

# MAKERERE UNIVERSITY BUSINESS SCHOOL

## COURSE NAME: BUSINESS ECONOMICS

### QUIZ

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#### Instruction:

- 1 Circle the most correct answer
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1. The income elasticity of demand is zero in the case of:
  - a) Normal goods
  - b) Neutral goods
  - c) Inferior goods
  - d) It can never be zero
2. The condition in which market supply matches market demand is called?
  - a) Equalization
  - b) Normalization
  - c) Equilibrium
  - d) None of the above
3. If the price of good X falls, leading to an increase in demand for good Y, both goods are;
  - a) Substitute goods
  - b) Complementary goods
  - c) Not related
  - d) Competitors
4. Which of the following would be the most likely effect if the government decides to fix prices of goods and services in favour of consumers?
  - a) Both suppliers and consumers will be happy
  - b) Demand will exceed supply
  - c) The government will collect more revenue
  - d) No effect at all

5. Given a market with the demand function as  $Q_d = 100 - 20P$  and supply function as  $Q_s = -50 + 5P$ , what would the market-clearing price?
- a) 2.5
  - b) 2
  - c) 6
  - d) 3
6. Jones thought it would cost him UGX 5,000 in transport to MUBS. Although he was willing to pay that high amount, Jones actually paid only UGX 3,000. This statement relates to?
- a) Negotiation skills
  - b) Luck
  - c) Consumer's surplus
  - d) Producer's surplus
7. Which of the following is a normative statement?
- a) An increase in income will lead to more demand for houses
  - b) A rise in the number of students will increase food demand in cafes
  - c) Cigarette smoking should be banned
  - d) A fall in "matooke " prices will increase its demand
8. The question "how to produce?" deals with:
- a) Choice of techniques of production
  - b) Choice of goods to produce
  - c) Choice of location
  - d) Choice of producers
9. The production possibility frontier (PPF) assumes:
- a) Unlimited resources
  - b) Constant technology
  - c) Infinite wants
  - d) Inefficient resource use
10. A concave PPF is due to:
- a) Constant costs
  - b) Law of increasing opportunity costs
  - c) Unlimited resources

- d) Perfect efficiency
- e) 11. In a capitalist system, resources are mainly:
- a) Owned by the state
  - b) Owned by private individuals
  - c) Owned collectively
  - d) Controlled by central planners
12. Which branch of economics is concerned with total national output and employment?
- a) Microeconomics
  - b) Business economics
  - c) Normative economics
  - d) Macroeconomics
13. The law of demand states:
- a) Price and quantity demanded are directly related
  - b) As price rises, demand falls, ceteris paribus
  - c) As price rises, demand rises
  - d) Demand is constant regardless of price
14. A shift in the demand curve is caused by:
- a) Price changes
  - b) Changes in other factors like income or taste
  - c) Changes in supply
  - d) Production costs
15. A price ceiling is set:
- a) Above equilibrium price
  - b) Below the equilibrium price
  - c) At the equilibrium price
  - d) At any random level
16. If  $PED < 1$ , demand is:
- a) Perfectly elastic
  - b) Unitary elastic
  - c) Inelastic
  - d) Perfectly inelastic

17. Demand for water and electricity tends to be:
- a) Elastic
  - b) Perfectly elastic
  - c) Inelastic
  - d) Unitary
18. Positive cross-price elasticity indicates:
- a) Complementary goods
  - b) Substitute goods
  - c) Inferior goods
  - d) Normal goods
19. If resources were unlimited but human wants remained unlimited, the study of economics would:
- a) Still exist because people make choices
  - b) Not exist because scarcity would not exist
  - c) Still exist because the government allocates resources
  - d) Be replaced by sociology
20. In a PPF model, producing inside the curve rather than on it indicates:
- a) Full employment
  - b) Inefficient use of resources
  - c) Economic growth
  - d) Biased shift
21. When a business manager chooses to allocate more resources to advertising instead of product development, the opportunity cost is:
- a) Extra customers gained
  - b) Product improvement foregone
  - c) Government intervention avoided
  - d) Long-run profits foregone
22. When income rises, demand for inferior goods usually:
- a) Increases
  - b) Decreases
  - c) Remains constant
  - d) Becomes perfectly elastic

23. A perfectly elastic demand curve is represented by:
- a) Horizontal line
  - b) Vertical line
  - c) Downward sloping curve
  - d) Upward sloping curve
24. Which of the following will not shift the supply curve?
- a) Technology change
  - b) Input prices
  - c) Government taxes
  - d) Price of the commodity itself
25. When supply decreases but demand remains constant, the equilibrium price will:
- a) Fall and quantity rise
  - b) Rise and quantity fall
  - c) Remain unchanged
  - d) Fall and quantity remain constant

**SECTION B (5 MARKS)**

Consider a market with the following demand and supply functions respectively;

$$QD = 100 - 4P \text{ and } Qs = -20 + P$$

Required;

- (i) Calculate the equilibrium price and quantity.
- (ii) Illustrate your findings in (i) above on a simple graph.