Introduction to Microeconomics

Standard difficulty · 20 questions · 40 marks · Time: 37 minutes

Name: _____ Date: _____ Score: ____ / 40

Write full answers in Sections B and C. Answers are on the last page — try every question first!

Section A — Choose the correct answer — 8 × 1 = 8 marks

1. The basic reason every economy must make choices is:

(a) too much money **(b)** too many firms

(c) plenty of resources **(d)** scarcity of resources

2. What is meant by “positive economics”?

(a) describing how economic mechanisms work

(b) markets and the government both play important roles

(c) a central authority decides what, how and for whom

(d) prices coordinate the decisions of buyers and sellers

3. Which of these is a normative statement?

(a) Firms supply more at higher prices.

(b) An increase in rent raises the cost of a shop.

(c) When the price of tea rises, people buy less tea.

(d) Prices of school books ought to be lower.

4. Which of these is studied in macroeconomics?

(a) total investment in the country

(b) a consumer’s choice between tea and coffee

(c) the price of a pair of shoes

(d) the demand for apples

5. An economy’s production possibilities (phones, laptops) are A(0, 46), B(1, 42), C(2, 34), D(3, 20), E(4, 0). What is the opportunity cost of producing unit 3 of phones?

(a) 20 units of laptops **(b)** 4 units of laptops

(c) 8 units of laptops **(d)** 14 units of laptops

6. Meera can earn by growing mustard (₹550), growing vegetables (₹800) or renting out the land (₹650) in the same evening, and chooses growing vegetables. What is the opportunity cost of this choice?

(a) ₹800 **(b)** ₹550 **(c)** ₹650 **(d)** ₹1,200

7. An economy’s production possibilities (rice, sugarcane) are A(0, 125), B(1, 110), C(2, 85), D(3, 55), E(4, 15). Where does the point (3, 27) lie?

(a) inside the PPF: some resources unused or wasted

(b) on the PPF: resources fully and efficiently used

(c) outside the PPF: not attainable with present resources

(d) it cannot be placed without knowing prices

8. What happens to the production possibility frontier if a new machine is invented only for producing cloth?

(a) the economy moves to a point inside the PPF

(b) the PPF shifts outward

(c) the PPF swings out along the cloth axis only

(d) the PPF becomes a straight line

Section B — Short answer — 8 × 2 = 16 marks

9. What are the three central problems of an economy?

10. Explain each term: (a) market economy (b) opportunity cost

11. Which central problem of an economy does each choice answer? (a) who gets the scarce medicines (b) hand looms or power looms for cloth

12. An economy's production possibilities (phones, laptops) are A(0, 38), B(1, 34), C(2, 28), D(3, 18), E(4, 6). Find the opportunity cost of each extra unit of phones. What happens to it, and why?

13. Positive or normative? (a) Prices of school books ought to be lower. (b) More workers on a fixed plot raise output by smaller amounts.

14. Is each studied in microeconomics or macroeconomics? (a) unemployment in the economy (b) the supply of rice by farmers in a village

15. Meera has three options for an evening: selling fruit (₹500), driving an auto-rickshaw (₹800), repairing phones (₹300). Which should be chosen to earn the most, and what is the opportunity cost?

16. An economy's production possibilities (cars, bicycles) are A(0, 24), B(1, 23), C(2, 19), D(3, 12), E(4, 3). Moving from A to D, how many units of bicycles are given up, and what is the average opportunity cost per unit of cars?

Section C — Longer answers — 4 × 4 = 16 marks

17. Explain the three central problems of an economy with an example of each.

18. Match each with its meaning: (a) centrally planned economy (b) mixed economy (c) market economy. Choose from: prices coordinate the decisions of buyers and sellers; markets and the government both play important roles; a central authority decides what, how and for whom.

19. An economy's production possibilities (phones, laptops) are A(0, 150), B(1, 135), C(2, 105), D(3, 65), E(4, 15). (a) What is the opportunity cost of each unit of phones? (b) Where does the point (2, 102) lie, and what does it show? (c) What would shift the whole frontier outward?

20. Explain, with reasons, what happens to an economy's production possibility frontier if (a) a flood destroys farmland (b) many workers lose their jobs. How does each affect the central problem of what to produce?

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Answer key

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Q	Answer	Working
1	**(d) scarcity of resources**	—
2	**(a) describing how economic mechanisms work**	—
3	**(d) Prices of school books ought to be lower.**	—
4	**(a) total investment in the country**	—
5	**(d) 14 units of laptops**	34 − 20
6	**(c) ₹650**	the value of the next best alternative
7	**(a) inside the PPF: some resources unused or wasted**	at 3 units of rice the most sugarcane is 55
8	**(c) the PPF swings out along the cloth axis only**	—
9	**What to produce and in what quantities, how to produce, and for whom to produce.**	—
10	**(a) prices coordinate the decisions of buyers and sellers (b) the value of the next best alternative given up**	—
11	**(a) for whom to produce (b) how to produce**	—
12	**4, 6, 10, 12 units of laptops; it rises, because resources less suited to phones have to be used.**	38 − 34 = 4; 34 − 28 = 6; 28 − 18 = 10; 18 − 6 = 12
13	**(a) normative (b) positive**	—
14	**(a) macro (b) micro**	—
15	**driving an auto-rickshaw; opportunity cost ₹500 (selling fruit)**	opportunity cost = value of the next best alternative
16	**12 units; 4 units of bicycles per unit of cars**	24 − 12 = 12; 12 ÷ 3
17	**What to produce: more food or more cloth; how to produce: labour-intensive or machine-intensive methods; for whom: how output is shared among households.**	—
18	**(a) a central authority decides what, how and for whom (b) markets and the government both play important roles**	—

Q	Answer	Working
	(c) prices coordinate the decisions of buyers and sellers	
19	**(a) 15, 30, 40, 50 units of laptops (rising) (b) inside the PPF: resources are unemployed or wasted (c) more resources or better technology**	150 − 135 = 15; 135 − 105 = 30; 105 − 65 = 40; 65 − 15 = 50
20	**(a) the PPF shifts inward (b) the economy moves to a point inside the PPF. More (or fewer) combinations become possible, so the choice of what to produce changes.**	—

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