# F. Y. B. Com – Sem II– MCQs of Business Economics II

## Q. Choose the correct alternative and rewrite the statement.

**Module 1 – Market Structures: Perfect Competition & Monopoly**

1. Which of the following is true in case of a market except?
   a. It brings buyers and sellers in contact
   b. It is confined to a place
   c. Its structure is determined by nature of commodity
   d. It is shaped by technology

2. What prevents a seller in perfect competition to influence the price?
   a. Large number of sellers
   b. Similarity of products
   c. Effective advertising the other sellers
   d. Interdependence of firms

3. A new firm can easily enter a/an_____ market.
   a. Oligopoly
   b. Monopoly
   c. Perfectly competitive
   d. Duopoly

4. Which market structure is clearly visible in retail trade?
   a. Monopolistic competition
   b. Perfect competition
   c. Oligopoly
   d. Monopoly

5. Which of the following are characteristics of a perfect competition except?
   a. There is large number of buyers
   b. Every seller is price taker
   c. Pricing policy of one seller will affect pricing policy of rivals
   d. Products are homogenous

6. The demand curve faced by an individual seller in perfect competition, is
   a. Perfectly elastic
   b. Perfectly inelastic
   c. Relatively inelastic
   d. Unitary inelastic

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7. Under perfect competition price is determined by
   a. Total demand and supply
   b. Price leader
   c. The government
   d. Dominant seller

8. A Firm 's short run supply curve under perfect competition is equal to
   a. MC curve above the lowest point SAC
   b. MC curve above the lowest point of SAVC
   c. The entire MC CURVE
   d. AC curve

9. the long run supply curve of under perfect competition is equal to
   a. upward sloping AC curve
   b. entire MC curve
   c. MC curve above the lowest price of AC curve
   d. Entire AC curve

10. Under perfect competition, a firm's equilibrium output is produced at a point where
    a. MC = MR
    b. MR.> MR
    c. MC < MR
    d. MC + MR

11. Changes in the output of a perfectly competitive firm, without any change in the price of the product, will change the firm's
    a. Total revenue
    b. Marginal revenue
    c. Average revenue
    d. Average and marginal revenue both

12. Which of the following statement is true about the decision of a profit – maximizing firm in a competitive market when price falls below the minimum of average variable cost?
    a. the firm will continue to produce to meet its fixed costs
    b. the firm will immediately stop production to minimize its losses
    c. the firm will stop production as soon as it is able to pay its sunk costs
    d. the firm will continue to produce in the short run but will likely exit the market in the long run

13. A profit – maximizing perfectly competitive firm will shut down in the short run when
    a. Price is less than average variable cost
    b. Price is less than average total cost
    c. Average revenue is greater marginal cost
    d. Average revenue is greater than average fixed cost

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14. A Monopolist usually produces
   a. Less than optimum output
   b. More than optimum output
   c. Optimum output
   d. Minimum output

15. For a monopoly firm
   a. AR = MR
   b. AR > MR
   c. AR < MR
   d. AR + MR

16. In the long run a monopolist usually earns
   a. Excess profit
   b. Normal profit
   c. Sub normal profit
   d. Negative profit

17. Under monopoly, excess profit is eared when
   a. AR > AC
   b. AR = AC
   c. AR < AC
   d. AR + AC

18. Which off the following statements is true in case of monopoly?
   a. A monopolist decides both the price and output to be sold
   b. A monopolist poses no barrier to entry of new firms
   c. A monopolist usually earns excess profit in the long run
   d. A monopolist produces at minimum average cost

19. A fundamental source of monopoly market power arises from
   a. Perfectly elastics demand
   b. Perfectly inelastic demand
   c. Barriers to entry of new firms
   d. Competitive product

20. A monopolist faces
   a. A downward sloping demand curve and can sell as much output as he desires at the market price
   b. A downward sloping demand curve and sell only a limited quantity of output at each price
   c. A horizontal demand curve and can sell as much output as he desires at the given market price
   d. A horizontal demand curve and they can sell only limited quantity of output at each price

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21. If a profit maximizing monopolist faces a downward sloping market demand curve, its
    a. Average revenue is less than the price of the products
    b. Average revenue is less than marginal revenue
    c. Marginal revenue is less than the price of the product
    d. Marginal revenue is greater than the price of the product

22. A Profit maximizing monopolist will produce the level of the output at which
    a. Average revenue is equal to average total cost
    b. Average revenue is equal to marginal cost
    c. Marginal revenue is equal to marginal cost
    d. Total revenue is equal to opportunity cost

23. For a profit maximizing monopolist,
    a. $P > MR = MC$
    b. $P = MR = MC$
    c. $P > MR > MC$
    d. $MR < MC < P$

24. Under monopoly there is/are _______ sellers.
    a. Single
    b. Two
    c. Few
    d. Large

25. Demand curve of a monopolist is
    a. Perfectly elastic
    b. Perfectly inelastic
    c. Relatively elastic
    d. Relatively inelastic

## **<u>Module – 2 – Monopolistic competition and Oligopoly</u>**

26. In monopolistic competition there is/are
    a. Single seller
    b. Few sellers
    c. Many sellers
    d. Two sellers

27. Product sold in monopolistic competition is
    a. Homogeneous
    b. Differentiated
    c. Inferior
    d. Superior

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28. A firm in a monopolistic market require to incur which cost as promotional expenses?
a. Production cost
b. Selling cost
c. Storage cost
d. Transportation cost

29. Nature of demand curve under monopolistic competition is
a. Less elastic
b. More elastic
c. Perfectly inelastic
d. Perfectly elastic

30. A Monopolistic competitive firm produces
a. Less than optimum
b. Optimum
c. More than optimum
d. Minimum

31. Which of the following are characteristic of monopolistic competition except?
a. Many sellers
b. Firms are price takers
c. There is free entry to the market
d. Product differentiation

32. Monopolistic competition differs from perfect competition because in monopolistically competitive markets
a. There are no barriers to entry
b. All firms can earn normal profits in the long run
c. Each of the sellers offers a somewhat different product
d. Large number of sellers

33. A similarity between monopoly and monopolistic competition is that, in market structures
a. Firms are interdependent
b. There are few sellers
c. Sellers are price makers not price takers
d. Product differentiation is done

34. A firm in monopolistic competition, faces a demand curve that is
a. Negatively sloping and relatively elastic
b. Negatively sloping and relatively inelastic
c. Negatively sloping and unitary elastic
d. Upward sloping and relatively elastic

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35. The profit maximizing firm in a monopolistic competition reaches equilibrium output where its
a. Marginal revenue is equal to marginal cost
b. Average total cost is equal to marginal revenue
c. Average total cost is equal to price
d. Average revenue exceeds average total cost

36. Due to product differentiation under monopolistic competition, a firm's demand curve takes the following shapes
a. Horizontal
b. Vertical
c. Downward sloping
d. Upward sloping

37. Since a firm in a monopolistically competitive market face
a. Downward sloping demand curve, it will always operate with excess capacity
b. Downward sloping demand cure, it will always operate at its efficient scale
c. Perfectly elastic demand curve, t will always operate with excess capacity
d. Perfectly inelastic demand curve, it will always operate at efficient scale

38. In the long run, a firm in monopolistic competition, will earn
a. excess profit
b. loss
c. normal profit
d. may earn any of the above

39. Which off the following is a feature of oligopoly?
a. Products are always identical
b. Products do not have any substitution
c. Products may be differentiated
d. Products can be homogenous as well as heterogeneous

40. Cartel formation is most likely to happen under?
a. Perfect competition
b. Monopoly
c. Oligopoly
d. Monopolistic competition

41. An Oligopolist is
a. Certain about his decision
b. Uncertain about his decision
c. Totally depends on other
d. Not depends on others

42. An oligopolist faces

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a. A Smooth downward sloping demand curve
b. Horizontal demand curve
c. Kinked demand curve
d. Upward sloping curve

43. Collusive oligopoly is beneficial to
a. Consumer
b. Producer
c. New entrants
d. Retailers

44. Price leadership avoids
a. Price war
b. New entrants to the market
c. Promotes products differentiation
d. Selling cost

45. An oligopoly is a market in which
a. There are only a few sellers selling differentiated or homogeneous products
b. Firms are price takers
c. Firms are not interdependent
d. There are few sellers selling products that have no close substitutes

46. A kinked demand curve indicates
a. Price flexibility in non - collusive oligopoly
b. Price flexibility in collusive oligopoly
c. Price rigidity in collusive oligopoly
d. Price rigidity in non- collusive oligopoly

47. Under Oligopoly
a. Entry and exit are free
b. Entry restricted
c. Entry is possible but difficult
d. Entry is simple but exit is difficult

48. Under Oligopoly demand curve is
a. Upward
b. Downward
c. Indeterminate
d. Determinate

49. In India, automobile industry comes under ______ market.
a. Perfectly competitive
b. Monopoly
c. Oligopoly

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d. Duopoly

50. Cartel formation is an example of ___________

a. Perfect Oligopoly
b. Pure oligopoly
c. Collusive oligopoly
d. Non-collusive oligopoly

## Module – 3 – Pricing Practices

51. Price discrimination refers to

a. charging different prices for different commodities
b. charging different prices for same buyers at different times
c. charging different prices for same commodity to different buyers
d. charging same price for all buyers

52. First degree price discrimination refers to

a. each customer is charged different price for the same commodity
b. each market segment is charged different price
c. different prices are charged for same commodity in different market
d. each market charged same price for different commodities

53. Price discriminations is possible except

a. a commodity is non-transferable
b. when customers do not meet each other
c. when customers are ignorant about price differentials
d. When consumers meet each other

54. Price discrimination is profitable when

a. elasticity of demand is the same in different markets
b. elasticity differs in different markets
c. when demand in different markets is perfectly elastic
d. when demand is unitary elastic in different markets

55. A price discriminating monopolist disturbs total output between the markets till the point

a. where MR in all the markets is same
b. where MR differs in different markets
c. where AR in different markets is same
d. where AR is same in all markets

56. Dumping takes place when a monopolist

a. Has monopoly in the world as well as home market
b. Has monopoly in the world market
c. Has monopoly in the home market and competitive world market

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d. Has no monopoly in any market

57. When dumping is of a temporary nature is called

a. Persistent dumping
b. predatory dumping
c. sporadic dumping
d. Permanent dumping

58. Under dumping a monopolist's demand curve in the world market is

a. Downward sloping and less elastic
b. Perfectly elastic
c. kinky demand curve
d. Perfectly inelastic

59. Marginal cost pricing is generally followed by

a. Private enterprises
b. Small and medium enterprises
c. Public sector enterprises
d. Large private MNCs

60. Marginal cost pricing may be charged for which of the following reasons?

a. Maximizing profit
b. To control monopoly
c. Minimizing losses
d. Prevent shut down of the firm

61. While determining the full cost price, the firms uses

a. Fully allocated average cost
b. Only average variable cost
c. Only overhead cost
d. Marginal cost

62. Which of the following is not a feature of full cost pricing method?

a. avoids frequent price change
b. most popular method
c. based on marginal cost
d. an ideal which most firms aim at

63. Which pricing strategy uses various class distinction?

a. Marginal cost pricing
b. Price discrimination
c. Product line pricing
d. Mark-up pricing

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64. Suppose a monopolist is able to charge each customer a price equal to that customer's willingness-to-pay for the product. Then the monopolist is engaging in

a. Marginal cost pricing,
b. Arbitrage pricing,
c. Voodoo economics,
d. Perfect price discrimination

65. In order for price discrimination to exist,

a. markets must be capable of being separated
b. markets must be interdependent
c. different demand price elasticities must exist in different markets
d. demand price elasticities must be identical in all markets

66. When a monopolist practices price discrimination,

a. it sets the price and quantity where industry MR = MC
b. it charges different consumers different prices for the same good
c. it does not allow it's good to be sold to certain undesirable groups
d. it is selling a good at a point where P < MC

67. Price discrimination is more likely in the case of services than in the case of goods because

a. Producers of goods usually do not face downward sloping demand curves
b. It is easier to distinguish customers with different elasticities of demand with respect to services than with goods
c. Elasticities of demand vary more with services than with goods
d. It is more difficult to resell services

68. Which of the following are pricing strategies except?
a. Full cost pricing
b. Marginal cost pricing
c. Transfer pricing
d. Price leadership

69. Pricing which is based on how much it costs to produce a product is called
a. Demand pricing
b. Cost-plus pricing
c. Marginal cost pricing
d. Multi-product pricing

70. What is the other name for cost-plus pricing?
a. Mark up
b. Mark down
c. Revenue plus
d. revenue minus

71. ______________ are the innumerable pricing strategies which can be adopted by marketers in order to fulfill specific marketing objectives.

a. Pricing policies
b. Pricing samples
c. Pricing for profit
d. Pricing methods

72. When an organization like BSkyB combines different television products such as sports, movies and lifestyles as a subscription package for a price, this can be called:
a. Product-bundle pricing
b. Product line pricing
c. Product individual pricing
d. All product pricing

73. In ____ price discrimination, it is possible for the entire consumer surplus to be captured by the seller.

a. first-degree
b. second-degree
c. third-degree
d. all degrees

74. Second-degree price discrimination

a. is also known as block rate setting
b. captures all consumer surplus
c. sets a different price for each customer
d. can only be used when customers can be segmented into groups

75. An example of pricing policy objective is to
a. Minimize cost
b. Maximize price
c. Minimize loss
d. Maintain or gain market share

**Module – 4 – Capital Budgeting**

76. Which of the following are characteristics of capital expenditure except?

a. It is a current outlay of funds with future expectations
b. It may be sourced through borrowed funds
c. It is scarce
d. It is incurred only by private sector

77. Capital budgeting pertains to investment decision

a. Regarding profit
b. Balancing sources of funds and use of funds
c. To earn maximum revenue
d. Scarcity of resources

78. Capital expenditure decisions are often irreversible because

a. There is little or market for many types of second-hand capital
b. Rate of interest keeps fluctuating
c. It is difficult to estimate profitability of capital assets
d. None of the above

79. Investment to replace working but obsolete equipment with more efficient ones is generally done for

a. Expansion of existing production capacity
b. Cost reduction
c. Expansion into new markets
d. None of the above

80. Payback period method of capital budgeting primarily focuses on

a. The current rate of interest
b. The rate of profitability of assets
c. Time period required to recover original investment
d. The costs of acquiring capital assets

81. Future value may be defined as

a. The discounted value of future cash flows
b. The interest rate earned on future cash lows
c. The compounded value of future cash flows
d. The opportunity costs of future cash flows

82. Present value may be defined as

a. The discounted value of future cash flows
b. The interest rate earned on future cash flows
c. The compounded value of future cash flows
d. The opportunity costs of future cash flows

83. A project profitable if NPV is

a. zero
b. one
c. negative
d. positive

84. IRR refers to the

a. Rate of return that will make the present value of all future net cash flows equal to original investment
b. rate of interest
c. rate at which capital depreciate
d. rate of profit

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85. According to the IRR method of capital budgeting, a project will be accepted if

a. IRR is less than the market rate of interest
b. IRR is equal to market rate of interest
c. IRR is equal to NPV
d. IRR is greater than market rate of interest

86. The process of planning expenditures that will influence the operation of a firm over a number of years is called

a. Investment
b. Capital budgeting
c. Net present value
d. Dividend valuation

87. Which of the following is an example of a capital investment project?

a. Replacement of worn out equipment
b. Expansion of production facilities
c. Development of employee training programs
d. All of the above are examples of capital investment projects

88. The net present value method and the internal rate of return method will always yield the same decision when

a. a single project is evaluated
b. mutually exclusive projects are evaluated
c. a limited number of projects must be selected from a large number of opportunities
d. Different projects are evaluated

89. Which of the following is a form of capital as the term is used in economics?

a. Houses owned by individuals
b. Factories owned by businesses
c. Education
d. Money

90. In cases where capital must be rationed, a firm should rank projects according to them
a. net present values
b. internal rates of return
c. profitability indexes
d. external rates of return

91. Which of the following capital budgeting techniques takes into account the incremental accounting income rather than cash flows?
a. Net present value
b. Internal rate of return

c. Accounting/Simple rate of return
d. Cash payback period

92. Which of the following techniques does not take into account the time value of money?
a. Internal rate of return method
b. Simple cash payback method
c. Net present value method
d. Discounted cash payback method

93. The current worth of a sum of money to be received at a future date is called
a. Real value
b. Present value
c. Future value
d. Constant value

94. The difference between the present value of cash inflows and the present value of cash outflows associated with a project is known as
a. net present value of the project
b. net future value of the project
c. net historical value of the project
d. net salvage value of the project

95. If present value of total cash outflow is \$15,000 and present value of total cash inflow is \$14,000, what is the net present value of the project?
a. 1000
b. -1000
c. 2000
d. -2000

96. If present value of cash outflow is equal to present value of cash inflow, the net present value will be
a. Positive
b. Negative
c. Zero
d. Infinite

97. Generally, a project is considered acceptable if its net present value is
a. negative or zero
b. negative or positive
c. positive or zero
d. negative

98. Consider the following data on a proposed investment:
1. Investment required: \$160,000 2. Annual cash inflows: \$40,000

Based on the above data, what is the payback period of the proposed investment project?
a. 2 years
b. 3 years
c. 4 years

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d. 5 years

99. An increase in the discount rate will

a. reduce the present value of future cash flows
b. increase the present value of future cash flows
c. have no effect on net present value
d. compensate for reduced risk

100. The net present value of four projects is given below

A. Project A: $25,000 B. Project B: $10,000

C. Project C: $22,000 D. Project D: $15,000

The four projects given above require the same amount of investment. How would you rank them using net present value (NPV) method?

a. B, D, C, A
b. A, B, C, D
c. A, C, D, B
d. B, C, D, A

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