

# VISHESH ACADEMY OF COMMERCE

DSS.33, OLD COURT COMPLEX, NEAR FAWARA CHOWK, HISAR

BUSINESS ECONOMICS AND BUSINESS AND COMMERCIAL KNOWLEDGE

CA FOUNDATION

TEST- (CHAPTER 2 THEORY OF DEMAND AND SUPPLY)  
UNIT 1: LAW OF DEMAND AND ELASTICITY OF DEMAND

Time: 1 Hrs.

Marks: 50

1. Demand for a commodity refers to-

- (a) Desire for the commodity
- (b) Need for the commodity
- (c) Quantity demanded of that commodity
- (d) Quantity of the commodity demanded at a certain price during any particular period of time

2. Suppose the price of movies seen at a theatre rises from Rs. 120 per person to Rs. 200 per person. The theatre manager observed that the rise in prices has led to a fall in attendance at a given movie from 300 persons to 200 persons. What is the price elasticity of demand for the movie? (Arc elasticity)

- (a) 0.5
- (b) 0.8
- (c) 1.00
- (d) None of these

3. In case of an inferior good, the income elasticity of demand is-

- (a) Positive
- (b) Zero
- (c) Negative
- (d) Infinite

4. For what type of goods does demand fall with a rise in income levels of households?

- (a) Inferior goods
- (b) Substitutes
- (c) Luxuries
- (d) Necessities

5. In case of Inferior goods like bajra, a fall in its price tends to-

- (a) Make the demand remain constant
- (b) Reduce the demand
- (c) Increase the demand
- (d) Change the demand in an abnormal way

6. Movement along the same demand curve shows-

- (a) Expansion of demand
- (b) Expansion of supply
- (c) Expansion and contraction of demand
- (d) Increase and decrease of demand

7. The price of hot-dogs increases by 22% and the quantity demanded falls by 25% this indicates that demand for hot dogs is-

- (a) Elastic
- (b) Inelastic
- (c) Unitary elastic
- (d) Perfectly elastic

8. The quantity demanded does not respond to price change and so the elasticity is-

- (a) Zero
- (b) One
- (c) Infinite
- (d) None

9. In case of a straight line demand curve meeting the two axes, the price elasticity of demand at the mid-point of the line would be-

- (a) 0 (b) 1  
(c) 1.5 (d) 2

10. An increase in demand can result from-

- (a) A decline in the market price (b) An increase in income  
(c) A reduction in the price of substitutes (d) An increase in the price of complements

11. Compute income elasticity if demand increases by 5% and income by 1 %.

- (a) 5 (b) 1/5  
(c) 0 (d) None

12. For a commodity with a unitary elastic demand curve if the price of the commodity rises, then the consumer's total expenditure on this commodity would-

- (a) Increase (b) Decrease  
(c) Remains constant (d) Either increase or decrease

13. What is the value of elasticity of demand if the demand for the goods is perfectly elastic?

- (a) 0 (b) 1  
(c) Infinity (d) Less than 0

14. What is the original price of a commodity when price elasticity is 0.71 and demand changes from 20 units to 15 units and the new price is Rs. 10? [Point elasticity]

- (a) Rs. 15.4 (b) Rs. 18  
(c) Rs. 20 (d) Rs. 8

15. If the price of any complement goods rises-

- (a) Demand curve shifts to left (b) Demand curve shifts to right  
(c) Demand curve moves downwards (d) Demand curve moves upward

16. Cross elasticity of demand in Monopoly market is-

- (a) Elastic (b) Zero  
(c) Infinite (d) One

17. What is income elasticity of demand, when income changes by 20% and demand changes by 40%?

- (a) 0.5 (b) 2  
(c) 0.33 (d) None

18. If demand is parallel to x axis, what will be the nature of elasticity?

- (a) Perfectly elastic (b) Inelastic  
(c) Elastic (d) Highly elastic

19. Giffen Paradox is an exception of-

- (a) Demand (b) Supply  
(c) Production (d) Utility

20. The demand of which type of goods do not decrease with increase in its price-

- (a) Comforts (b) Luxury  
(c) Necessities (d) Capital goods

21. Increase in Price from Rs. 4 to Rs. 6 then decrease in demand from 15 units to 10 units. What is the price elasticity? (Point elasticity)

- (a) 0.66 (b) 5  
(c) 1.5 (d) 2

22. Expansion & contraction of Demand curve occurs due to-

- (a) Change in the price of commodity  
(b) Change in price of substitute or complementary goods  
(c) Change in income  
(d) None

23. Elasticity between two points-

- (a) Point elasticity (b) Arc elasticity  
(c) Cross elasticity (d) None

24. When price remains constant and quantity demanded changes, and then the elasticity of demand will be-

- (a) Vertical to X axis (b) Horizontal to X axis  
(c) Either (a) or (b) (d) None

25. Demand of a commodity depends upon-

- (a) Price (b) Income  
(c) Price of related good (d) All of the above

26. In case of substitute goods, cross elasticity is-

- (a) Negative (b) Zero  
(c) Positive (d) None of these

27. Other things remaining constant, if the price of the inferior goods decreases then what will be the effect?

- (a) Demand increases (b) Demand decreases  
(c) Quantity demanded increases (d) Quantity demand decreases

28. A consumer spends Rs. 80 on purchasing a commodity when its price is Rs. 1 per unit and spends Rs. 96 when the price is Rs. 2 per unit. Calculate the price elasticity of demand.

- (a) 0.2 (b) 0.3  
(c) 0.4 (d) 0.5

29. When the price of cylinder rises from Rs. 120 to Rs. 200, the demand falls from 300 to 200. Calculate price elasticity of demand.

- (a) 1.00 (b) 0.50  
(c) 5.00 (d) None

30. If the price is decreased from Rs. 10 to Rs. 8 of a commodity but the quantity demanded remains the same price elasticity is \_\_\_\_\_.

- (a) 1 (b) 0  
(c)  $\infty$  (d) None

31. Demand for electricity power is elastic because-

- (a) It is available at a very high price  
(b) It is essential for life  
(c) It has many uses  
(d) It has many substitutes

32. If income of a person increases by 10% and his demand for goods increases by 30%, income elasticity will be-

- (a) Equal to one  
(b) Less than one  
(c) More than one  
(d) None of these

33. In case of luxury goods, the income elasticity of demand will be \_\_\_\_\_.

- (a) Zero  
(b) Negative but greater than one  
(c) Positive but greater than one  
(d) Positive but less than one

34. In case of straight line demand curve meeting two axis, the price elasticity of demand at the point where the curve meets Y-axis would be \_\_\_\_\_.

- (a) Zero  
(b) Greater than one  
(c) Less than one  
(d) Infinity

35. Calculate income elasticity for the household when the income of the household increases by 10% and the demand, for cars rises by 20%.

- (a) +2  
(b) -2  
(c) +5  
(d) -5

36. The commodity whose demand is associated with the name of Sir Robert Giffen?

- (a) Necessary good  
(b) Luxury good  
(c) Inferior good  
(d) Ordinary good

37. In expansion and contraction of demand \_\_\_\_\_.

- (a) Demand curve remains unchanged  
(b) Demand curve changes  
(c) Slope of the demand curve changes  
(d) Both (a) & (c) above

38. Supply curve remaining unchanged, an increase in demand will lead to-

- (a) A fall in price  
(b) A rise in price  
(c) No change in price  
(d) An increase in supply

39. Certain goods for which quantity demanded decreases when income increases are called \_\_\_\_\_.

- (a) Superior goods  
(b) Inferior goods  
(c) Prestige goods  
(d) Conspicuous goods

40. When price falls by 5% and demand increases by 6%, then elasticity of demand is \_\_\_\_\_.

- (a) Elastic  
(b) Inelastic  
(c) Unitary elastic  
(d) Zero

41. Cross elasticity of complementary goods is-

- (a) Positive  
(b) Negative  
(c) Infinity  
(d) None of these

42. Demand of i-pod increases from 950 to 980 and income increases from 9,000 to 9,800. What is income elasticity?

- (a) 0.53 (b) 0.35  
(c) 0.43 (d) None

43. Contraction of demand results due to \_\_\_\_\_.

- (a) Increase in price of goods (b) Decrease in no. of producers  
(c) Decrease in output of sellers (d) Decrease in price of goods

44. Bricks for houses is an example of which kind of demand?

- (a) Composite (b) Competitive  
(c) Joint (d) Derived

45. Normal goods have \_\_\_\_\_.

- (a) Zero income elasticity (b) Negative income elasticity  
(c) Positive income elasticity (d) Infinite income elasticity

46. In which of the following cases the demand for goods tends to be less elastic?

- (a) Good is necessary (b) Time period is shorter  
(c) Number of close substitutes is less (d) All of the above

47. Which of the following elasticity of demand measures a movement along the demand curve rather than a shift in the curve?

- (a) Income elasticity of demand (b) Price elasticity of demand  
(c) Substitution elasticity of demand (d) None of these

48. If the price elasticity of demand is zero, the shape of the curve will be-

- (a) Horizontal (b) Vertical  
(c) Sloping downwards (d) None of these

49. If a 20% fall in price of a commodity brings about a 40% increase in its demand, then the demand for the commodity will be termed as-

- (a) Inelastic (b) Elastic  
(c) Highly elastic (d) Perfectly elastic

50. Expansion and contraction in demand are caused by-

- (a) Change in income of buyer (b) Change in taste and preference of buyer  
(c) Change in price of the commodity (d) Change in price of related goods

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1	2	3	4	5	6	7	8	9	10
D	B	C	A	B	C	A	A	B	B
11	12	13	14	15	16	17	18	19	20
A	C	C	A	A	B	B	A	A	C
21	22	23	24	25	26	27	28	29	30
A	A	B	B	D	C	D	C	B	B
31	32	33	34	35	36	37	38	39	40
C	C	C	D	A	C	D	B	B	A
41	42	43	44	45	46	47	48	49	50
B	B	A	D	C	D	B	B	B	C