CHAPTER-5 | Market Equilibrium

QUIZ PART-01

1. **When the price of a commodity is below its equilibrium price, what exists in the market?**
   A. Excess Supply B. Excess Demand
   C. Equilibrium
   D. None of the above (B)

Explanation : If the price is below equilibrium, consumers demand more than firms supply, leading to excess demand.

2. **In a perfectly competitive labour market, the wage rate is determined by:**
   A. Government B. Trade Union
   C. Intersection between demand and supply curve of labour
   D. Employer's willingness to pay (C)

Explanation : The equilibrium wage is set at the point where labour demand equals labour supply.

3. **A rise in consumer's income will cause the demand curve to:**
   A. Shift to the left B. Shift to the right
   C. Remain unchanged
   D. Become parallel to the price axis (B)

Explanation : Higher income allows consumers to buy more, shifting the demand curve rightward.

4. **An improvement in technology will cause the supply curve to:**
   A. Shift to the left B. Shift to the right
   C. Remain unchanged
   D. Become parallel to the price axis (B)

Explanation : Better technology reduces production cost and increases efficiency, shifting supply to the right.

5. **How will an increase in the price of coffee affect the equilibrium price of tea?**
   A. Increase in quantity demand of tea
   B. Decrease in quantity demand of tea
   C. No change in demand of tea
   D. Increase in price of tea (D)

Explanation : Coffee and tea are substitutes, so when coffee becomes expensive, more people buy tea, pushing up its equilibrium price.

6. **What does equilibrium in a market mean?**
   A. Consumers buy less than firms supply
   B. Firms supply more than consumers demand
   C. Quantity demanded equals quantity supplied
   D. Firms stop producing goods (C)

Explanation : Market equilibrium occurs when supply equals demand, so the market clears with no surplus or shortage.

7. **The equilibrium price is defined as:**
   A. The lowest price possible for the good
   B. The price set by the government
   C. The price at which demand equals supply
   D. The price at which producers maximize profits (C)

Explanation : Equilibrium price is the level where the quantity consumers demand matches the quantity firms supply.

8. **The equilibrium quantity is defined as:**
   A. The highest output possible
   B. The quantity produced at maximum profit
   C. The quantity traded at the equilibrium price
   D. The minimum supply by firms (C)

Explanation : Equilibrium quantity is the amount bought and sold when the market is at equilibrium price.

9. **If market demand exceeds supply at a given price, what situation arises?**
   A. Excess supply B. Excess demand
   C. Equilibrium
   D. Diseconomies of scale (B)

Explanation : Excess demand occurs when consumers wish to buy more than producers are willing to supply at that price.

10. **If market supply exceeds demand at a given price, what occurs?**
    A. Excess supply B. Excess demand
    C. Equilibrium D. Price rigidity (A)

Explanation : When supply is greater than demand at a price, there is excess supply or surplus in the market.