulting from a one percent increase in quantity demanded

**The supply curve for a monopolist:**

- Is the marginal cost curve above average variable cost.
- Is the same as the demand curve.
- Is the same as the marginal revenue curve.
- Is the same as the demand curve.

- Does not exist.

☹ **Coffee and cream:**

- Are both luxury goods.
- Are complements.
- Are both more inelastic in demand in the long run than in the short
- Have a positive cross price elasticity of

☹ **The \_\_\_\_\_ demand. \_\_\_\_\_ of a choice is the value of the foregone alternative that was not chosen.**

- fixed cost
- variable cost
- opportunity cost
- sunk cost

**FILLING BLANKS:-**

☹ Costs that vary with the level of activity (or output) are called variable costs

☹ Consumer surplus is the difference between willingness to pay and what the consumer actually has to pay.

☹ Marginal utility is the additional utility derived from the consumption of one or more units of the

☹ Nepotism means doing unfair favors for near ones when in power.

☹ Unit elasticity means that a 1% change in price will result in an exact 1% change in quantity demanded.

**DESCRIPTIVE:-**

a) Define “Law of supply” and explain it with a schedule and diagram?

b) What are the factors which cause the shift in market supply curve?