

## UNIT 2: CONSUMER BEHAVIOUR AND DEMAND

### 1. Which of the following best describes consumer behavior?

- a) Study of how consumers spend money
- b) Study of the factors affecting consumer purchasing decisions
- c) Study of market trends
- d) Study of consumer preferences only

### 2. The term 'utility' in consumer behavior refers to:

- a) The price of a good
- b) The satisfaction derived from the consumption of a good
- c) The quantity of goods demanded
- d) The total income of a consumer

### 3. What does the law of diminishing marginal utility state?

- a) The total utility will always increase as more units are consumed.
- b) The more of a good you consume, the less satisfaction you get from each additional unit.
- c) The more of a good you consume, the more satisfaction you get from each additional unit.
- d) Utility depends solely on the price of goods.

### 4. Which factor is NOT a determinant of individual consumer demand?

- a) Price of the good
- b) Consumer's income
- c) Consumer's lifestyle
- d) Price of related goods

### 5. In the context of consumer behavior, the 'budget line' represents:

- a) The total expenditure on goods
- b) The combinations of two goods that a consumer can afford
- c) The amount of money a consumer is willing to spend
- d) The total utility derived from goods consumed

### 6. The substitution effect occurs when:

- a) The price of a good changes, causing the consumer to buy more of it
- b) The price of a good changes, leading the consumer to switch to a cheaper alternative
- c) A change in income results in more consumption of a good
- d) Consumers increase their savings rather than spending

### 7. Which of the following best describes a consumer's indifference curve?

- a) A curve representing the possible combinations of goods that yield the same level of satisfaction
- b) A curve that represents the consumer's budget
- c) A line showing the quantity of a good purchased over time
- d) A curve showing the income level of a consumer

### 8. A consumer reaches equilibrium when:

- a) The total utility is maximized for the given budget
- b) The marginal utility per unit of currency is the same for all goods consumed
- c) The price of all goods is equal
- d) The consumer buys only one good

**9. Which of the following statements is true according to the law of demand?**

- a) As the price of a good rises, the quantity demanded also rises
- b) As the price of a good falls, the quantity demanded rises
- c) The price and quantity demanded are independent of each other
- d) The quantity demanded remains constant regardless of price changes

**10. Which of the following best illustrates a “normal good”?**

- a) A good that experiences an increase in demand as consumer income falls
  - b) A good whose demand decreases when income increases
  - c) A good whose demand increases when income increases
  - d) A good with a perfectly inelastic demand
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## **DEMAND THEORY**

**11. The demand curve typically slopes:**

- a) Upwards from left to right
- b) Downwards from left to right
- c) Vertically
- d) Horizontally

**12. What is meant by the ‘income effect’?**

- a) The change in the quantity demanded of a good due to a change in income
- b) The effect of price changes on the consumer's purchasing power
- c) The substitution of cheaper goods for more expensive ones
- d) The increase in demand when the price of complementary goods decreases

**13. Which of the following can cause a shift in the demand curve?**

- a) A change in the price of the good
- b) A change in consumer income
- c) A change in the quantity of goods demanded
- d) A change in the price of the good’s complements

**14. If the demand for a good decreases when consumer income increases, the good is called:**

- a) A Giffen good
- b) A substitute good
- c) An inferior good
- d) A normal good

**15. Which of the following goods is most likely to have an elastic demand?**

- a) Basic food items
- b) Gasoline
- c) Designer clothing
- d) Life-saving drugs

**16. A price increase for a substitute good will likely:**

- a) Decrease demand for the original good
- b) Increase demand for the original good

- c) Not affect the demand for the original good
- d) Decrease demand for both goods

**17. What does the term 'elasticity of demand' refer to?**

- a) The relationship between the price and quantity demanded of a good
- b) The rate at which supply changes in response to demand
- c) The response of consumer demand to changes in price or income
- d) The income elasticity of a good

**18. Which of the following is an example of an inferior good?**

- a) Fast food
- b) Designer shoes
- c) Organic fruits
- d) Luxury cars

**19. If the price of a product increases, and the total revenue decreases, the demand for the product is:**

- a) Inelastic
- b) Elastic
- c) Unitary elastic
- d) Perfectly inelastic

**20. What does a perfectly elastic demand curve look like?**

- a) A vertical line
- b) A horizontal line
- c) A downward sloping curve
- d) An upward sloping curve

**DEMAND ELASTICITY**

**21. The demand for a good is said to be unitary elastic when:**

- a) A percentage change in price results in an equal percentage change in quantity demanded
- b) The demand curve is horizontal
- c) The demand curve is vertical
- d) The total expenditure is unchanged by price changes

**22. Which of the following best describes a good with perfectly inelastic demand?**

- a) The quantity demanded remains constant regardless of price changes
- b) The quantity demanded increases as the price increases
- c) The demand curve is downward sloping
- d) The quantity demanded increases more than the price increases

**23. Which of the following is most likely to have an inelastic demand?**

- a) Bread
- b) Luxury cars
- c) Digital cameras
- d) Clothing

**24. When demand is elastic, an increase in price will:**

- a) Lead to an increase in total revenue

- b) Lead to a decrease in total revenue
- c) Have no effect on total revenue
- d) Increase the quantity demanded

**25. Which of the following factors does NOT affect the elasticity of demand?**

- a) Availability of substitutes
  - b) Time period considered
  - c) Price of the good
  - d) Necessity versus luxury
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## **CONSUMER PREFERENCES AND CHOICE**

**26. Which of the following statements is true about consumer preferences?**

- a) Preferences are determined solely by income
- b) Preferences remain constant and do not change over time
- c) Consumer preferences reflect the satisfaction gained from consumption
- d) Preferences are the same across all consumers

**27. The concept of ‘revealed preference’ refers to:**

- a) The preferences a consumer expresses verbally
- b) The actual choices a consumer makes, which reveal their preferences
- c) The preferences a consumer has before buying any goods
- d) The consumer’s willingness to pay for a good

**28. A consumer chooses between two goods based on:**

- a) The consumer’s total income and the prices of goods
- b) The total satisfaction of both goods
- c) The price alone
- d) The income elasticity of demand

**29. In the theory of consumer choice, the indifference curve shows:**

- a) The combinations of goods that yield equal satisfaction
- b) The possible budget combinations a consumer can afford
- c) The relationship between price and quantity demanded
- d) The elasticity of demand

**30. Which of the following best explains the concept of marginal rate of substitution (MRS)?**

- a) The amount of one good a consumer is willing to sacrifice for one more unit of another good, while maintaining the same level of satisfaction
- b) The amount of money a consumer is willing to pay for an additional good
- c) The rate at which total utility changes as more goods are consumed
- d) The difference in satisfaction between two goods

**31. When the price of a complementary good falls, the demand for the related good:**

- a) Increases
- b) Decreases
- c) Remains unchanged
- d) Is uncertain

**32. Which of the following is an example of a Giffen good?**

- a) A good that has an upward sloping demand curve
- b) A good that becomes more desirable as its price increases
- c) A luxury good with elastic demand
- d) A product that is highly responsive to changes in consumer income

**33. The cross-price elasticity of demand measures:**

- a) The responsiveness of demand for a good to a change in the price of another good
- b) The responsiveness of demand to a change in income
- c) The price elasticity of demand for a good
- d) The rate of change in consumer preferences

**34. Which of the following goods is most likely to exhibit an income elasticity greater than 1?**

- a) Basic food items
- b) Luxury cars
- c) Necessities like medicine
- d) Salt

**35. Which of the following is true for a good with an elasticity of demand greater than 1?**

- a) The demand is inelastic
- b) The demand is elastic
- c) The total revenue does not change with price changes
- d) The demand curve is steep

**36. The total expenditure approach to measuring elasticity of demand involves:**

- a) Analyzing the change in quantity demanded in response to price changes
- b) Observing changes in consumer surplus
- c) Examining how total spending changes with a change in price
- d) Studying shifts in the demand curve over time

**37. Which of the following is NOT a characteristic of a perfectly competitive market?**

- a) Many buyers and sellers
- b) Homogeneous products
- c) High barriers to entry
- d) Perfect information

**38. In the short run, a consumer's demand for a good is generally:**

- a) Highly elastic
- b) Perfectly inelastic
- c) More elastic than in the long run
- d) Less elastic than in the long run

**39. Which of the following is an example of a Veblen good?**

- a) A good whose demand increases with price because it is perceived as more prestigious
- b) A good that decreases in demand as income rises
- c) A necessity good
- d) A good with perfectly inelastic demand

**40. The concept of marginal utility per dollar spent suggests that consumers will:**

- a) Spend money until the marginal utility of the last dollar is maximized
- b) Spend money without regard to utility
- c) Spend only on necessary goods
- d) Always buy the cheapest good

**41. If two goods are perfect substitutes, the cross-price elasticity of demand between them is:**

- a) Zero
- b) Positive
- c) Negative
- d) Undefined

**42. The income elasticity of demand is:**

- a) Positive for inferior goods
- b) Negative for normal goods
- c) Positive for normal goods
- d) Always greater than one

**43. Which of the following will increase the demand for a product?**

- a) An increase in the price of a complementary good
- b) An increase in consumer income
- c) A decrease in the number of consumers
- d) An increase in the price of the product

**44. If a consumer's income decreases, and their demand for a good increases, the good is classified as:**

- a) A luxury good
- b) A Giffen good
- c) An inferior good
- d) A normal good

**45. Which of the following is an example of a complementary good?**

- a) Coffee and sugar
- b) Coffee and tea
- c) Bread and butter
- d) Smartphones and laptops

**46. A decrease in the price of a substitute good will likely cause:**

- a) A decrease in demand for the original good
- b) An increase in demand for the original good
- c) No change in demand
- d) An increase in the price of the original good

**47. A shift to the right of the demand curve indicates:**

- a) A decrease in demand
- b) An increase in demand
- c) A decrease in price
- d) A decrease in quantity demanded

**48. The total utility of a consumer will increase as long as:**

- a) The marginal utility is increasing
- b) The marginal utility is positive
- c) The marginal utility is decreasing
- d) The consumer continues consuming the good

**49. A perfectly elastic demand curve is:**

- a) A vertical line
- b) A horizontal line
- c) A downward sloping curve
- d) An upward sloping curve

**50. If a product is considered a luxury, the income elasticity of demand for it is:**

- a) Less than 1
- b) Equal to 1
- c) Greater than 1
- d) Zero

**51. The percentage method for calculating elasticity of demand involves:**

- a) Using the change in quantity and price relative to the initial values
- b) Using the average quantity and price in the calculation
- c) Calculating the total revenue and its changes
- d) Using the slope of the demand curve to calculate elasticity

**52. Which of the following formulas is used in the percentage method of calculating price elasticity of demand (PED)?**

- a)  $\text{PED} = (\% \text{ Change in Quantity}) / (\% \text{ Change in Income})$
- b)  $\text{PED} = (\% \text{ Change in Price}) / (\% \text{ Change in Quantity})$
- c)  $\text{PED} = (\% \text{ Change in Quantity}) / (\% \text{ Change in Price})$
- d)  $\text{PED} = (\% \text{ Change in Income}) / (\% \text{ Change in Price})$

**53. In the total expenditure (or total revenue) method, demand is said to be inelastic when:**

- a) Total expenditure increases as price increases
- b) Total expenditure decreases as price increases
- c) Total expenditure remains unchanged as price changes
- d) Total expenditure increases as price decreases

**54. When using the total expenditure method, if the price of a good increases and total expenditure increases, then the demand for the good is:**

- a) Inelastic
- b) Elastic
- c) Unitary elastic
- d) Perfectly elastic

**55. Which of the following is a key assumption in the geometric method of calculating elasticity?**

- a) The demand curve is always straight
- b) The demand curve is smooth and continuous
- c) Elasticity varies at different points on the curve
- d) The elasticity is constant along the entire curve

**56. In the geometric method, the elasticity of demand at a point on a straight-line demand curve is:**

- a) Zero
- b) Constant
- c) Different at different points
- d) Equal to one at all points

**57. According to the total expenditure method, if the demand curve is elastic, an increase in price will:**

- a) Increase total revenue
- b) Decrease total revenue
- c) Have no effect on total revenue
- d) Cause total revenue to remain constant

**58. The formula used to calculate price elasticity of demand using the geometric method involves:**

- a) The midpoint between initial and final quantities and prices
- b) The slope of the demand curve at a point
- c) The average price and quantity between two points
- d) The percentage change in quantity divided by the percentage change in income

**59. When the total expenditure method is used, if the demand is unitary elastic, an increase in price will:**

- a) Increase total expenditure
- b) Decrease total expenditure
- c) Leave total expenditure unchanged
- d) Cause the quantity demanded to remain constant

**60. In the context of elasticity, which of the following is most likely to be calculated using the percentage method?**

- a) Total expenditure changes
- b) Slope of the demand curve
- c) Percentage change in price and quantity
- d) Midpoint elasticity between two points on the curve