

- 1) The elasticity of demand of a good X is 0.3. The initial price of the good is \$10. Suppose now price increases and quantity decreases by 2%. What is the new price (approx)?
- 2) One of these factors does not affect the elasticity of demand
 - A) Luxury or necessity
 - B) Number of substitutes
 - C) Technology
 - D) How broadly the market is defined
 - E) None of the above
- 3) I bought 30 units of good X at \$12. The price of X decreased by 5% and my quantity demanded increased by 10%. What is my elasticity of demand using mid point formula?
 - A) -2.3
 - B) -0.8
 - C) -1.8
 - D) -0.2
- 4) The elasticity of demand for a good is 1.2. The price of the good increases by 10%. The initial quantity of the good is 20. What is the new quantity demanded?
 - A) 23.6
 - B) 22.4
 - C) 17.6
 - D) 26.8
- 5) The elasticity of demand along a straight line
 - A) One
 - B) Constant
 - C) Varies
 - D) None of the above
- 6) The slope of the demand curve is -0.8. What is the elasticity of demand?
 - A) -0.8
 - B) One half of the slope
 - C) Cant be determined
 - D) None of the above.
- 7) Consider the following Statements
 - (i) **CROSS PRICE ELASTICITY IS NEGATIVE WHEN TWO GOODS ARE SUBSTITUTES**
 - (ii) **CROSS PRICE ELASTICITY IS NEGATIVE WHEN TWO GOODS ARE COMPLEMENTS**
 - A) (i) is true but (ii) is false
 - B) (i) is False but (ii) is true
 - C) Both are true
 - D) Both are false
- 8) Suppose elasticity of demand is 0.8 and elasticity of supply is 1.2. The Government now imposes a \$10 tax.
 - A) The seller bears the larger burden of the tax.
 - B) The buyer bears the larger burden of the tax
 - C) Both bear the same burden
 - D) None of the above

- 9) The price elasticity of supply is 0.2. The initial quantity supplied is 20 units. Now price increases by 10%. What is the new quantity supplied?
- A) 20.6
 - B) 20.2
 - C) 20.4
 - D) 20.1
- 10) Suppose firm X faces a demand curve with elasticity of demand 1.7. The current quantity demanded is 40 units @ a price of \$10. The owner of the firm wants to increase prices by 10% . Evaluate the decision. Explain your reason.
- A) The price must be increased because demand is inelastic.
 - B) The price must not be increased because the demand is inelastic.
 - C) The price must be increased because demand is elastic.
 - D) The price must not be increased because demand is elastic.
- 11) Which of the following statements is correct?
- A) If demand is elastic, increase the price, revenues would increase.
 - B) If demand is elastic, decrease the price, revenues would increase.
 - C) If demand is inelastic, decrease the price, revenues would increase.
 - D) If demand is inelastic, increase the price, revenues would decrease.
- 12) Consider the following two statements
- (i) Good X and Good Y are normal goods
 - (ii) The cross price elasticity of demand of X to changes in price of Y is 1.2
- A) X and Y are complements
 - B) X and Y are substitutes
 - C) There is no relation between X and Y
 - D) None of the above
- 13) If primary education is good and noble but current market price and quantity does not reflect the optimal amount to be produced, then
- A) Impose a tax that shifts the demand curve to the right producing higher quantity and price.
 - B) Impose a subsidy that shifts supply curve to the left producing higher quantity but lower price.
 - C) Impose a subsidy that shifts demand curve to the right producing higher quantity and higher price.
 - D) Impose a tax that shifts the supply curve to the right producing lower quantity and higher price.
- 14) The economist who coined the concept of social cost and benefit
- A) Douglass North
 - B) John Maynard Keynes
 - C) A.C.Pigou
 - D) Minsky
- 15) Which of the following is an example of negative externality
- A) Use of wind energy
 - B) Living in an educated society

C) Classrooms beside fire station

16) I love ice creams and it constitutes 0.5 % of my budget. Now if price of ice creams go up

- A) Demand for Ice creams decreases by a large percentage because demand is elastic
- B) Demand for Ice creams increases by a large percentage because demand is inelastic
- C) Demand for Ice creams hardly changes because demand is inelastic
- D) Demand for Ice creams hardly changes because demand is elastic

17) Income elasticity of demand is

- A) Percentage change in quantity demanded due to percentage change in price
- B) Percentage change in quantity demanded due to percentage change in price of a substitute
- C) Percentage change in quantity demanded due to percentage change in income
- D) Percentage change in quantity supplied due to percentage change in price