

**Sample Questions on the chapter Factor Pricing for 4th Semester.**

**MULTIPLE CHOICE QUESTIONS.SET :1**

Choose the one alternative that best completes the statement

- 1) What is meant by derived demand? A) The demand is derived in beginning economics classes.  
B) The demand is derived from income, tastes, etc. of sellers.  
C) The demand is derived from the price elasticity of demand.  
D) The demand for a resource is derived from the demand for what it can produce.
- 2) The value of marginal product is calculated by multiplying the \_\_\_\_ by the \_\_\_\_.  
A) marginal product; price of the product  
B) quantity of labor; wage rate  
C) wage; price of the product  
D) total product; wage rate
- 3) To decide the quantity of a factor of production to hire, a firm compares the \_\_\_\_ to the \_\_\_\_.  
A) factor's price; average factor price  
B) factor's price; value of marginal product  
C) factor's output; average factor output  
D) factor's output; value of marginal product
- 4) A profit-maximizing firm hires labor up to the point where  
A) the wage times the quantity of labor equals the marginal product.  
B) price equals the wage.  
C) price equals the quantity of labor.  
D) the wage equals value of marginal product.
- 5) A company finds that the value of marginal product for the current level of employment is Rs.530 and the wage rate is Rs.450. Which of the following is correct?  
A) Too much labor is currently employed and the firm will lay off some workers.  
B) The firm should shut down and produce nothing.  
C) The firm is employing the profit-maximizing quantity of labor.

D) Too few workers are currently employed and the firm will hire more workers.

6) A firm's demand for labor curve is also –

- A) its value of marginal product curve.
- B) the supply of labor curve.
- C) the demand curve for the good it produces.
- D) its marginal cost curve.

7) For a firm selling its product in a competitive market, what causes the demand curve for any factor of production to be downward sloping?

- A) diminishing marginal product as more of the factor is used
- B) more demand for greater quantities
- C) falling product price necessary to sell a larger output
- D) None of the above answers are correct.

8) If the price of a firm's product falls, the firm's demand for labor curve

- A) shifts leftward.
- B) does not shift and there is no movement along it.
- C) does not shift but there is a movement along it.
- D) shifts rightward.

9) If the wage rate increases, a firm's demand for labor curve

- A) shifts leftward.
- B) does not shift and there is no movement along it.
- C) shifts rightward.
- D) does not shift but there is a movement along it.

10) An increase in the price of the firm's output leads to a

- A) movement upward along the demand for labor curve.
- B) rightward shift of the demand for labor curve.
- C) movement downward along the demand for labor curve.
- D) leftward shift of the demand for labor curve.

**Answer Key :** 1) Answer: D 2) Answer: A 3) Answer: B 4) Answer: D 5) Answer: D 6) Answer: A 7) Answer: A 8) Answer: A 9) Answer: D 10) Answer: B

**Multiple-Choice Questions SET 2:**

1. The marginal physical product of capital is the addition to
  - a. total revenue generated by adding a unit of loanable funds to production
  - b. total physical product generated by adding a unit of capital to production
  - c. total revenue generated by adding a unit of capital to production
  - d. total physical product divided by a unit of capital
2. A unit of capital equipment, once employed,
  - a. generates a rate of return equal to the marginal physical product of capital
  - b. is unalterable in the short run
  - c. can be altered only by borrowing more loanable funds
  - d. completely substitutes for labor
3. To economists, rent is the
  - a. amount of money paid to occupy an apartment, house, or other fixed property
  - b. difference between what a person pays for something and what it is worth
  - c. difference between what a resource receives in payment and the cost of bringing the resource into production
  - d. difference between what a resource is paid in the market and what the resource would be paid if it received the full value of its marginal revenue product
4. If one argues that land rent is strictly demand determined, then the underlying assumption must be that
  - a. the supply of land is fixed and of the same quality
  - b. the supply of land is variable and of unequal quality
  - c. the demand for land is perfectly elastic and increasing
  - d. the demand for land is perfectly inelastic and falling
5. The calculation of \_\_\_\_\_ is based on the assumption that land is a free good, whereas \_\_\_\_\_ is calculated based on the assumption that the cost of bringing land into production varies.
  - a. location rent; differential rent
  - b. differential land rent; land rent
  - c. differential land rent; location rent
  - d. land rent; differential land rent
6. Location rent arises because land that is located closer to the market has
  - a. higher fertility than land farther away

- b. lower transportation costs than land farther away
  - c. easier access to important breakthroughs in technology
  - d. access to a better labor force
7. Implicit costs of an entrepreneur's labor time and capital refer to
- a. the entrepreneur's opportunity costs
  - b. the total costs incurred by an entrepreneur in doing business
  - c. the entrepreneurial risks associated with a business venture
  - d. normal plus economic profit
8. If land is situated so that it earns zero location rent, then the
- a. land must be of lower quality than other acres that earn location rent
  - b. wages of workers farming the land must be higher than average
  - c. supply price of the land is equal to the transportation costs
  - d. cost of transporting goods to market is zero
9. The present value of a property can be calculated as the
- a. price at which quantity demanded of the property equals quantity supplied
  - b. minimum price set by an auctioneer at which bidding is to start
  - c. annual income generated by the property divided by the interest rate
  - d. annual income generated by the property multiplied by the interest rate
10. As a country's population increases, we expect that
- a. the supply price of land will decrease
  - b. land rent will increase, but differential land rent and location rent will decrease
  - c. land rent, differential land rent, and location rent will decrease
  - d. land rent, differential land rent, and location rent will increase

**Answers of Multiple-Choice Questions :**1.b,2 b,3c,4a,5d,6b,7a,8c,9c,10d.