CHAPTER-5 | Market Equilibrium

QUIZ PART-02

1. **When both demand and supply curves shift rightward, what happens to equilibrium?**
   A. Quantity decreases, price falls
   B. Quantity increases, price unchanged
   C. Quantity unchanged, price rises
   D. Quantity decreases, price rises (B)

Explanation : A simultaneous rightward shift increases equilibrium quantity, but the price may remain unchanged since both forces expand equally.

2. **When both demand and supply curves shift leftward, what is the outcome?**
   A. Quantity decreases, price unchanged
   B. Quantity increases, price rises
   C. Quantity unchanged, price decreases
   D. Quantity increases, price unchanged (A)

Explanation : A leftward shift reduces equilibrium quantity, while price may stay constant since demand and supply fall together.

3. **If demand shifts leftward and supply shifts rightward, what occurs?**
   A. Price increases, quantity unchanged
   B. Price decreases, quantity unchanged
   C. Both price and quantity increase
   D. Both price and quantity decrease (B)

Explanation : With demand falling and supply rising, quantity traded remains constant but the price decreases.

4. **If demand shifts rightward and supply shifts leftward, what is the result?**
   A. Price falls, quantity unchanged
   B. Price rises, quantity unchanged
   C. Both price and quantity decrease
   D. Both price and quantity increase (B)

Explanation : When demand rises but supply falls, equilibrium quantity remains the same but price increases.

5. **In a perfectly competitive market with free entry and exit, the equilibrium price equals:**
   A. Minimum AVC B. Maximum profit
   C. Minimum AC
   D. Maximum revenue (C)

Explanation : With free entry and exit, the equilibrium price is driven to the minimum average cost (AC).

6. **What problem arises when the government sets a price ceiling below the equilibrium price?**
   A. Excess supply B. Equilibrium persists
   C. Excess demand
   D. No effect on the market (C)

Explanation : A ceiling below equilibrium creates excess demand and often results in shortages.

7. **What is a common solution to shortages caused by price ceilings?**
   A. Firms increase production freely
   B. Import restrictions
   C. Rationing with coupons and fair price shops
   D. Lowering wages of workers (C)

Explanation : Rationing and fair price shops are used so that limited quantities are fairly distributed among consumers.

8. **What problem arises when the government sets a price floor above equilibrium?**
   A. Equilibrium holds B. Excess demand
   C. Excess supply
   D. Market price becomes zero (C)

Explanation : A price floor higher than equilibrium leads firms to supply more than consumers demand, creating excess supply.

9. **How does the government handle surplus under agricultural price support programs?**
   A. Reduces farmer production
   B. Imports more goods
   C. Purchases the surplus to maintain prices
   D. Eliminates subsidies (D)

Explanation : To maintain prices under a price floor, the government buys the excess supply and maintains buffer stocks.

10. **A price ceiling set below equilibrium price will result in:**
    A. Excess supply B. Excess demand
    C. Equilibrium
    D. No change in the market (B)

Explanation : With the ceiling lower than equilibrium, demand exceeds supply, leading to excess demand.