CHAPTER-5 | Market Equilibrium

QUIZ-01

1. **What does equilibrium in a perfectly competitive market imply?**
   A. Supply is greater than demand
   B. Demand is greater than supply
   C. Market demand equals market supply
   D. Firms earn maximum profit (C)

Explanation : At equilibrium, quantity demanded equals quantity supplied in the market.

2. **What will happen if price is lower than the equilibrium price?**
   A. Excess supply will occur
   B. Market will be in balance
   C. Excess demand will occur
   D. Firms will exit the market (C)

Explanation : Lower price causes quantity demanded to exceed quantity supplied, resulting in excess demand.

3. **In the labour market, the downward sloping demand curve is due to :**
   A. Increase in wages
   B. Law of diminishing marginal product
   C. Increase in labour supply
   D. Higher average cost (B)

Explanation : Due to diminishing marginal product, firms hire less labour at higher wages.

4. **What does a leftward shift in demand curve result in (with fixed number of firms)?**
   A. Increase in price and quantity
   B. Decrease in price and quantity
   C. Only price increases
   D. No change in equilibrium (B)

Explanation : Leftward demand shift reduces both equilibrium price and quantity.

5. **In a market with free entry and exit, what will the price be equal to?**
   A. Maximum profit
   B. Minimum average cost
   C. Average revenue D. Total revenue (B)

Explanation : Firms enter or exit until price equals minimum average cost, yielding normal profits.

6. **What is the outcome of a rightward shift in the supply curve?**
   A. Increase in price B. Decrease in price
   C. Price remains same D. Demand decreases (B)

Explanation : Rightward supply shift increases quantity and decreases equilibrium price.

7. **Which policy causes excess demand in a market?**
   A. Price floor B. Price ceiling
   C. Subsidy D. Free market (B)

Explanation : Price ceiling set below equilibrium leads to excess demand.

8. **When both demand and supply increase, equilibrium quantity :**
   A. Increases B. Decreases
   C. Remains unchanged
   D. Depends on magnitude of shifts (A)

Explanation : Quantity increases regardless of shift magnitudes; price may vary.

9. **What happens in labour market if VMPL < wage rate?**
   A. Firms hire more labour
   B. Firms fire labour
   C. Labour demand increases
   D. Firms produce more output (B)

Explanation : Firms reduce labour to restore profit-maximising condition (w = VMPL).

10. **What is the effect of price floor above equilibrium price?**
    A. Excess demand B. No effect
    C. Excess supply
    D. Increase in equilibrium price (C)

Explanation : Price floor above equilibrium causes excess supply as firms want to supply more.