

# Microeconomics Fundamentals

Microeconomics · Answer Key · 25 Questions

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**1. What is the primary factor that determines the price of a good in a perfectly competitive market?**

- A) Government mandate
- B) Supply and demand**
- C) Production cost only
- D) Marketing budget

**2. What happens to the quantity demanded of a product when its price increases, assuming all other factors remain constant?**

- A) It increases
- B) It decreases**
- C) It remains the same
- D) It becomes zero

**3. What is the term for the additional satisfaction a consumer gains from consuming one more unit of a good?**

- A) Total utility
- B) Average utility
- C) Marginal utility**
- D) Opportunity cost

**4. In economics, what do we call the value of the next best alternative that is given up when making a choice?**

- A) Sunk cost
- B) Fixed cost
- C) Opportunity cost**
- D) Variable cost

**5. Which market structure is characterized by a single seller providing a unique product with no close substitutes?**

- A) Monopoly**
- B) Oligopoly
- C) Perfect competition
- D) Monopolistic competition

**6. What is the point where the quantity supplied equals the quantity demanded?**

- A) Shortage
- B) Surplus
- C) Equilibrium**
- D) Market failure

**7. What does a 'normal good' mean in economic terms?**

- A) A good whose demand increases when consumer income increases**
- B) A good whose demand decreases when consumer income increases
- C) A good that is always available
- D) A good with no substitutes

**8. Which of the following is considered a 'factor of production'?**

- A) Taxes
- B) Profit
- C) Land**
- D) Revenue

**9. What is the term for costs that do not change regardless of the level of output produced?**

- A) Variable costs
- B) Fixed costs**
- C) Marginal costs
- D) Total costs

**10. What happens to the supply curve if the cost of raw materials used to produce a good decreases?**

- A) It shifts to the left
- B) It shifts to the right**
- C) It stays the same
- D) It becomes vertical

**11. Which economic concept explains why individuals and nations focus on producing goods where they have a lower opportunity cost?**

- A) Comparative advantage**
- B) Absolute advantage
- C) Monopoly power
- D) Price discrimination

**12. What is the term for a market situation with only a few large sellers?**

- A) Monopoly
- B) Perfect competition

**C) Oligopoly**

- D) Monopsony

**13. If two goods are substitutes, what happens to the demand for one if the price of the other rises?**

**A) It increases**

- B) It decreases
- C) It stays the same
- D) It becomes negative

**14. What does the law of diminishing marginal returns state?**

- A) Total output will always decrease

**B) Adding more of one input while others stay fixed eventually yields smaller increases in output**

- C) Costs always increase with production
- D) Demand always falls over time

**15. What is a 'price floor' in economics?**

**A) A legal minimum price for a good or service**

- B) A legal maximum price for a good or service
- C) The cost of production
- D) The average market price

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

- A) Luxury cars

**B) Generic store-brand groceries**

- C) Designer clothing
- D) Fine dining meals

**17. What is the primary goal of a firm in a market economy?**

- A) To maximize revenue
- B) To minimize taxes

**C) To maximize profit**

- D) To employ as many people as possible

**18. What is the term for the responsiveness of quantity demanded to a change in price?**

- A) Market equilibrium

**B) Price elasticity of demand**

- C) Supply shift
- D) Marginal utility

**19. When a price is set above the equilibrium price, what does it create in the market?**

- A) A shortage
- B) A surplus**
- C) Equilibrium
- D) Perfect competition

**20. What are 'complementary goods'?**

- A) Goods used together, like printers and ink cartridges**
- B) Goods that are identical
- C) Goods that have nothing in common
- D) Goods produced by the same company

**21. What is the 'Law of Supply'?**

- A) As price rises, quantity supplied rises**
- B) As price rises, quantity supplied falls
- C) Price has no effect on supply
- D) Supply is determined only by taxes

**22. Which of these describes a 'public good'?**

- A) Non-excludable and non-rivalrous**
- B) Excludable and rivalrous
- C) Only provided by the government
- D) Expensive to produce

**23. What is meant by the 'scarcity' of resources?**

- A) Resources are infinite
- B) Unlimited wants exceed limited resources**
- C) Prices are too high
- D) There is no demand for resources

**24. What is the 'marginal cost' of production?**

- A) Total cost divided by quantity
- B) The cost of producing one additional unit**
- C) The total cost of all units
- D) The fixed cost only

**25. What does a demand curve typically look like on a graph?**

- A) Upward sloping
- B) Downward sloping**
- C) Horizontal
- D) Vertical