

January Competency Based Questions - Economics

Class XI

1. A firm in perfect competition earns **normal profit** in the long run because: * 1 point

Mark only one oval.

- A. Firms can control prices
- B. Barriers to entry exist
- C. New firms enter and eliminate supernormal profits
- D. Demand is inelastic

Correct Answer: C

Explanation:

In the long run, supernormal profits attract new firms, increasing supply and reducing price until firms earn only normal profit.

2. In perfect competition, average revenue (AR) and marginal revenue (MR) are equal because: * 1 point

Mark only one oval.

- A. Firm controls price
- B. Product is differentiated
- C. Price remains constant
- D. Costs are zero

Correct Answer: C

Explanation:

Since price remains constant for a firm, Average Revenue = Marginal Revenue = Price.

3. Which index number measures the change in the **cost of living**? * 1 point

Mark only one oval.

- A. Wholesale Price Index
- B. Consumer Price Index
- C. Value Index
- D. Quantity Index

Correct Answer: C

Explanation:

Since price remains constant for a firm, Average Revenue = Marginal Revenue = Price.

Which index number measures the change in the **cost of living**?

4. Which factor causes **bias** in index numbers? * A. point

Mark only one oval.

- A. Proper weighting
- B. Updated base year
- C. Selective choice of commodities
- D. Scientific calculation

Answer: C

Explanation:

Wrong or selective choice of items leads to biased index numbers.

5. The government of a country observed a sharp rise in the prices of essential food items, making them unaffordable for poor households. To protect consumers, the government fixed a **maximum price** below the equilibrium price for these goods. As a result, demand for these goods increased while supply decreased, leading to long queues and rationing. * 1 point

When a price ceiling is imposed below equilibrium price, the result is:

Mark only one oval.

- A. Excess supply
- B. Market equilibrium
- C. Shortage of goods
- D. No effect on the market

Answer: C

Explanation:

Lower prices increase demand but discourage supply, leading to shortage.

6. **Assertion (A):** The government imposes price ceiling mainly on luxury goods. * 1 point
Reason (R): Price ceiling does not helps producers earn higher profits.

Choose the correct option?

Mark only one oval.

- A. Both A and R are true and R is the correct explanation of A
- B. Both A and R are true but R is not the correct explanation of A
- C. A is true but R is false
- D. A is false but R is true

Answer: D

Explanation:

Price ceiling is imposed on essential goods, not luxury goods. Producers do not earn higher profits under price ceiling.

7.

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1 point

Index numbers are used by the government mainly to:

Mark only one oval.

- A. Increase production
- B. Fix wages and allowances
- C. Control population
- D. Measure literacy

Answer: C

Explanation:

MSP is a price floor to protect farmers from low market prices.

8. the government fixed a **minimum price** for agricultural produce like wheat * 1 point
to protect farmers from price fluctuations. This minimum price was set
above the market equilibrium price, leading to excess supply in the market.
The government decided to purchase the surplus to support farmers.

Which of the following is a common example of price floor in India?

Mark only one oval.

- A. Ration price
- B. Maximum retail price (MRP)
- C. Minimum Support Price (MSP)
- D. Subsidy

Answer: C

Explanation:

MSP is a price floor to protect farmers from low market prices.

9. **What happens to equilibrium price and output when there is increase in the number of producers in the economy** * 1 point

Mark only one oval.

- A. Price rises, output falls
- B. Price falls, output rises
- C. Price remains constant, output falls
- D. Price rises, output rises

Answer B

The supply curve will shift to the right due to increase in supply. Hence the equilibrium price will fall and equilibrium quantity will rise

10. Perfect competition leads to **efficient allocation of resources** because: * 1 point

Mark only one oval.

- A. Firms earn supernormal profit
- B. Price equals marginal cost
- C. Firms restrict output
- D. Demand is inelastic

Correct Answer: B

Explanation:

Perfect competition ensures allocative efficiency because Price = Marginal Cost ($P = MC$), meaning resources are optimally allocated.

