



INSTITUTE OF ACTUARIAL
& QUANTITATIVE STUDIES

Subject: Business Economics (Micro)

Chapter: Unit 1

Category: Practice questions

MCQS**1. CT7 April 2012 Question 2**

In economics the concept of scarcity means:

- A. all resources will eventually be exhausted.
- B. there are unlimited resources, we just have an allocation problem.
- C. there are unlimited wants and limited resources.
- D. all of the above.

Ans – C

2. CT7 September 2014 Question 2

The problem of scarcity in economics:

- A. exists only in economies which rely on the market mechanism.
- B. could be eliminated if we force prices to fall.
- C. means that there are shortages of some goods.
- D. exists because there are insufficient resources to satisfy human wants.

Ans – D

3. CT7 September 2014 Question 1

The main categories of economic resources are:

- A. natural resources, labour and money.
- B. labour, money and factories.
- C. natural resources, capital and factories.
- D. natural resources, labour and capital.

Ans – D

4. CT7 April 2014 Question 1

Which of the following would the production of banking services be classified as?

- A. Primary Production
- B. Secondary Production
- C. Tertiary Production
- D. Manufacturing Production

Ans – C

5. CT7 October 2015 Question 1

Scarcity exists if:

- A. prices are too high.
- B. human wants cannot be satisfied.
- C. there are shortages of some goods.
- D. markets are not perfectly competitive

Ans – B

6. CT7 April 2015 Question 4

Under perfect competition:

- A. short run excess profits are competed away by firms leaving the industry.
- B. short run excess profits are competed away by new firms entering the industry.
- C. short run excess profits lead to price rises.
- D. short run excess profits are caused by barriers to entry and exit.

Ans - B

7. CT7 September 2016 Question 1

The solution to the economic problem of deciding which goods to produce requires:

- A. the establishment of freedom of entry & exit
- B. the establishment of a system of market prices.
- C. a choice between the production of consumer goods and the sacrifice of alternatives.
- D. a decision to be made on the degree to which capital will be used in the production process rather than labour.

Ans - C

8. CT7 April 2017 Question 1

The problem of scarcity in economics:

- A. exists only in economies which rely on the market mechanism.
- B. could be eliminated if prices are forced to fall.
- C. means that there are shortages of some goods.
- D. exists because there are insufficient resources to satisfy human wants.

Ans - D

9. CT7 April 2017 Question 2

If the government chooses to use resources to build a hospital instead of a school, this illustrates the concept of:

- A. a market system.
- B. macroeconomics.
- C. competition.
- D. opportunity cost.

Ans - D

10. CT7 September 2017 Question 6

If the government chooses to use resources to build a hospital instead of a school, this illustrates the concept of:

- A. a market system.
- B. macroeconomics.
- C. competition.
- D. opportunity cost.

Ans - D

11. Subject CT7 April 2018 Q1

Which of the following statements below is always TRUE?

- A. Opportunity cost is equal to total revenue minus total variable cost.
- B. Opportunity cost is constant.
- C. Opportunity cost is the cost in terms of the best foregone alternative.
- D. Opportunity cost is the addition to total cost of producing one extra unit of a good.

Ans – C

12. CB2 April 2019 Q2

If an economy moves from producing 10 units of Good X and 5 units of Good Y to producing 8 units of Good X and 6 units of Good Y, the opportunity cost of the 6th unit of Good Y is:

- A. 1.33 units of Good X.
- B. 2 units of Good X.
- C. 8 units of Good X.
- D. 10 units of Good X.

Ans – B

13. CB2 April 2019 Q3

Which one of the following will NOT shift the supply curve for Good X to the right?

- A. An increase in labour productivity in industry X.
- B. A fall in the price of raw materials used to produce Good X.
- C. An increase in wages in industry X.
- D. A government subsidy on the production of Good X.

Ans – C

14. CB2 September 2019 Q2

A student studying a one-year Masters degree in Actuarial Science has course fees of £12,000. Were she not studying she could have had a job paying an after tax income of £20,000. Irrespective of whether she studies or works the cost of her accommodation is £7,000 and the food bill is £3,000. The opportunity cost of studying for the Masters degree is:

- A. £12,000.
- B. £20,000.
- C. £32,000.
- D. £42,000.

Ans – B or C

As different economists apply the concept of opportunity cost in different ways, both answers B and C to question 2 were accepted.

15. CB2 September 2019 Q4

Wheat is an essential input in the production of pasta. An increase in the price of wheat would have an impact on the demand and supply of pasta by shifting the:

- A. demand curve to the left.
- B. supply curve to the left.
- C. supply curve to the right.

D. demand curve to the right.

Ans – B

16. CB2 April 2020 Q2

In a free market economy, the basic function of the price mechanism is to:

- A. provide a means of allocating resources.
- B. ensure that all consumer wants are satisfied.
- C. enable the government to control prices.
- D. ensure that all the goods that society needs are produced.

Ans – A

17. CB2 April 2020 Q5

A consumer's demand curve for Good X is represented by the equation:

$$Q_{dx} = 50 - 0.2P_x$$

Where, Q_{dx} is the quantity of Good X demanded and P_x is the price of Good X.

A producer's supply curve for Good X is represented by the equation:

$$Q_{sx} = 10 + 0.6P_x$$

where Q_{sx} is the quantity of Good X supplied and P_x is the price of Good X.

Demand and supply are in equilibrium when:

- A. quantity is 20 and price is 150.
- B. quantity is 30 and price is 100.
- C. quantity is 35 and price is 75.
- D. quantity is 40 and price is 50.

Ans – D

18. CB2 April 2020 Q6

A firm's decision to reduce its expenditure on advertising is most likely to have the following impact on its demand curve:

- A. The curve will shift to the left and become less elastic.
- B. The curve will shift to the right and become less elastic.
- C. The curve will shift to the left and become more elastic.
- D. The curve will shift to the right and become more elastic

Ans – C

19. CB2 September 2020 Q1

Which of the following will NOT shift the supply curve for Good X to the right?

- A. An increase in labour productivity in the industry producing Good X
- B. A fall in the price of raw materials used to produce Good X
- C. An increase in real wages in the industry producing Good X
- D. A government subsidy on the production of Good X.

Ans – C

20. CB2 September 2020 Q2

Which of the following best describes the opportunity cost of producing Good X?

- A. The cost of producing Good X in money terms
- B. The next best alternative use to which the factors of production used to produce Good X could be put
- C. The stream of services provided by Good X over its entire lifetime
- D. The production of Good X foregone in the previous year to enable Good X to be produced this year.

Ans – B

21. CB2 April 2021 Q4

A firm's decision to reduce its expenditure on advertising is most likely to have the following impact on its demand curve:

- A. The curve will shift to the left and become less elastic.
- B. The curve will shift to the right and become less elastic.
- C. The curve will shift to the left and become more elastic.
- D. The curve will shift to the right and become more elastic.

Ans – C

22. CB2 April 2022 Q3

The maximum an economy can produce is either 20 units of Good X or 80 units of Good Y, and its production possibility curve is a straight line. The opportunity cost of producing 5 units of Good X is:

- A. 1/4 of a unit of Good Y.
- B. 4 units of Good Y.
- C. 10 units of Good Y.
- D. 20 units of Good Y.

Ans – D

23. CB2 April 2022 Q4

Good X is a normal good. Which of the following will NOT shift the demand curve for Good X to the left?

- A. A fall in consumers' incomes
- B. A rise in the price of Good X
- C. A fall in the price of a substitute Good Y
- D. A rise in the price of a complementary Good Y.

Ans – B

24. CB2 April 2022 Q5

Which one of the following will shift the supply curve for Good X to the left?

- A. An increase in labour productivity in the production of Good X
- B. A fall in price of inputs used to produce Good X
- C. An increase in real wages for workers producing Good X

D. A government subsidy on the production of Good X

Ans - C

25. CB2 September 2022 Q1

Which one of the following most accurately describes microeconomic topics?

- A. The price of newspapers, the demand for electricity and the price of private education
- B. The price level, the demand for housing and the price of healthcare
- C. The rate of economic growth, the price of electricity and the demand for healthcare
- D. The demand for newspapers, the rate of inflation and the price of housing

Ans - A

26. CB2 September 2022 Q3

An increase in the price of frozen yoghurt would lead to:

- A. a rightward shift of the supply curve for ice cream.
- B. a leftward shift of the demand curve for frozen yoghurt.
- C. a rightward shift of the demand curve for ice cream.
- D. an increase in the quantity demanded for frozen yoghurt.

Ans - C

27. CB2 September 2022 Q4

A significant increase in income is least likely to increase the demand for which of the following?

- A. Fizzy drinks
- B. Cars
- C. Jewellery
- D. Exotic holidays.

Ans - A

Longer questions

1. CT7 September 2014 Question 27

- (a) Define what economists mean by the term rational choice.
- (b) Explain the concept of rational choice with reference to consumers.

2. CT7 September 2014 Question 30

Discuss the types of market structure that would make it difficult for firms to experience economies of scale.

3. CT7 October 2015 Question 27

Define the two branches of economics: macroeconomics and microeconomics.

4. CT7 October 2017 Question 27

- (a) State the factors of production that exist within an economy.
- (b) Describe how scarcity arises in the context of these factors.

5. CT7 September 2018 Question 27

- (i) State the difference between microeconomics and macroeconomics.
- (ii) Define what is meant by a “market” with the use of an example

6. CB2 April 2019 Q33

With a given amount of resources (labour, land and capital) two countries, A and B, can produce either Good X or Good Y according to the production possibilities set out in the table below:

<i>Country</i>	<i>Units of Good X</i>	<i>Units of Good Y</i>
A	Either 500	or 1,500
B	Either 200	or 1,000

- (i) State the opportunity cost of producing one unit of Good X in each country prior to the commencement of international trade.
- (ii) State which country has a comparative advantage in the production of Good Y.
- (iii) State which Good will be exported by Country A if trade is opened up between the two countries.
- (iv) Calculate in whole units the amount of Good Y per unit of Good X at which trade would be mutually beneficial between both countries.
- (v) Describe what is meant by an improvement in a country's terms of trade.

7. CB2 September 2019 Q33

With a given amount of resources, two countries produce either Product A or Product B. There is constant opportunity cost and the table below shows the production possibilities for the two countries.

<i>Country</i>	<i>Product A (units)</i>	<i>Product B (units)</i>
X	50	20
Y	60	40

- (i) Calculate, for each country, the opportunity cost of each Product A and B.
- (ii) State which country has a comparative advantage in the production of Product A.
- (iii) State the range of exchange ratios which the countries could use to trade so that they both benefit from trade.

8. CB2 September 2021 Q27

Explain how the economic concepts of scarcity and choice are demonstrated when an individual is looking for a new home.