CHAPTER-2 | Theory of Consumer Behaviour

QUIZ-01

1. **What does the Law of Diminishing Marginal Utility state?**
   A. Total utility increases at an increasing rate
   B. Marginal utility increases with consumption
   C. Marginal utility decreases with each additional unit consumed
   D. Total utility always remains constant (C)

Explanation : Marginal utility declines as more units of a commodity are consumed, while holding other things constant.

2. **An indifference curve is :**
   A. A curve showing rising utility
   B. A curve joining bundles giving equal satisfaction
   C. A straight line showing budget limits
   D. A curve showing maximum profit (B)

Explanation : An indifference curve connects all consumption bundles that provide the same level of satisfaction.

3. **What does the slope of the budget line represent?**
   A. Marginal rate of substitution
   B. Rate at which income increases
   C. Price ratio of two goods
   D. Total expenditure (C)

Explanation : The slope of the budget line equals the price ratio (p1/p2), reflecting trade-off between goods.

4. **What is the shape of an indifference curve for perfect substitutes?**
   A. Convex B. Concave
   C. Straight line D. Vertical line (C)

Explanation : For perfect substitutes, the consumer is willing to substitute goods at a constant rate, making the curve a straight line.

5. **What happens to the budget line if consumer's income increases?**
   A. It shifts inward B. It becomes vertical
   C. It shifts outward parallelly
   D. It rotates clockwise (C)

Explanation: When income increases without any change in prices, the budget line shifts outward, keeping the same slope.

6. **Which combination satisfies the condition of consumer equilibrium?**
   A. Where budget line is above indifference curve
   B. Where MRS = price ratio
   C. Where MU = 0
   D. Where all goods are free (B)

Explanation : At equilibrium, the marginal rate of substitution equals the price ratio, i.e., MRS = (p1/p2).

7. **Which of the following is an example of an inferior good?**
   A. Designer clothes B. Air conditioners
   C. Coarse cereals D. Smartphones (C)

Explanation : Inferior goods are low quality goods consumed due to low income such ad coarse cereals.

8. **The market demand curve is derived by:**
   A. Multiplying individual demands
   B. Taking average of demands
   C. Horizontally adding individual demands
   D. Vertically adding individual demands (C)

Explanation : Market demand is the sum of individual demands at each price level, hence added horizontally.

9. **If price increases by 10% and quantity demanded decreases by 8%, the demand is:**
   A. Price elastic B. Price inelastic
   C. Unitary elastic D. Perfectly elastic
   (B)

Explanation : Since percentage change in quantity < percentage change in price, demand is price inelastic.

10. **A vertical demand curve indicates :**
    A. Perfect elasticity B. Unitary elasticity
    C. Perfect inelasticity
    D. Constant expenditure (C)

Explanation : A vertical demand curve shows that quantity demanded remains the same irrespective of price, implying perfect inelasticity.