CBSE Test Paper-01

Class – 11 Economics (Forms of Market and Price Determination)

General Instruction:

- All questions are compulsory.
- Marks are given alongwith their questions.

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1. All of the following are characteristics of a monopoly except:
   a. There is a single firm.
   b. The firm is a price taker.
   c. The firm produces a unique product.
   d. The existence of some advertising. (1)
2. For a price-taking firm:
   a. Marginal revenue is less than price.
   b. Marginal revenue is equal to price.
   c. Marginal revenue is greater than price.
   d. The relationship between marginal revenue and price is indeterminate. (1)
3. Price –taking firms, i.e., firms that operate in a perfectly competitive market are said to be “small” relative to the market. Which of the following best describes the smallness?
   a. The individual firm must have fewer than 10 employees.
   b. The individual firm faces a downward-sloping demand curve.
   c. The individual firm has assets of less than Rs.20 lakh.
   d. The individual firm is unable to affect market price through its output decision. (1)
4. If the average cost is higher than the average revenue then the firm incurs______?
   a. Normal profit.
   b. Abnormal profit
   c. Normal loss
   d. Abnormal loss (1)
5. What will be the effect of equilibrium price and production if demand and supply of a commodity increase in equal proportion? (3)
6. In case demand increases at a faster rate than supply, what will be the effect on equilibrium price? (3)

7. During the recession, prices fall even if supply increases.discuss. (4)
8. Why is the average revenue curve of a monopolist less elastic than the average revenue curve of a firm under monopolistic competition? Explain. (4)
9. What is meant by the price being rigid? How can oligopolybehavior lead to such an outcome? (4)
10. Firms under monopolistic competition and oligopoly spend huge sums of money in promotional activities. Is it justified? (4)
11. The market for a good is in equilibrium. There is an increase in demand for this good. Explain the chain of effects. (6)
12. Why is the average revenue curve of a firm under perfect competition parallel to X-axis and negatively sloped under monopoly? (6)

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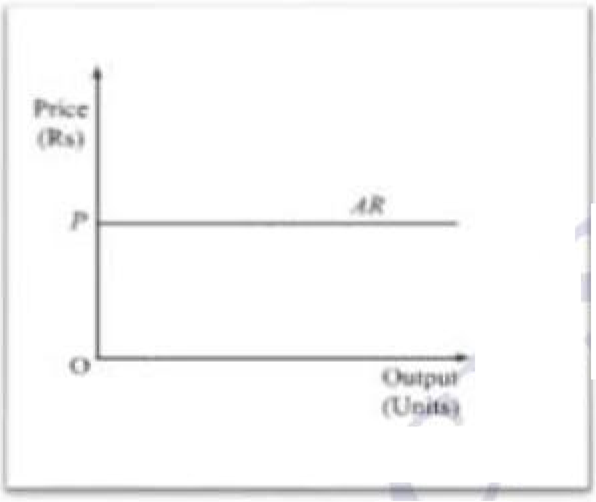
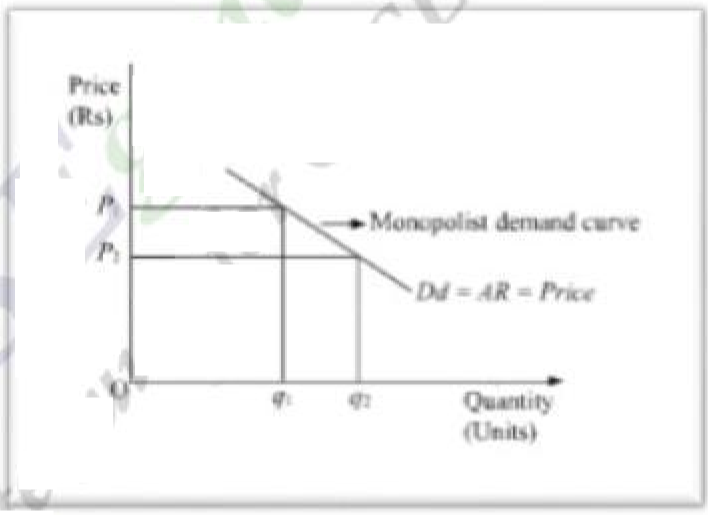
Answers

1. b) The firm is a price taker.
2. b) Marginal revenue is equal to price.
3. d) The individual firm is unable to affect market price through its output decision.
4. d) Abnormal loss
5. When an increase in demand is equal to increase in supply, the equilibrium price will remain the same and the equilibrium quantity will increase.
6. If the increase in demand is more than the supply, equilibrium price will increase.
7. During a recession, people have low purchasing power. They don't have an affinityfor a good. In such a situation, it won't be profitable for a seller to sell a good at a higher price. But in order to make a profit, if seller increases supply, it won't attract demand as people are left with low purchasing power. As a result, theprice will fall.
8. In both, monopoly as well as monopolistic competition, demand curve are negatively sloped. The difference is that under monopolistic competition, the demand curve is more elastic. It means that in response to a change in price, the change in demand willbe relatively more for a monopolistic competitive firm than a monopoly firm. In a monopolistic competitive market, goods have a close substitute; hence consumers can easily choose the substitute whenever there is a change in the price of a commodity.
9. In an oligopoly, one cannot predict the change in demand. When a firm lowers its price, demand for its product may not increase as the rivalfirm may also opt this price cut policy. Prices are administered by the firms. Each rival firm reacts immediately to the changed price by its competitors due to which the price remains rigid in this market, i.e. do not change easily.
10. Under monopolistic competition and oligopoly, products are differentiated. Hence, additional selling costs are incurred by the firms to increase its market share. But it will increase its cost of production and burden will pass on the consumers. It is justified only for increasing its market share but not for increasing its cost of production.
11. At equilibrium, if there is an increase in supply, this means upward movement along the supply curve. There will be an excess of supply which would pull the price down. A fall in price to increase the demand would mean more fall in supply as suppliers would not be

willing to sell goods at low prices, this would create a situation of excess demand which will push the prices up so much so that there arises a situation of excess supply. This spiral effect will go on till demand and supply settle back at the equilibrium.

12. For a perfectly competitive firm, due to the existence of a large number of sellers in the market, there exists perfect and free competition in the market. The firm acts as a price taker. In other words, firms have no control over the existing market price and cannot influence it. If an individual firm raises its price, then it will lose all its buyers to other firms and vice-versa. Thus, firms have no role to play other than supplying the required output at the existing market price which results in straight line AR curve parallel to X-axis.





The AR curve for a monopolist is downward sloping because if he fixes a higher price, then the lesser quantity of the output will be demanded and lesser quantity will be sold in the market. On the contrast, if he fixes a lower price, then a higher quantity of the good will be sold. This implies the negative relationship between the monopolist's price (AR curve) and the quantity demand by the buyers.